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RE PRODUCTION OF AIRPLANES

May 16, 1940
11:00 a.m.

Present: Mr. Noble
Mr. Hinckley
Mr. McConnell
Mr. Weymouth

H.M.Jr: I hear you have been traveling around the country.

Weymouth: I think you have been one step ahead of me. You were out at Allison just the day before I was.

H.M.Jr: I understand you are coming over to give us some good tips on which stocks to buy.

Weymouth: That is exactly the story, if you buy them through me.

H.M.Jr: Well, that is fair enough. Well, where did you go first on your trip?

Weymouth: Lockheed, North American and Douglas and I skipped Boeing and Consolidated.

H.M.Jr: Well, do you want to tell us your own way? I will listen.

Weymouth: I will be delighted to tell it any way you prefer it, Mr. Morgenthau. I want to be perfectly clear in the understanding that the fact that I went into it very carefully - over the last two years, if Mr. McConnell will excuse me, I have gotten to know personally a great many of these people in the industry and I simply cannot define figures for you, as far as specific companies are concerned. As to giving you some costs, that is out. I can't do it.

Ability to deliver engines and planes, I think that is a very good idea in itself. I have some very specific ideas on increasing the production, but I am an amateur in the business.

H.M.Jr: You and me both. As General Johnson said, I am just an orchardist. I would be interested in both those points that you mentioned.

Weymouth: All right, sir. I would like, if I may first, to just give you my opinion, based on the aggregate of production. I feel very specifically the companies have a greater capacity to produce very quickly.

H.M.Jr: Would you mind for my sake separating engines and planes?

Weymouth: Surely. I think then, on that basis, the plane companies have the facilities and abilities to jump up their production materially faster than the engine companies. I don't think the engine companies, confining ourselves for the moment to Curtiss and Pratt & Whitney, can greatly increase their rate of improvement that they have shown in the last six months, regardless of what is said. I think that - and I am prejudiced - that so far as Allison is concerned, because I happen to know the very definite heat that has been put on the situation and the problem from the Chief Executive of the General Motors Company and directors, that by September they are going to be turning out at a fairly substantial rate. Whether they meet their schedules or not is --

H.M.Jr: No indication of it last week.

Weymouth: I agree with you and I don't - I would like to ask, Mr. Morgenthau - I would just as soon - if you don't mind.

H.M.Jr: Look, let me tell you what this is. There is only one copy of this record and that one goes into my safe. Do you mind?

Weymouth: I really do, sir.

H.M.Jr: All right, if you do, we will stop. You are my guest.

5-16-40

TO:

The Secretary

Berle tells me Navy has instructions to requisition selected machine tools in process of manufacture or even on docks for shipment. He suggests I talk to Captain Carney at Navy. I'll do that unless you have other instructions.

He didn't want to do anything about the 7,000 tons of copper for Italy.



From: Mr. GASTON

May 16, 1940

The following message to the Congress is for release in editions of all newspapers appearing on the streets NOT EARLIER THAN 1:00 P. M., E. S. T., May 16, 1940.

This same release of the text of this address also applies to radio announcers and news commentators.

CARE MUST BE EXERCISED TO PREVENT PREMATURE PUBLICATION.

STEPHEN EARLY
Secretary to the President

- - - - -

TO THE CONGRESS OF THE UNITED STATES:

These are ominous days -- days whose swift and shocking developments force every neutral nation to look to its defenses in the light of new factors. The brutal force of modern offensive war has been loosed in all its horror. New powers of destruction, incredibly swift and deadly, have been developed; and those who wield them are ruthless and daring. No old defense is so strong that it requires no further strengthening and no attack is so unlikely or impossible that it may be ignored.

Let us examine, without self-deception, the dangers which confront us. Let us measure our strength and our defense without self-delusion.

The clear fact is that the American people must recast their thinking about national protection.

Motorized armies can now sweep through enemy territories at the rate of two hundred miles a day. Parachute troops are dropped from airplanes in large numbers behind enemy lines. Troops are landed from planes in open fields, on wide highways, and at local civil airports.

We have seen the treacherous use of the "fifth column" by which persons supposed to be peaceful visitors were actually a part of an enemy unit of occupation. Lightning attacks, capable of destroying airplane factories and munition works hundreds of miles behind the lines, are part of the new technique of modern war.

The element of surprise which has ever been an important tactic in warfare has become the more dangerous because of the amazing speed with which modern equipment can reach and attack the enemy's country.

Our own vital interests are widespread. More than ever the protection of the whole American Hemisphere against invasion or control or domination by non-American nations has the united support of the twenty-one American Republics, including the United States. More than ever this protection calls for ready-at-hand weapons capable of great mobility because of the potential speed of modern attack.

The Atlantic and Pacific Oceans were reasonably adequate defensive barriers when fleets under sail could move at an average speed of five miles an hour. Even then by a sudden foray it was possible for an opponent actually to burn our national Capitol. Later, the oceans still gave strength to our defense when fleets and convoys propelled by steam could sail the oceans at fifteen or twenty miles an hour.

But the new element -- air navigation -- steps up the speed of possible attack to two hundred, to three hundred miles an hour.

Furthermore, it brings the new possibilities of the use of nearer bases from which an attack or attacks on the American Continents could be made. From the fiords of Greenland it is 4 hours by air to Newfoundland; 5 hours to Nova Scotia, New Brunswick and Quebec; and only 6 hours to New England.

The Azores are only 2,000 miles from parts of our eastern seaboard and if Bermuda fell into hostile hands it is a matter of less than 3 hours for modern bombers to reach our shores.

From a base in the outer West Indies, the coast of Florida could be reached in 200 minutes.

The islands off the west coast of Africa are only 1,500 miles from Brazil. Modern planes starting from the Cape Verde Islands can be over Brazil in 7 hours.

And Para, Brazil, is but 4 flying hours to Caracas, Venezuela; and Venezuela but $2\frac{1}{2}$ hours to Cuba and the Canal Zone; and Cuba and the Canal Zone are $2\frac{1}{2}$ hours to Tampico, Mexico; and Tampico is $2\frac{1}{4}$ hours to St. Louis, Kansas City and Omaha.

On the other side of the continent, Alaska, with a white population of only 30,000 people, is within 4 or 5 hours of flying distances to Vancouver, Seattle, Tacoma and Portland. The islands of the southern Pacific are not too far removed from the west coast of South America to prevent them from becoming bases of enormous strategic advantage to attacking forces.

Surely, the developments of the past few weeks have made it clear to all of our citizens that the possibility of attack on vital American zones ought to make it essential that we have the physical, the ready ability to meet those attacks and to prevent them from reaching their objectives.

This means military implements -- not on paper -- which are ready and available to meet any lightning offensive against our American interest. It means also that facilities for production must be ready to turn out munitions and equipment at top speed.

We have had the lesson before us over and over again -- nations that were not ready and were unable to get ready found themselves overrun by the enemy. So-called impregnable fortifications no longer exist. A defense which allows an enemy to consolidate his approach without hindrance will lose. A defense which makes no effective effort to destroy the lines of supplies and communications of the enemy will lose.

An effective defense by its very nature requires the equipment to attack an aggressor on his route before he can establish strong bases within the territory of American vital interests.

Loose talking and thinking on the part of some may give the false impression that our own Army and Navy are not first-rate, or that money has been wasted on them.

Nothing could be further from the truth.

In recent years the defensive power of our Army, Navy and Marine Corps has been very greatly improved.

The Navy is stronger today than at any time in the nation's history. Today also a large program of new construction is well under way. Ship for ship, ours are equal to, or better than, the vessels of any foreign power.

The Army likewise is at its greatest peace-time strength. Its equipment in quality and quantity has been greatly increased and improved.

The National Guard and the reserve strength of the two Services are better equipped and better prepared than during any other peace-time period.

On the other side of the picture we must visualize the outstanding fact that since the first day of September, 1939, every week that has passed has brought new lessons learned from actual combat on land and sea.

I cite examples. Where naval ships have operated without adequate protection by defending aircraft, their vulnerability to air attack has increased. All nations are hard at work studying the need of additional anti-aircraft protection.

Several months ago the use of a new type of magnetic mine made many unthinking people believe that all surface ships were doomed. Within a few weeks a successful defensive device against these mines was placed in operation; and it is a fact that the sinkings of merchant ships by torpedo, by mine or by airplane are definitely much lower than during the similar period in 1915.

Combat conditions have changed even more rapidly in the air. With the amazing progress in the design of planes and engines, the airplane of a year ago is out-of-date now. It is too slow, it is improperly protected, it is too weak in gun power.

In types of planes, we are not behind the other nations of the world. Many of the planes of the belligerent powers are at this moment not of the latest models. But one belligerent power not only has many more planes than all their opponents combined, but also appears to have a weekly production capacity at the moment that is far greater than that of their opponents.

From the point of view of our own defense, therefore, great additional production capacity is our principal air requisite.

For the permanent record, I ask the Congress not to take any action which would in any way hamper or delay the delivery of American-made planes to foreign nations which have ordered them, or seek to purchase more planes. That, from the point of view of our own national defense, would be extremely shortsighted.

During the past year American production capacity for war planes, including engines, has risen from approximately 6,000 planes a year to more than double that number, due in greater part to the placing of foreign orders.

Our immediate problem is to superimpose on this production capacity a greatly increased additional production capacity. I should like to see this nation geared up to the ability to turn out at least 50,000 planes a year. Furthermore, I believe that this nation should plan at this time a program that would provide us with 50,000 military and naval planes.

The ground forces of the Army require the immediate speeding up of last winter's program to procure equipment of all kinds, including motor transport and artillery, including anti-aircraft guns and full ammunition supplies. It had been planned to spread these requirements over the next three or four years. We should fill them at once.

At this time I am asking the immediate appropriation by the Congress of a large sum of money for four primary purposes:

First, to procure the essential equipment of all kinds for a larger and thoroughly rounded-out Army;

Second, to replace or modernize all old Army and Navy equipment with the latest type of equipment;

Third, to increase production facilities for everything needed for the Army and Navy for national defense. We require the ability to turn out quickly infinitely greater supplies;

Fourth, to speed up to a twenty-four hour basis all existing Army and Navy contracts, and all new contracts to be awarded.

I ask for an immediate appropriation of \$896,000,000, divided approximately as follows:

1. For the Army.....\$546,000,000
2. For the Navy and Marine Corps.... 250,000,000
3. To the President to provide for emergencies affecting the national security and defense..... 100,000,000

In addition to the above sum, I ask for authorizations for the Army, Navy and Marine Corps to make contract obligations in the further sum of.....186,000,000

And to the President an additional authorization to make contract obligations for.....100,000,000

The total of authorizations is, therefore, \$286,000,000

It is my belief that a large part of the requested appropriation of \$100,000,000, and the requested authorization of \$100,000,000 to the President will be used principally for the increase of production of airplanes, anti-aircraft guns, and the training of additional personnel for these weapons. This would be in addition to the direct estimates for these purposes in the other items requested.

The proposed details of the appropriations and authorizations asked for will be given to the Committees of the Congress.

These estimates do not, of course, duplicate any item now in the pending War and Navy appropriation bills for the year 1941. Nor do they include supplemental or deficiency estimates which may become necessary by reason of pending legislation or shortage of funds under existing programs.

There are some who say that democracy cannot cope with the new techniques of government developed in recent years by a few countries -- by a few countries which deny the freedoms which we maintain are essential to our democratic way of life. This I reject.

I know that our trained officers and men know more about fighting and the weapons and equipment needed for fighting than any of us laymen; and I have confidence in them.

I know that to cope with present dangers we must be strong in heart and hand; strong in our faith -- strong in faith is our way of living.

I, too, pray for peace -- that the ways of aggression and force may be banished from the earth, -- but I am determined to face the fact realistically that this nation requires a toughness of moral and physical fibre. Those qualities, I am convinced, the American people hold to a high degree.

Our task is plain. The road we must take is clearly indicated. Our defenses must be invulnerable, our security absolute. But our defense as it was yesterday, or even as it is today, does not provide security against potential developments and dangers of the future.

Defense cannot be static. Defense must grow and change from day to day. Defense must be dynamic and flexible, an expression of the vital forces of the nation and of its resolute will to meet whatever challenge the future may hold. For those reasons, I need hardly assure you that after the adjournment of this session of the Congress, I will not hesitate to call the Congress into Special Session if at any time the situation of the national defense requires it. The Congress and the Chief Executive constitute a team where the defense of the land is concerned.

Our ideal, our objective is still peace -- peace at home and peace abroad. Nevertheless, we stand ready not only to spend millions for defense but to give our service and even our lives for the maintenance of our American liberties.

Our security is not a matter of weapons alone. The men that wield them must be strong, the eyes that guide them clear, the will that directs them indomitable.

These are the characteristics of a free people, a people devoted to the institutions they themselves have built, a people willing to defend a way of life that is precious to them all, a people who put their faith in God.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
May 16, 1940.

Regraded Unclassified

May 16, 1940

HM, Jr took care of the release of the 2,500,000 pounds of powder by Du Pont (referred to in the fourth paragraph of the attached memorandum from Mr. Young) by a telephone conversation with Johnson today, as per the attached transcript of phone conversation.

Revised - June

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CONFIDENTIAL

May 15, 1940

To: The Secretary

From: Mr. Young

Mr. Ballantyne called on me this afternoon at 3:30 and handed me the attached, "Allied Requirements of Aircraft Colt-Browning Machine Guns". This paper shows that the Purchasing Board is attempting to contract for 15,930 guns.

Although no dollar value is given on the attached, and Mr. Ballantyne did not know the amount, it was his guess that the total would be approximately 7 to 8 million dollars, of which about 1 million would represent capital assistance.

A contract for the attached list of guns has not yet been signed, and I understand that this contract is a revision of the original contract which Colt refused to sign last week.

Mr. Ballantyne also said that there was some difficulty in making arrangements with duPont for the production of the 2,500,000 pounds of powder released by the navy. As you will recall, one of the conditions of this release was that the navy order for 565,000 pounds now in production should be completed. Mr. Bradway of duPont has notified Mr. Purvis that production of the 2,500,000 pounds could not be started before the present navy order for 565,000 pounds was completed in September or October.

I had always received the impression that production of the 2,500,000 pounds of powder would start immediately upon release, and I understand from Mr. Ballantyne that duPont has adequate capacity to do this.

RY

ALLIED REQUIREMENTS OF AIRCRAFT COLT-BROWNING
MACHINE GUNS

<u>No.</u>	<u>Caliber</u>	<u>Delivery</u>	<u>Government</u>
9620	7.5 mm (equivalent of 30 caliber)	To end of 1941	French
2400	13.2 mm (equivalent of 50 caliber)	To end of 1941	French
3910	50 caliber	To end of 1941	British

Total 15,930 guns

M R T V S J...
24. 11. 40
10

May 15, 1940

Anglo-French Purchasing Board

Regraded Unclassified

May 16, 1940
9:20 a.m.

H.M.Jr: Hello.

Operator: Louis Johnson.

H.M.Jr: Thank you. Hello.

O: Go ahead.

H.M.Jr: Louis.....

Louis Johnson: Good morning, Mr. Secretary.

H.M.Jr: Henry Morgenthau.

J: Yes, sir. Good morning.

H.M.Jr: You sound so far away.

J: Well, it's a gloomy morning.

H.M.Jr: Oh. Louis, what happened yesterday in regard to this contract for 15,930 aircraft Colt Browning guns that the Allies want?

J: Yeah. This is it. I cleared it this morning here.

H.M.Jr: What's that?

J: Just cleared it this way about 10 minutes ago.

H.M.Jr: Yeah.

J: The -- with the Colt people. They worked out a solution whereby the Allies get approximately what they want as they want it.

H.M.Jr: Yeah.

J: It calls for some plant expansion.

H.M.Jr: Yeah, a million dollars.

J: It's more than that.

H.M.Jr: What?

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J: It's more than that.

H.M.Jr: Well, my memo said a million anyway.

J: It's something over 2 million dollars without which it can't be done.

H.M.Jr: What's that?

J: Without the expenditure of which by -- it can't be done.

H.M.Jr: It cannot be done?

J: No. They've got the exact figure on that.

H.M.Jr: Yeah.

J: It's some -- it's a little over 2 million dollars.

H.M.Jr: I see.

J: With the expenditure of that they can both furnish Colt and theirselves.....

H.M.Jr: Colt and who?

J: Colt can furnish both the Allies and ourselves....

H.M.Jr: Right.

J: We're holding ours down so that we are -- after we do this we are still 4 months behind, what should be the aircraft delivery. But I think to help them -- they need them so badly, we ought to do that.

H.M.Jr: I see.

J: And I have cleared our doing that and the officers are now over at the Navy and the Navy is going to come through now because I know, and you keep it under your hat, that the Navy has got 2,000 guns hidden away somewhere.

H.M.Jr: I see.

J: So, while the Navy is going to buck when we pull on them that we know that they've got that, and they're good at it, then they're going to come around and approve this thing. And as soon as they approve it I'll call you.

H.M.Jr: Will you do that?

J: I'll do it, but we've got it cleared here. They fussed about it all day long and I cleared it the first thing this morning.

H.M.Jr: Now, that's number one.

J: O. K.

H.M.Jr: Number two, do you know that they have not yet got a clearance with Dupont on that two and a half million pounds of powder that the Navy was going to release? Hello?

J: Oh, what do you mean there, Henry?

H.M.Jr: Well, you know the Navy is going into a second shift down at Indianhead.

J: I know that.

H.M.Jr: And on the first of June they were supposed to release two and a half million pounds that they had on contract with Dupont.

J: I was there when they agreed to it.

H.M.Jr: Well, they haven't got it yet.

J: You mean Navy hasn't done that yet?

H.M.Jr: No, I mean Dupont. There's a man by the name of Bradway. I hear that Colonel Burns was perfectly swell.

J: Oh, he's the -- the two ablest men in this Army -- I heard you say your favorite soldier yesterday. I want to -- I agree with you on him, but don't overlook two other men. The best brains in the Army, or what may happen to us, for your information, is Strong, General Strong, and I wish you'd meet him and talk with him some day.

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H.M.Jr: Yeah. Well -- I never met him.

J: Well, he -- he knows more about the -- the long range of this. He has better brains than anybody else in the Army on that phase; on the supply and manufacturing end Burns ought to be your favorite in the Army. He knows more about it than any other two men in all the Army.

H.M.Jr: Yeah.

J: He manufactured powder in the World War. He's the best man here.

H.M.Jr: Now, would you mention to Burns that Dupont has not yet released that powder?

J: Indeed I will, and we'll see that they do somehow. Do you know what's holding it?

H.M.Jr: Just Dupont. It -- there's a man by the name of Bradway, isn't there?

J: Yes, there's a fellow by the name of Bradway.

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

J: I'll have Burns get on it.

H.M.Jr: Yeah, have Burns get on it.

J: He's out on another mission and won't be back until about ten-thirty and he'll get on it the first thing then.

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

J: Let me ask you about something.

H.M.Jr: Go ahead.

J: The President told one of the Senators that he was asking for a billion 700 million.

H.M.Jr: How much?

J: A billion 700 millions.

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H.M.Jr: Yeah.

J: Is that right?

H.M.Jr: I don't think so.

J: Well, you know it would be the happiest thing in the world, Mr. Secretary, if he -- (break in connection) hello?

H.M.Jr: Hello.

J:if he were to raise his amount for air because the President is going to get criticized if the message doesn't contain more air than is now in.

H.M.Jr: Well, he may have changed last night, I don't know.

J: I tell you why.

H.M.Jr: Surely, I say I don't know, he may have, but I -- I never bluff; I don't know.

J: Senator -- Senator George -- you see I've been working -- one of my jobs was to try through veterans to get George at least not to vote against the C.C.A. thing.

H.M.Jr: Yeah.

J: And he behaved royally. He had already made a statement but I think he didn't vote or else he said if he voted he'd vote with us. Well, on the basis of that, which is my one contact with him, George phoned me yesterday and asked me what we were doing for air, and I -- I told him between 80 million and 106.

H.M.Jr: Yeah.

J: George says it isn't enough. He said, "Do you have any objection to my carrying the flag to get you as much money as they are talking about -- 732 million, for all of that for air," he said, "You need more than that for air and if we don't get it on the Hill we'll all be ruined." And I told him I didn't have the power to give -- carrying the

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flag but we appreciated his efforts to handle it tactfully.

H.M.Jr: That's right.

J: Now, off the record, both of these -- Burns calls me this morning.

H.M.Jr: Which Burns?

J: Senator Burns.

H.M.Jr: Jimmie.

J: Jimmie Burns, and Burns tells me that the President has said that there's a billion seven hundred million for this thing. (Break in connection) Hello?

H.M.Jr: Hello. There may be, I don't know.

J: And he wants to know how much is for air.

H.M.Jr: Well, I don't -- I haven't.....

J: I told him, "I don't know that there's that much money but tell him that if the air thing is going to be done on the basis of the 3,000 additional fighting planes, this Army ought to now have, it costs around a billion dollars." He's for that.

H.M.Jr: Well, Louis, I don't know.

J: Well, I'm just giving you the picture that -- the President relies on you so greatly and I sometimes think exclusively, that I want to get over to you that we're going to get a backfire that will hurt everybody if air isn't increased because the country is mad about it.

H.M.Jr: Well, I -- I'm telling you the absolute truth. I don't know.

J: Oh, I don't know either, but I wanted you to have the benefit.....

H.M.Jr: No, I wasn't there last night so I don't know what he did.

- 7 -

J: I see. Well, I'll get this other stuff in the.....

H.M.Jr: So it's not inclusive, he had another crowd there.
I don't know.

J: I see.

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

J: All right. I'll get this other stuff going.

H.M.Jr: Thank you.

J: Goodbye.

May 16, 1940
6:22 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

K.E.
Keller: Hello, Secretary.

H.M.Jr: How are you?

K: I'm fine, thank you.

H.M.Jr: Mr. Keller, are you where you can talk?

K: Yes, sir.

H.M.Jr: Are you at home or some place like that?

K: No, I'm at the home of a friend. I'm in a room by myself here.

H.M.Jr: All right. Well now, I'm going to tell you in strictest confidence what I've got on my mind and I've just come from the President.

K: Yes, sir.

H.M.Jr: We'd like you to seriously think -- consider buying the engine division of the Continental Motors.

K: Buy the engine division of the Continental Motors.

H.M.Jr: Yeah.

K: I see.

H.M.Jr: And get into this aeroplane engine business.

K: Yeah.

H.M.Jr: Now, I'd like you to come down here tomorrow morning and talk to me about it.

K: I see. My trains are all gone tonight.

H.M.Jr: Well, we'll charter a plane or something for you.

- 2 -

- K: God! I've never flown.
- H.M.Jr: Well, you'd better begin, if you're going to go into business.
- K: Uh-huh. Uh-huh. Well.....
- H.M.Jr: Hitler doesn't wait for anybody.
- K: (Laughs) That's right. I've had an aversion to flying, Mr. Secretary, and the -- I tell you the -- I'll have to do some work tonight on this. What are the circumstances of the Richards.....
- H.M.Jr: Well, I don't know much about it but they've got this engine, which the Army says is one of the best engines, and we want to set it up just the way Allison is.
- K: Yeah.
- H.M.Jr: And we want two things, we want their particular engine and then we -- we're going to license -- we would license the company to make the 450 or 500 horsepower -- either the Wright or Pratt and Whitney.
- K: I see.
- H.M.Jr: And we've got the money and the business, but we want your engineering staff and your capital back of it, and your interest.
- K: Uh-huh. You don't know how much you're asking for.
- H.M.Jr: I haven't got the slightest idea and I wouldn't say anything to anybody until I asked the President whether he liked the idea and he said, "Swell!" And the Army say that you people have got the best engineering staff in the automobile business.
- K: Well, that's very complimentary on their part.
- H.M.Jr: If -- I understand it's a busted concern. I don't know what it's worth.

- 3 -

- K: Well, I know -- I know what they are. Of course they've got ideas of grandeur and everything like that and as a business investment it isn't worth a damn as -- to help the government get their 50,000 aeroplanes, why that's another story, see?
- H.M.Jr: No, -- well look, we're not -- I mean, the program as far as engines is concerned -- I don't -- I'll tell you so that you've got some conception. The number of engines that fit the bill are 6,000 engines.
- K: Yes, I know that. They're very slow on that.
- H.M.Jr: No, I mean, when we're talking in terms of -- altogether, it's increasing the production of the country right now by 6,000. See?
- K: Yes, I know that. Yeah.
- H.M.Jr: But the thought is that Continental can't swing this thing but your company could.
- K: Uh-huh.
- H.M.Jr: Why -- I don't ever want to ask a man to fly that can't. Could you possibly tomorrow find out about the thing and get a line on it?
- K: Well, I think the best thing for me to do is to work on it up here and know what the devil I'm talking about.
- H.M.Jr: O. K.
- K: And come down there Saturday.
- H.M.Jr: Well, supposing you do this. I don't know yet where I'm going to be Saturday, see?
- K: I see.
- H.M.Jr: Could you call me -- we're on Standard Time here. It's 6:30 standard time here.
- K: Yes.

- 4 -

H.M.Jr: Could you call me between 11 and 12 standard time?
tomorrow?

K: Eleven and twelve.

H.M.Jr: Standard.

K: That's noon.

H.M.Jr: Yeah.

K: Yes, at what number do you want me to call?

H.M.Jr: District 2626.

K: At what?

H.M.Jr: District.....

K: District.....

H.M.Jr:2626.

K:yeah, all right, sure. I'll call you.

H.M.Jr: And reverse the charges.

K: Well, I'll pay those. I think that won't break us.

H.M.Jr: Well, I was just kidding.

K: Yeah.

H.M.Jr: But now -- nobody outside of the President and my-
self know anything about this.

K: I understand. I'll see that that's protected.

H.M.Jr: See?

K: Yes, sir.

H.M.Jr: Because if you're going to go out and buy this
company my suggestion would be to tie it up in an
option.

- 5 -

K: Yeah.

H.M.Jr: And then come on down and we'll tell you what.....

K: All right. Well, I'll go to work on it.

H.M.Jr: O. K.

K: Thank you very much.

H.M.Jr: Thank you.

K: Goodbye.

CONFIDENTIAL

May 16, 1940

To: The Secretary

From: Mr. Young

Attached herewith are the figures giving a summary of "Capital Commitments of the British and French Governments in the Aircraft Industry, May 15, 1940." George Haas has advised me that these figures are reasonably accurate and that, although they are subject to further check, they are far superior to any we have had to date.

The attached indicates that \$64,039,000 has been expended by the British and French in the aircraft industry to May 15, 1940. Of this total, 58 per cent was used for expansion of plant capacity, 16 per cent for personnel training, 5 per cent for income tax distribution, 1 per cent for development costs incurred by United States Government, and 20 per cent was unallocated.

Of the total \$64,039,000, Wright Aeronautical Corporation has received \$37,799,000 or 59 per cent.

D.Y.

Summary of Capital Commitments of the British and
French Governments in the Aircraft Industry,
May 15, 1940

(In thousands of dollars)

	British	French	Joint	Total	
Total:					
For Airplanes	491	5,199	2,321	8,011	
For Airplane Engines	5,341	18,072	28,103	51,516	
For Airplane Accessor- ies		500	4,012	4,512	
Total	<u>5,832</u>	<u>23,771</u>	<u>34,436</u>	<u>64,039</u>	For detail see Schedule A
For Expansion of Plant Capacity:					
Airplanes		875	840	1,715	
Airplane Engines		13,201	18,685	31,886	
Airplane Accessories			3,431	3,431	
Total		<u>14,076</u>	<u>22,956</u>	<u>37,032</u>	For detail see Schedule B
For Personnel Training:					
Airplanes		2,444		2,444	
Airplane Engines			7,034	7,034	
Airplane Accessories			245	245	
Total		<u>2,444</u>	<u>7,279</u>	<u>9,723</u>	For detail see Schedule C
For Income Tax Contributions:					
Airplane Engines			2,384	2,384	
Airplane Accessories			336	336	
Total			<u>2,720</u>	<u>2,720</u>	For detail see Schedule D
For Development Costs Incurred by United States Government:					
Airplanes			<u>1,481</u>	<u>1,481</u>	For detail see Schedule E
Undesignated:					
Airplanes	491	1,880		2,371	
Airplane Engines	5,341	4,871		10,212	
Airplane Accessories		500		500	
Total	<u>5,832</u>	<u>7,251</u>		<u>13,083</u>	For detail see Schedule F

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

Schedule A

Total Capital Commitments of the British and French
Governments in the Aircraft Industry
(In thousands of dollars)

	: British :	: French :	: Joint :	: Total :
Through March 31, 1940:				
Airplanes				
Glenn L. Martin Co.		3,319		3,319
Curtiss-Wright Corp.		940		940
Consolidated Aircraft	491	940		1,431
Total - Airplanes	<u>491</u>	<u>5,199</u>		<u>5,690</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	10,372	1,360	16,604
Pratt & Whitney	469	7,700		8,169
Allison			137	137
Total - Engines	<u>5,341</u>	<u>18,072</u>	<u>1,497</u>	<u>24,910</u>
Airplane Accessories				
Curtiss-Wright Corp.		500		500
Total - Through March 31	<u>5,832</u>	<u>23,771</u>	<u>1,497</u>	<u>31,100</u>
During April:				
Airplanes				
Glenn L. Martin Co.			200	200
Bell Aircraft Corp.			500	500
Curtiss-Wright Corp.			125	125
Total - Airplanes			<u>825</u>	<u>825</u>
Airplane Engines				
Wright Aeronautical Corp.			9,862	9,862
Allison			5,411	5,411
Total - Engines			<u>15,273</u>	<u>15,273</u>
Airplane Accessories				
Curtiss-Wright Corp.			500	500
Bendix Aviation Corp.			851	851
Total - Accessories			<u>1,351</u>	<u>1,351</u>
Total - April			<u>17,469</u>	<u>17,469</u>
May 1 to May 15:				
Airplanes				
Lockheed Aircraft Corp.			1,496	1,496
Airplane Engines				
Wright Aeronautical Corp.			11,313	11,313
Airplane Accessories				
Curtiss-Wright Corp.			2,661	2,661
Total - May 1 to May 15			<u>15,470</u>	<u>15,470</u>
Through May 15:				
Airplanes				
Glenn L. Martin Co.		3,319	200	3,519
Bell Aircraft Corp.			500	500
Curtiss-Wright Corp.		940	125	1,065
Consolidated Aircraft	491	940		1,431
Lockheed Aircraft Corp.			1,496	1,496
Total - Airplanes	<u>491</u>	<u>5,199</u>	<u>2,321</u>	<u>8,011</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	10,372	22,555	37,799
Pratt & Whitney	469	7,700		8,169
Allison			5,548	5,548
Total - Engines	<u>5,341</u>	<u>18,072</u>	<u>28,103</u>	<u>51,516</u>
Airplane Accessories				
Curtiss-Wright Corp.		500	3,161	3,661
Bendix Aviation Corp.			851	851
Total - Accessories		<u>500</u>	<u>4,012</u>	<u>4,512</u>
Total - Through May 15, 1940	<u>5,832</u>	<u>23,771</u>	<u>34,436</u>	<u>64,039</u>

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

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Schedule B

Commitments of the British and French Governments for
Expansion of Plant Capacity of the Aircraft Industry

(In thousands of dollars)

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	British	French	Joint	Total
Through March 31, 1940:				
Airplanes				
Glenn L. Martin Co.		<u>575</u>		<u>575</u>
Airplane Engines				
Wright Aeronautical Corp.	5,501		1,360	6,861
Pratt & Whitney	7,700			7,700
Allison			<u>137</u>	<u>137</u>
Total - Engines	<u>13,201</u>		<u>1,497</u>	<u>14,698</u>
Total - Through March 31	<u>14,076</u>		<u>1,497</u>	<u>15,573</u>
During April:				
Airplanes				
Glenn L. Martin Co.			200	200
Bell Aircraft Corp.			140	140
Curtiss-Wright Corp.			<u>125</u>	<u>125</u>
Total - Airplanes			<u>465</u>	<u>465</u>
Airplane Engines				
Wright Aeronautical Corp.			4,602	4,602
Allison			<u>5,411</u>	<u>5,411</u>
Total - Engines			<u>10,013</u>	<u>10,013</u>
Airplane Accessories				
Curtiss-Wright Corp.			500	500
Bendix Aviation Corp.			<u>851</u>	<u>851</u>
Total - Accessories			<u>1,351</u>	<u>1,351</u>
Total - April			<u>11,829</u>	<u>11,829</u>
May 1 to May 15:				
Airplanes				
Lockheed Aircraft Corp.			<u>375</u>	<u>375</u>
Airplane Engines				
Wright Aeronautical Corp.			<u>7,175</u>	<u>7,175</u>
Airplane Accessories				
Curtiss-Wright Corp.			<u>2,080</u>	<u>2,080</u>
Total - May 1 to May 15			<u>9,630</u>	<u>9,630</u>
Through May 15:				
Airplanes				
Glenn L. Martin Co.	875		200	1,075
Bell Aircraft Corp.			140	140
Curtiss-Wright Corp.			125	125
Lockheed Aircraft Corp.			<u>375</u>	<u>375</u>
Total - Airplanes	<u>875</u>		<u>840</u>	<u>1,715</u>
Airplane Engines				
Wright Aeronautical Corp.	5,501		13,137	18,638
Pratt & Whitney	7,700			7,700
Allison			<u>5,548</u>	<u>5,548</u>
Total - Engines	<u>13,201</u>		<u>18,685</u>	<u>31,886</u>
Airplane Accessories				
Curtiss-Wright Corp.			2,580	2,580
Bendix Aviation Corp.			<u>851</u>	<u>851</u>
Total - Accessories			<u>3,431</u>	<u>3,431</u>
Total Through May 15, 1940	<u>14,076</u>		<u>22,956</u>	<u>37,032</u>

Schedule C

Commitments of the British and French Governments
for Personnel Training in the Aircraft Industry

(In thousands of dollars)

	British	French	Joint	Total
<u>Through March 31, 1940:</u>				
Airplanes				
Glenn L. Martin Co.		<u>2,444</u>		<u>2,444</u>
<u>During April:</u>				
Airplane Engines				
Wright Aeronautical Corp.			<u>4,206</u>	<u>4,206</u>
<u>May 1 to May 15:</u>				
Airplane Engines				
Wright Aeronautical Corp.			<u>2,828</u>	<u>2,828</u>
Airplane Accessories				
Curtiss-Wright Corp.			<u>245</u>	<u>245</u>
Total - May 1 to May 15			<u>3,073</u>	<u>3,073</u>
<u>Through May 15:</u>				
Airplanes				
Glenn L. Martin Co.		<u>2,444</u>		<u>2,444</u>
Airplane Engines				
Wright Aeronautical Corp.			<u>7,034</u>	<u>7,034</u>
Airplane Accessories				
Curtiss-Wright Corp.			<u>245</u>	<u>245</u>
Total - Through May 15, 1940		<u>2,444</u>	<u>7,279</u>	<u>9,723</u>

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

Schedule D

Commitments of the British and French Governments
For Income Tax Contributions in the
Aircraft Industry

(In thousands of dollars)

	British	French	Joint	Total
<u>through March 31, 1940:</u>	-	-	-	-
<u>During April:</u>				
Airplane Engines				
Wright Aeronautical Corp.			<u>1,074</u>	<u>1,074</u>
<u>May 1 to May 15:</u>				
Airplane Engines				
Wright Aeronautical Corp.			<u>1,310</u>	<u>1,310</u>
Airplane Accessories				
Curtiss-Wright Corp.			<u>336</u>	<u>336</u>
Total - May 1 to May 15			<u>1,646</u>	<u>1,646</u>
<u>through May 15:</u>				
Airplane Engines				
Wright Aeronautical Corp.			<u>2,384</u>	<u>2,384</u>
Airplane Accessories				
Curtiss-Wright Corp.			<u>336</u>	<u>336</u>
Total - Through May 15, 1940			<u>2,720</u>	<u>2,720</u>

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

Schedule E

Commitments of the British and French Governments
for Development Costs Incurred by United States
Government in the Aircraft Industry

(In thousands of dollars)

	British	French	Joint	Total
<u>Through March 31, 1940:</u>	-	-	-	-
<u>During April:</u>				
Airplanes				
Bell Aircraft Corp.			<u>360</u>	<u>360</u>
<u>May 1 to May 15:</u>				
Airplanes				
Lockheed Aircraft Corp.			<u>1,121</u>	<u>1,121</u>
<u>Through May 15:</u>				
Airplanes				
Bell Aircraft Corp.			360	360
Lockheed Aircraft Corp.			<u>1,121</u>	<u>1,121</u>
Total - Through May 15			<u>1,481</u>	<u>1,481</u>

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

Schedule F

Capital Commitments of the British and French
Governments with Purpose not Designated
(In thousands of dollars)

	British	French	Joint	Total
<u>Through March 31, 1940:</u>				
Airplanes				
Curtiss-Wright Corp.		940		940
Consolidated Aircraft	491	940		1,431
Total - Airplanes	<u>491</u>	<u>1,880</u>		<u>2,371</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	4,871		9,743
Pratt & Whitney	469			469
Total - Engines	<u>5,341</u>	<u>4,871</u>		<u>10,212</u>
Airplane Accessories				
Curtiss-Wright Corp.		500		500
Total - Through March 31	<u>5,832</u>	<u>7,251</u>		<u>13,083</u>
During April:	-	-	-	-
April 1 to May 15:	-	-	-	-
<u>Through May 15:</u>				
Airplanes				
Curtiss-Wright Corp.		940		940
Consolidated Aircraft	491	940		1,431
Total - Airplanes	<u>491</u>	<u>1,880</u>		<u>2,371</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	4,871		9,743
Pratt & Whitney	469			469
Total - Engines	<u>5,341</u>	<u>4,871</u>		<u>10,212</u>
Airplane Accessories				
Curtiss-Wright Corp.		500		500
Total - Through May 15, 1940	<u>5,832</u>	<u>7,251</u>		<u>13,083</u>

Treasury Department, Division of Research and Statistics, May 16, 1940.

Source: Anglo-French Purchasing Board.

Note: These items represent the amounts of capital commitments estimated to be included in certain contract prices. The purposes are, therefore, not designated. In the case of some of the engine manufacturers payment was made indirectly through airplane manufacturers.

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Payments on Capital Commitments of the British and
French Governments in the Aircraft Industry
May 15, 1940

(In thousands of dollars)

	British	French	Joint	Total
Through March 31, 1940:				
Airplanes				
Glenn L. Martin Co.		3,319		3,319
Curtiss-Wright Corp.		940		940
Consolidated Aircraft	491	940		1,431
Total - Airplanes	<u>491</u>	<u>5,199</u>		<u>5,690</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	10,372		15,244
Pratt & Whitney	469	7,700		8,169
Total - Engines	<u>5,341</u>	<u>18,072</u>		<u>23,413</u>
Airplane Accessories				
Curtiss-Wright Corp.		500		500
Total - Through March 31	<u>5,832</u>	<u>23,771</u>		<u>29,603</u>
During April:				
Airplanes				
Bell Aircraft Corp.			100	100
Curtiss-Wright Corp.			125	125
Total - Airplanes			<u>225</u>	<u>225</u>
Airplane Engines				
Wright Aeronautical Corp.			4,000	4,000
Allison			2,000	2,000
Total - Engines			<u>6,000</u>	<u>6,000</u>
Total - During April			<u>6,225</u>	<u>6,225</u>
May 1 to May 15:				
Airplane Engines				
Wright Aeronautical Corp.			1,000	1,000
Through May 15:				
Airplanes				
Glenn L. Martin Co.		3,319		3,319
Bell Aircraft Corp.			100	100
Curtiss-Wright Corp.		940	125	1,065
Consolidated Aircraft	491	940		1,431
Total - Airplanes	<u>491</u>	<u>5,199</u>	<u>225</u>	<u>5,915</u>
Airplane Engines				
Wright Aeronautical Corp.	4,872	10,372	5,000	20,244
Pratt & Whitney	469	7,700		8,169
Allison			2,000	2,000
Total - Engines	<u>5,341</u>	<u>18,072</u>	<u>7,000</u>	<u>30,413</u>
Airplane Accessories				
Curtiss-Wright Corp.		500		500
Total - Through May 15, 1940	<u>5,832</u>	<u>23,771</u>	<u>7,225</u>	<u>36,828</u>

Treasury Department, Division of Research and Statistics, May 20, 1940.

Source: Anglo-French Purchasing Board.

Note: Includes payments for items representing the amounts of capital commitments estimated to be included in certain contract prices. In the case of some of the engine manufacturers payment was made indirectly through airplane manufacturers. The capital purposes for which the payments were made are not available.

Regraded Unclassified

COPY

Prepared by Barrett - Lyon 33
+ Urbanc.

May 16, 1940

Army + Navy Program

MEMORANDUM FOR SECRETARY MORGENTHAU:

The aviation engine industry is definitely a bottleneck in any expansion of the airplane program.

The capacity for 1000 h.p. engines or more is limited to three manufacturers: Pratt Whitney, 850 engines, 1000 h.p., a month maximum; Wright Aeronautical, 800 engines, 1000 h.p., a month maximum; Allison, 350 engines, 1000 h.p., a month maximum.

There is now an additional requirement for the Army and Navy of approximately 6000 engines over and above those engines now on order and required for the aviation expansion program.

The Wright Aeronautical Company and the Pratt-Whitney Company are also manufacturers of the only 400 to 600 h.p. in current use by the Army and Navy for training purposes.

Potential producers of 1000 h.p. engines or more for combat airplanes are Continental and Lycoming. Continental now has an engine of their own design under development which appears to be extremely attractive from a military point of view.

Manufacturers of engines of less than 200 h.p. suitable for primary training comprise a total of seven, i. e. Continental, Jacobs, Kinner, Lycoming, Monasco, Ranger and the Naval Aircraft Factory at Philadelphia. These are all capable of supplying primary training requirements.

There now exists an immediate requirement for approximately 2700 engines of the 400 - 600 h.p. of the total of 6,000 quoted above, and 1500 of the 200 h.p. class to implement the increased training program. The balance are 1000 h.p. or more. -- 1700 engines.

The Pratt Whitney Company and Wright Aeronautical Company and Allison Company, manufacturers of combat engines, now have on order (Army, Navy and foreign) sufficient orders to utilize their full capacity.

Means for increasing the capacity of the engine industry for 1000 h.p. engines or more, needed for combat airplanes, include the following:

(1) License engines of the 400 h.p. class produced by Curtiss Wright and Pratt Whitney for manufacture in the plants of Continental and Lycoming.

(2) Place production orders for the improved model of Continental engine for combat airplanes.

(3) Continue limited production of 400 h.p. engines in Wright Aeronautical and Pratt Whitney plants pending the time that Continental and Lycoming can undertake full production.

(4) Consider refinancing or management for Continental Company as an individual aircraft engine manufacturer similar to Allison. This will insure competition in the liquid-cooled field as well as the air-cooled field.

(5) Provide definite authority for obtaining first priority on machine tool requirements for the Continental and Lycoming Companies necessary for the production of, first, 400 h.p. engines and, second, 1000 h.p. engines.

May 16, 1940
10:47 a.m.

H.M.Jr: Hello.

General
Brett: Yes, sir.

H.M.Jr: General Brett.....

B: Yes, sir.

H.M.Jr:Morgenthau speaking. Sometime around 2:30,
if it was convenient for you, I'd appreciate it
if you could come over to my office and let me
see your schedule of deliveries on fighting planes
-- oh.....

B: Well, Mr. Morgenthau, I haven't -- I don't believe
I have that schedule complete due to the fact that
the actual contracts have not been set up on those
foreign orders which created delays. However, I
will bring over everything that I have which is
as near up to date as possible.

H.M.Jr: Well, it's -- just so that it's up to date and I'm
calling you early so if you have to ask any superior
to get a clearance to come over it gives you a chance
to do it.

B: All right, sir. I'll bring over every bit of dope
I have. Of course, in connection with the delay
on the Bell and the delay on the Curtiss, and
different things of that sort, those reports haven't
come in complete as yet.

H.M.Jr: Yeah.

B: But I can give you a very good idea of about the
effect and the new set-up as regards our deliveries.

H.M.Jr: Would you do that, and as I say-- and I haven't
taken it up with any of your superiors but if you
want to you can clear it with -- I don't know,
whoever you have to clear it to come.....

B: I will report to Mr. Johnson, sir, that I am --
that you've called me up and asked me to come
over.

- 2 -

H.M.Jr: And tell him what it is.

B: All right, sir.

H.M.Jr: Will you -- will you do that?

B: Yes, sir, and I'll be there at two-thirty.

H.M.Jr: And you've got a pretty good idea of what Navy is doing, haven't you, on planes too?

B: Well, I -- I don't -- I have all their orders. I don't know of any delay that has been created with the Navy as yet.

H.M.Jr: Would it be easier for you if I asked General Johnson to have you come over?

B: Why no, sir, I can fix it up all right from that standpoint. I -- it would be a little bit easier for me if you had someone call the Assistant Secretary's office.

H.M.Jr: I'll call up.....

B: I can fix it up with my own people.

H.M.Jr: I'll call up -- I'll have it done.

B: O. K.

H.M.Jr: Right.

B: All right, sir. I'll be there at 2:30.

H.M.Jr: Thank you.

May 16, 1940

I said to Leroy-Beaulieu, "You remember last September when you were told by the English that you were making a mistake to continue buying planes while the Embargo Act was on?" He said, "Do I remember! It was Lord Lothian who tried to get me to stop, because he thought by purchasing planes at that time it would hurt the lifting of the Embargo Act." He said, "The trouble with the English is that they just don't realize the value of time."

Assistant Secretary of the Navy Compton told me that he had just gone out and bought \$3,000,000 of machine tools that were on their Number One Priority List. These tools were scheduled to go to Japan. I said, "How about the tools on order for Russia" and he did not know about those. I told him that I made this suggestion a couple of months ago and that Edison turned me down. (I think I have a letter from Edison in which he said he could not do just this particular thing.)

May 16, 1940

see Bullitt's 38
in coming
Cables att to
Purvis: call
at 30 St. 5/15/40

TO: AMBASSADOR BULLITT, PARIS
FROM: SECRETARY MORGENTHAU
VIA: SECRET NAVAL CODE

PURVIS RECEIVED WORD ALLIED STEEL PURCHASES
WILL CLEAR THROUGH HIM THANKS TO SNAPPY WORK ON
YOUR PART PERIOD ALLIED PURCHASING PROGRAM ON
ENGINES WILL ONLY BE COMPLETED THIS WEEK PERIOD
AIRPLANE PURCHASING PROGRAM STILL INCOMPLETE PERIOD
GREATLY APPRECIATE YOUR COOPERATION

HENRY MORGENTHAU JR

May 16, 1940

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HENRY MORGENTHAU JR

May 16, 1940

My dear Admiral Noyes:

I would appreciate it if you would have the enclosed message to Ambassador Bullitt transmitted to him, via secret Naval code, through the U. S. Naval Attache in Paris.

Yours sincerely,

Admiral Leigh Noyes, U. S. N.,
Room 2022 Navy Building,
Washington, D. C.

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May 18, 1940

My dear Admiral Noyes:

I would appreciate it if you would have the enclosed message to Ambassador Bullitt transmitted to him, via secret Naval code, through the U. S. Naval Attache in Paris.

Yours sincerely,

Admiral Leigh Noyes, U. S. N.,
Room 3022 Navy Building,
Washington, D. C.

May 16, 1940

11:30 a.m.

Present:

Col. Jacquin
Captain Collins
Mr. Philip Young
Mrs. Klotz

HM, Jr: The reason that I asked you to come down -- I will be very frank with you -- maybe Mr. Purvis has already told you, that when I was asked by Mr. Bloch-Laine that your Government needed these extra engines for the Bloch bombers, I did something which I have never done before. I inquired on the other side and I am assured by all the officials of the French Government that have anything to do with Air that you do not need them and in the telegram they suggested that I see you. The suggestion was I talk to you. They said if the schedule of Pratt Whitney went along as it is now that they could take care -- they would have enough engines for the Bloch bombers.

Col. Jacquin: Well, I sent a cable to the Air Ministry asking if the information they had given me before was wrong or right. They did not reply it was right. They replied just exactly what you just say, that if schedules of Pratt Whitney are on time, there will be no trouble for the equipment of the Bloch bomber.

HM, Jr: You did not ask me. The only thing, as I told Mr. Purvis and he said he did not ask me either, that we do turn ourselves inside out for you and this is a message you can take back to Mr. Bloch-Laine: say that when we are asked to do something and an emergency should exist -- and evidently in this case it does not, because as I understand Pratt Whitney are a little late, but in

Colonel Jacquin: They are late one month and a half. In time it is not very much; in number of engines it is very much. It is about 250 by a month. That means they are late 375 engines.

HM,Jr: Any chance of their catching up?

Colonel Jacquin: They will a little, but not very much.

HM,Jr: But Wright is on time?

Colonel Jacquin: Wright is on time.

HM,Jr: Allison?

Colonel Jacquin: Allison is a little late.

HM,Jr: I just heard that the day after I visited Allison they fired the Superintendent. Have you heard that?

Captain Collins: No, sir.

HM,Jr: What's the fellow's name? Kruser? He was out the day after I left. He's out.

Captain Collins: He's a research man primarily.

HM,Jr: They had a complete change-over within a day or so after I left. I don't know whether my going there had anything to do with it, but I certainly left nothing to the imagination as to what I thought of the place. Did you know that?

Colonel Jacquin: No, I did not.

Captain Collins: I did not either.

HM,Jr: A man who was just here, who followed me by a day, said the next day they let Kruser go. Something had to happen out there.

Well, inasmuch as the cable suggested I see

you, I have seen you and I want to tell Captain Collins to see your efforts to get these extra engines. You had no success anyway.

Captain Collins: Nothing to date, sir.

HM, Jr: Well, just withdraw the request. I don't think you could get it anyway, but tell them the French Government say they don't need them.

Colonel Jacquin: They need the engines according to schedule.

I want to give you this memorandum.

HM, Jr: (Reading) The French Government has given me new instructions on the question of Pratt and Whitney engines for the Bloch 175.

"The French Government says that if deliveries of engines are carried out according to the schedules attached to the contract there will not be any trouble in the equipment of the Bloch 175.

"As a result, it would be sufficient if agreeable to the Army that Pratt and Whitney be instructed to divert from the engines from the American Army's orders so that there would be no delay in deliveries for the French Government. This diversion should be limited to a number of 300 engines."

HM, Jr: No use asking this. At least I don't think so.

I think, Colonel, that the best you can do is do all you can to make Pratt Whitney hurry up with your own order, because, as I understand it, our own Army has only 15% in reserve.

Captain Collins: That's about right.

HM, Jr: They ought not to go below that.

Anything else?

Colonel Jacquin: Well, I have nothing else, except you have seen from the newspapers the number of planes which are shot down, out of service, every day. We lose 35 planes every day.

HM,Jr: You are losing 35 per day? I am surprised the number is so small considering the size of the battle.

Colonel Jacquin: Well, you see, the battle is going to go on and in 15 or 20 days it's a lot.

HM,Jr: You are losing about 35 a day?

Colonel Jacquin: 35 a day.

HM,Jr: What are the English losing?

Colonel Jacquin: I think that's for both of us.

HM,Jr: And what's your combined production?

Colonel Jacquin: Our combined production is for us 12 a day and for the English 33 a day.

HM,Jr: 45 a day.

Colonel Jacquin: And suppose there is some accident at the plant.

HM,Jr: Bad.

Colonel Jacquin: Very bad. And, you see, there were some days when the war was on a slow picture, but now that the war is going very quickly it would be very interesting to have a stock of planes.

HM,Jr: Have the last lot of Martin bombers -- have they gone into the fight yet?

Colonel Jacquin: Oh, I am sure.

HM,Jr: Have you heard?

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Colonel Jacquin: No, I have not heard.

HM, Jr: But you don't know as to their performance.

Colonel Jacquin: No, I do not know.

HM, Jr: All right, Colonel. Thank you. Sorry to bring you down, but I just wanted to clear it. Always glad to see you.

cOo-oOo

Note for the Honourable Mr. Morgenthau

The French Government has given me new instructions on the question of Pratt and Whitney engines for the Bloch 175.

The French Government says that if deliveries of engines are carried out according to the schedules attached to the contract there will not be any trouble in the equipment of the Bloch 175.

As a result, it would be sufficient if agreeable to the Army that Pratt and Whitney be instructed to divert from the engines from the American Army's orders so that there would be no delay in deliveries for the French Government. This diversion should be limited to a number of 300 engines.

16th of May 1940

J. J. [Signature]

*Photostated to Mr. J. J. [Signature]
5/17/40*



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 16, 1940.

MEMORANDUM FOR THE SECRETARY

Mr. E. E. Wilson, President of Pratt & Whitney Corporation, telephoned me this afternoon and stated that they had reached an agreement with the Anglo-French Purchasing Board covering an extension to their plant at a cost of approximately \$8,000,000. This extension will increase their output by 250,000 H.P. per month. He further informed me that in addition to the \$8,000,000 capital extension, there would be a charge of \$1,750,000, amortized over output, covering expediting charges to vendors and development expense allocated by the Army.

Mr. Wilson also stated that he believed the reservations they had on machine tools would be sufficient to equip the \$8,000,000 extension when completed.

H. J. Fallis

May 16, 1940

2:30 p.m.

Present:

General Brett
Major Lyon
Mr. Young
Mrs. Klotz

HM,Jr: I wanted to be a little forehanded. See? I have been trying to be that and, therefore, if you gentlemen could give me the dope, because I have an inkling. I think what the President has in his mind -- maybe he has asked for it -- that he may want to go first on the planes. Jacquin was in this morning and he told me that the combined English and French losses were 35 a day and production is 45. Does that check with what you have?

Major Brett: I don't know, Sir.

HM,Jr: I am just giving it to you, on the losses and production. I was just curious to check with you folks.

General Brett: That production figure is about right. I don't know whether we have any information at all on the actual losses.

HM,Jr: But the production figure

General Brett: is about right.

HM,Jr: He said losses were running about 35 a day and I said that was low.

The other thing, I checked up abroad on this question of these Bloch bombers and I got word back, directly from the French Air Ministry, that they do not need those engines.

General Brett: They do not.

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HM, Jr: So forget about it. That's not a mark against Jacquin. It's a black mark against this fellow Bloch-Laine. I just wanted to tell you. Jacquin said if Pratt-Whitney will come through practically on schedule they will be all right.

General Brett: They will be all right.

HM, Jr: It was a little unusual the way the thing came so I had a way of reaching the French Air Ministry direct and it came back they did not need them. That gets down to your 15% reserve. I mean, you have a 15% reserve on engines.

General Brett: No, no, Mr. Secretary! 15% reserve isn't just of engines. Not at all. That 15% reserve was on aircraft.

HM, Jr: Oh!

General Brett: Now, we are supposed to run about 50 - 75% reserve on engines, but unfortunately we did not have enough to buy this last year. Did not have the money to buy them.

HM, Jr: Let me tell you some gossip. Ed Noble brought in a fellow this morning by the name of Weymouth. He's in the business -- stock broker -- visiting all these plants. As long as Mr. Noble asked me to see him, I could not refuse. He visited Allison the day after I was there and, maybe it is just a chance, but the day after you and I left they fired K

General Brett: That's something we have been looking for.

HM, Jr: He's fired. Did you know that? Could you, through your representative on the ground, find out whether the story is true? And then find out who is there? He said he was there the next day and they fired him on the spot and they put in new management.

General Brett: We were hoping they would take on Carl Ward.

HM,Jr: So was I. But I would like to know the name

General Brett: Evans, I think, may take over himself.

HM,Jr: I think that's what he said. I think Evans is going to take over.

Now, have you got something for me?

General Brett: You asked me about delivery. I have a chart which I got up this morning which is about the best dope that we can get on this.

(At this point, General Brett went behind HM,Jr's desk and pointed out the items on the chart.)

General Brett: This is the contract. This is the new delivery.

Major Lyon: They gave them a go ahead in the Allison plant on producing 40 engines only. The first engine is now on test at Wright Field and has completed about 40 or 60 hours of the model test.

HM,Jr: The first one?

Major Lyon: On its improved engine. Allison could, Sir, hold back on giving the release on a large number of production for fear they will have to make some changes when this test is completed. That's what is holding Allison back.

General Brett: He's painting the picture in the blackest possible form. They are producing all their parts and they are getting ready to reassemble as soon as that test is made.

HM,Jr: The statement I made of one Allison engine in the air and

Major Lyon: two under test.

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General Brett: We have six of those planes. There must be six engines in them. Those planes were delivered the last part of last month.

HM,Jr: Today is the 16th. The rest of the month, how many planes will be delivered? I can't show this to the President. It's worse than this.

General Brett: I am not making any bones about it.

HM,Jr: I have always shot straight with you fellows, haven't I? I want something. He said he would see me at 3 o'clock, but he did not sit down to lunch until 2:30. I am not going to look at any charts and I am going to ask you a question and I am going to put your name at the top. I would rather have you err on the conservative side.

Now, Curtiss P-40. Right?

General Brett: Yes.

HM,Jr: How many do you really think you will get in May?

General Brett: How many will we actually get in May?

HM,Jr: And don't kid me.

General Brett: You mean how many are you expecting in May.

HM,Jr: Yes.

General Brett: 25.

HM,Jr: June?

General Brett: We expect around -- we will get our 40 in June.

HM,Jr: July?

General Brett: We are scheduled for 46 and we should

make up our previous losses which would amount to about 15 and, therefore, in July we should be pulling around 60 engines. The airplanes are waiting for the engines. Maybe I am optimistic.

HM,Jr: That's 125.

What else have you got there?

General Brett: Do you want a later date on that?

HM,Jr: No, I will just give him May, June and July.

General Brett: You want pursuit airplanes? Not a thing.

HM,Jr: Nothing. What have you got in the bomber?

General Brett: May, June and July? Nothing of Bell. Of the Lockheed twin engine 38, not a thing, Sir.

HM,Jr: Is that depending on Allison?

General Brett: That's depending upon Allison too.

HM,Jr: Nothing.

General Brett: Nothing on Lockheed. Nothing on Bell. Now -- wait just a minute. On Bell, there is nothing of the small pursuits on Bell. What other types of airplanes do you want?

HM,Jr: I am thinking in terms of the French bomber. That type of thing.

General Brett: Just a moment, Sir. Douglas, nothing in May, June, July. Possibility of only 4 Douglas A-20's.

HM,Jr: Pardon.

General Brett: Possibility of only 4 airplanes. Not a drop in the bucket. Now, Lockheed 38's, there is only a possibility -- there might be a possibility of about 18 of those in May, June, July.

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HM,Jr: What month would they come in?

General Brett: They would come in July.

HM,Jr: Well, that isn't worth talking about.

General Brett: That is all, Sir.

Major Lyon: That is only the combat types.

HM,Jr: Light bombers. That's everything?

General Brett: That's everything we have available.

HM,Jr: They have taken practically all the Graumans?

General Brett: They have taken the Graumans for May, June, July.

HM,Jr: Are you on Navy stuff now?

General Brett: No. This is all straight Army stuff.

HM,Jr: Graumans -- I understand they have given them 80 or 90 of the Graumans.

General Brett: I gave you a figure of 125 P-40's.

HM,Jr: That's right.

General Brett: And, as I say, Mr. Secretary, that is just a wee bit. We have got these B-23's in here which -- of course we have not put leak-proof tanks in it and we have not put armor on it.

HM,Jr: They won't take it. Are you satisfied with that leak-proof tank we saw up there?

General Brett: We ran some beautiful tests on that. Stood up under plenty. They told the industry to go ahead.

HM,Jr: That was Monday.

General Brett: Yes. And Mr. Ziegler, of the French Mission, was out there and said it's the best thing he has ever seen. Got it all over his stuff.

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HM,Jr: Isn't he a smart little fellow?

General Brett: Yes. He's good. He gave our people a lot of dope. He asked permission to go out and talk with them on the subject of armor, turrets and fire control.

HM,Jr: He's been here two months.

General Brett: It took him two months to find out where to go.

HM,Jr: But you can get something out of him?

General Brett: We are getting a lot out of him. They are trying to work up a scheme now to leak-proof the Lockheed.

HM,Jr: The Curtiss P-40's, 125. What's Glenn Martin got?

General Brett: Glenn Martin? On the B-26 he does not start in until the first of July.

HM,Jr: Putting Allison in there too?

General Brett: No, sir. Allison does not go in that.

HM,Jr: Mind you, what I am going to tell the President, that for May, June, July, the only thing, if he should order it and is available, is 125 planes.

General Brett: You see, Mr. Secretary, this whole program, as you notice in our chart here, was based upon completion in June, 1941, and as a result there was no forcing of deliveries.

HM,Jr: Do you know how many P-40's the Allies will get, May, June, July? How many are they getting?

General Brett: The English are not getting any P-40's.

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HM,Jr: And the French?

General Brett: The French have 100 under order, which are delivered: 10, in July; 14, in August; 16, September; 16, October; 24, November; 20, December. They have another order which they are now getting: 35, May; 60, June; 67, July; 68, August; 60, September; 50, October; 31, November; 19, December.

HM,Jr: That stuff, they are all counting on?

General Brett: They are counting on that. Of the P-40's, the French, under their new schedule, as near as we can tell, are getting 46 in May; 60, June; 68, July; 46, August; 32, September; 19, October. Now, that's under their latest schedule on the P-40's. They are counting on that.

HM,Jr: I have asked them to give me tomorrow morning, by companies, what they expect from now to September, 1941, engines and planes, and when I get it I will photostat it and send it over to you and you check it.

General Brett: Our trouble is we have not been able to insert all our releases into this program, but that would not affect us much, according to this schedule here. You see?

HM,Jr: Nice to talk about 50,000 planes!

Let me change the subject. If he decides he wants to give them something, is 125 Curtiss P-40's -- there isn't anything else.

General Brett: That's all there is.

HM,Jr: Now, gentlemen, have you thought through -- everybody in the last few days has just discovered there is a war and everybody comes in with a bright idea. Now, the President asked for that \$100,000,000. Have you people worked out any program as to where the money will do the most good to speed up this engine and airplane production? Have you got a plan?

General Brett: We have not worked out a definite program simply because in talking with Kindelberger this morning, I said, "Dutch, what is the best way to speed up production?" He said, "By giving me additional orders." The emergency will accelerate everything, but of course what they are worried about, and they are logically worried about, that they don't want to start a production program and start suicide too soon.

HM,Jr: Now, let me talk to you a minute. Let's talk engines first, because there is no use talking planes until you have engines. Is that right?

General Brett: That's right.

HM,Jr: Let me tell you what I have got in my mind. You know me well enough by now you can tell me. From what I have seen, I don't feel personally that you can get an awful lot more out of the three present engine companies for the next 12 months, from what you have got, from the Allied orders.

General Brett: I would say that would be about right. I think they will have to jump a little to give what they have promised.

HM,Jr: Let's say, from July to July, I don't think you are going to get much more. The Allies, last week, gave that Curtiss order and this week they are closing with Pratt Whitney. If that hunch of mine is correct, it means going to other people and the quickest way to go to other people is licensing.

General Brett: That's right.

HM,Jr: Are we together so far?

General Brett: We have never been able to put it over.

HM,Jr: All right.

General Brett: In other words, Major Lyon and I were talking about it this morning and we take 450 h.p.

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engines and pull them out of Pratt Whitney and Curtiss and shove them into Lycoming and Continental, or do that and make Pratt Whitney and Wright concentrate on production of that type of engine, I mean carry it through their present schedule until Lycoming and Continental are in the picture. Now, you are going to have a shortage if you pull production on the 450-500 engines out of Pratt Whitney and Wright today. You are going to have a tremendous shortage on training planes. That's the engine that goes into our basic trainer and advance trainer.

HM, Jr: How much horse?

General Brett: That's the 450 - 500. If you pull that right away, it will take Lycoming and Continental a period of 8 to 10 months to get into production and, therefore, we can't afford to lop that off right now.

HM, Jr: Check again.

General Brett: But we do believe that if Pratt-Whitney and Wright could see the light and give licenses to Lycoming and Continental that within a short period of time Lycoming and Continental would be coming into the picture and maybe we could concentrate more on the bigger engines with the two big companies.

HM, Jr: I differ with you only a little bit. I tell you now that if the President will back me up, I can do the licensing thing. I mean, if he tells me to do it I will do it if I have to get an Act through Congress. I know I can do it and I don't make mouth threats. Now, with the spirit the country is in, we can get anything. If we are going to do this thing -- and since I have been in the Treasury I have been going back to April 1939 -- we have been talking all along in terms of getting ready for a 2-3-4 year thing and that's the way I have run this place and, therefore, if we are going to do this thing and go to other companies wouldn't it be better to put the other companies on the big work, the big engines that you are going to fight with? I mean, go the whole way and get a license for whatever most advanced engine there is that you people think you will need in the next two years. I mean, this is the way I am thinking. It isn't going to

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take Lycoming and Continental much longer to learn how to produce 500 to 1800 horsepower than it is to get them to turn out 400 or 500.

Major Lyons: There is one problem in every airplane factory. They must have their tests and when they get into the big powers the problem of getting into production and equipment is amplified.

General Brett: The thing -- that hitch is the question of being able to get machines and tools necessary to produce the bigger engines, as compared with machine tools necessary to produce smaller engine which has been in production for sometime and, likewise, if we took the small production away from Wright and Pratt Whitney they could use much of their present machinery to assist in the production of the big engine.

HM, Jr: Who could?

General Brett: Wright and Pratt-Whitney could use the machinery that they are using on the small engine in the production of the big engine. I would hate to give an answer right off the bat.

HM, Jr: Well, look. Going on the assumption that I can make good on getting them to give a license. Then you people do some heavy thinking which way we make speed the fastest and I am sick and tired of being told if we don't get it in six months it's no good because I don't think that's the answer. I think we have to think in terms of several years and my strength is, if I have any, is I have no pet theories of my own. I am just asking people who know .

General Brett: And if we are going to license these people

HM, Jr: No, I don't expect you to, but as I say, I don't know whether the President will continue to use me or not, but if he does I want to go at this thing as intelligently as I can and I have got to lean on you fellows, and couldn't you have a talk with Captain Kraus along the same lines? Do you get along with him?

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General Brett: Oh, beautifully! Mr. Secretary, we have thought about it a lot. We tried last November and asked Cooper, of Lycoming, what he could do and my people at Wright Field have talked to Continental and we have just been wondering how we could readjust to get greater production and use the smaller companies and at that time Cooper told me what he could do. At that time, if I had the money, I could have started him, but of course now we are faced with it. Major Lyon suggests as a possible thing to look into, Continental is building an engine for us that is an exceptionally fine engine. It's an engine that the engineers are very keen about, because it has a cylinder which is a departure from the other. It has larger horsepower. What we would do, we would start Continental in real production on the big engine. We would force Pratt-Whitney, force Wright, and take Lycoming and build it up as a company for the small engine business.

HM, Jr: There are two advantages to these companies. Williamsport strategically is a good place, and the other up in Wisconsin?

General Brett: No. That's up in Northern Michigan.

HM, Jr: That's a good place.

General Brett: A good place strategically.

HM, Jr: Your idea would be to license Lycoming on 400 - 500 engine?

General Brett: Then force Continental into production at once.

HM, Jr: That's the so-called flat engine.

General Brett: That's the flat engine and runs about 1500 to 1700 horsepower.

HM, Jr: And that goes in the wing?

General Brett: It could go in the wing. It gives you a very fine tapered nose for a single engine.

HM, Jr: The thought I had -- you think this over -- was to send for the head of Chrysler and suggest to him that he buy Continental Motor outright and then get Chrysler in this thing.

Major Lyon: The Chrysler management is one of the best in the automotive industry.

HM, Jr: You see? And I could send for him and tell him "the Government wants you to go out and buy Continental Motors".

General Brett: That would be the best way to do it.

HM, Jr: See? "This is what we are prepared to do" and put Chrysler back of this thing so you would have a big outfit in this business.

General Brett: What would an order for 1500 engines do?

Major Lyon: I think you should take Continental with the 985 until they can get into production on the big engine and use that as a step up, because we have a bottleneck on basic training and advanced training engines.

General Brett: We have them all listed: Continental, Lycoming, Jacobs, Kinner, Monasco and Ranger. The last three are two-engine. Major Lyon suggests that Lycoming go into the 500 horsepower engine and use that as a stepping stone and all the time they are producing that engine they be building up for the purpose of getting into this big engine.

HM, Jr: Which would you have them start on?

Major Lyon: Either Wright or Pratt-Whitney.

HM, Jr: But in the 400-500 class.

General Brett: Yes, sir.

Major Lyon: The reason we say that is we have three engines which are definitely standard and proven

from the point of view of a training engine and, on the other hand, we want to continue to get new blood and competition into our military engine field.

HM, Jr: Agreed again.

Major Lyon: We are looking forward to a lot of business in the basic training and primary training field, which is a step up.

(At this point, the Secretary placed a call for either Mr. Edison or Mr. Johnson.)

HM, Jr: You fellows know what you need in the trainers and looking forward to more advanced engine you think Continental has something that is good?

General Brett: We think Continental has the best engine on the market today.

HM, Jr: What about Lycoming?

General Brett: That engine has not panned out so well. They have a Navy development that may develop pretty well. The Navy development may turn out very well.

HM, Jr: Is that the 24 cylinders?

Major Lyon: I think it is.

HM, Jr: Is it they or Continental that you fellows say has such a wonderful cylinder?

General Brett: Continental.

HM, Jr: You see, with this \$100,000,000 that the President has for purchases and \$100,000,000 for commitments we can do this kind of thing.

General Brett: Yes, that's the purpose of it, I believe.

HM, Jr: That's why I recommended it -- the \$100,000,000 -- and it happened to be my idea, for once.

-15-

Now, don't you like the idea of getting Chrysler into it? Aren't they good engineers?

General Brett: Allison stepped right our when General Motors took over. With plant facilities and ability to go ahead, if Chrysler got behind Continental -- what held Continental up, we have not had enough money to get behind them.

Major Lyon: And in management, Chrysler is tops.

General Brett: But if Chrysler would get behind Continental and we could license Continental to go into the 450 - 500 as a step up, to get their shops going, and then go into the big engine as soon as they were able to get into the big engine, and maintain Pratt-Whitney and Wright just as they are until Lycoming got into the smaller engine

HM,Jr: But you would give Lycoming and Continental a license on both engines?

General Brett: Yes.

HM,Jr: And then give Continental the money, or order, to go ahead with the big engine.

General Brett: Yes, sir.

Major Lyon: On a limited production scale.

HM,Jr: You want to give them a big enough order so they figure they go ahead.

General Brett: We would have to set a time element in there and size of the order in order that he would know how to build his shop.

HM,Jr: That's right. Then, just say for a minute, that this is the kind of program -- is Arnold in town?

General Brett: Yes, sir.

HM,Jr: While I am waiting for the Navy -- do you have anybody in your shop who would know what kind of tools

would be necessary and what company would make it so we could start with the tool people if we had to say, "Now, look. You have to do so-and-so and so-and-so."

General Brett: Mr. Secretary, if Chrysler took over Continental

(At this point, the Secretary phoned Captain Kraus to come to the meeting.)

General Brett: If Chrysler took over Continental, we could sit down and write you a list of the tool people that he had to get his tools from and then pressure could be brought to bear on them to see that Chrysler got what they had to have. My people are very conversant with that. We are buying all types of tools of our own. But if Chrysler were planning to take over Continental, they could, in no time, give a complete list of the tool people they had to work with.

HM, Jr: What I would like to do is have the whole thing ready so when the President signed the bill, the contract would already be signed and they would be released before his ink got dry.

General Brett: I don't want to backslide or anything, but we have discussed this thing -- for instance, we have had a long talk with Kindelberger this morning. We have been discussing this for 4 or 5 months, but in this thing you have to have something to shoot for. In other words, you have got to know approximately the quantities and the time limits in what you are going after, and it's extremely difficult to talk to any of the manufacturers on generalities as regards increased production. If you could say to Chrysler, "The Government is going to place an order for so many of Continental's big engines; in addition to that the Government is going to license Continental to build the 1340 training engine and our requirements on that training engine are so many; now Chrysler you tell us exactly or approximately what it will cost per engine in the quantities we have specified and give us your earliest possible delivery date" -- now you place the manufacturer in a position where he can give you an intelligent answer.

HM, Jr: Why can't we do that, if we have the money now?

General Brett: We can up to the limit of the \$186,000,000, but you are talking out and beyond the \$186,000,000. You are talking about something we have never yet had a definite program to accomplish.

HM, Jr: That's all right. The President has \$200,000,000.

General Brett: If you want that \$200,000,000 to go into the engine industry

HM, Jr: Not all of it, but a good piece.

General Brett: My people have airplanes right on the board today that they know they want to put the Continental engine in and we know how many training planes and we could give a guess beyond that. It would be a rather poor guess.

HM, Jr: You know if you had the Continental type of motor coming off the line in so many months, you would then order a certain type of plane to go with it.

Major Lyon: We have already ordered the plane and we need the engine.

HM, Jr: You see, again, I don't know whether on this new thing the President wants me to continue, but if he does, the thing that I am going to do is tell you fellows to take some chances and if you are wrong, O. K., but let's make a few mistakes. You have got it. Let's take a few chances. We do three things, and two turned out, I would say we are lucky.

General Brett: As far as that is concerned, I can give you a memorandum today following exactly the thought that we have expressed here as a guide.

HM, Jr: Well, I certainly would. How long would it take you to turn it out?

General Brett: About an hour and a half.

HM, Jr: I am going to see the President at a quarter of 5. I have enough room, all the stenographic help you need. Kraus will be here in a couple of minutes. I want him to sit in on it. I want it by a quarter of five and I want Kraus to sit in with it.

Major Lyon: One question not answered on machine tool. Machine tool people have very definitely planned for that. The manufacturer should sit in on what?

HM, Jr: You would want a machine tool committee?

General Brett: I think the Secretary's idea was if Chrysler took over, if he needed any assistance as to tools and machinery required, then pressure would be brought to bear on those plants to see that Chrysler got machines and tools on a certain priority basis.

HM, Jr: What's your idea on planes?

General Brett: What I wanted to do was get my procurement people over there and begin to make -- in fact, we have it here, but go ahead and make more or less of an estimate as to what we could do in the aircraft industry today to round out, as we call it, their production capacity. Now the chart here that I have indicates that their production, for certain people -- well, in talking to all these different people, there is evidently a lag in there, a sort of slack, that could be taken up. In other words, there is your chart of production. That jumps in there, for April, foreign, Army and Navy, and this is the big commercial, and such as that.

HM, Jr: If I had the engine thing in an hour -- I want to see you again at 4:30 and you could have something for me on that and that would be wonderful. Then I will find out what the President wants, how much more he wants me to do, and depending upon how much more he wants me to do I will let you know, but I would like to have for him the engine thing and if you knew you were going to have so many then you would know what to tell the plane people. I want him to put his mind on engines first and tell me he wants me to continue and then I want to jump in on the engine thing first.

oOo-oOo

May 16, 1940

4:30 p.m.

Present:

General Brett
Major Lyon
Captain Kraus
Mrs. Klotz

(General Brett gave the Secretary the attached memorandum which had been prepared by them in the Treasury.)

HM,Jr: The 5,000 engines, how do you arrive at that?

General Brett: That is in the bill. It is broken down in the memorandum, not in detail but just into class of engines.

HM,Jr: But this would take care of 5,000 engines; would take care of what the Army and Navy needs, over how long a period?

General Brett: Not necessarily any period.

HM,Jr: You just want 5,000?

General Brett: 5,000 engines in conformity with the President's message of today which increased aviation expansion, production, by 5,000 engines.

HM,Jr: O. K. This is in accordance with the Bill.

General Brett: That is the increase in the President's message.

(HM,Jr then read the memorandum.)

(When the Secretary came to the second line in the third paragraph, he noticed the men had made a mistake in saying "the Army and Navy of approximately 5000 engines over" and said, "It's 6,000 engines. Right? Better to have it in the room.")

(When the Secretary finished reading the last sentence in the last paragraph on page one, he said, "I am going to add on there "equals T700 engines".

General Brett: Those are round figures.

HM, Jr: I asked you to give me a hurry up job and you did a swell job.

HM, Jr: Is Continental liquid cooled?

General Brett: It is liquid cooled.

HM, Jr: Gentlemen, it is exactly what I wanted. You did a nice job.

oOo-oOo

May 16, 1940

MEMORANDUM FOR SECRETARY MORGENTHAU:

The aviation engine industry is definitely a bottleneck in any expansion of the airplane program.

The capacity for 1000 h.p. engines or more is limited to three manufacturers: Pratt Whitney, 850 engines, 1000 h.p., a month maximum; Wright Aeronautical, 800 engines, 1000 h.p., a month maximum; Allison, 350 engines, 1000 h.p., a month maximum.

There is now an additional requirement for the Army and Navy of approximately 6000 engines over and above those engines now on order and required for the aviation expansion program.

The Wright Aeronautical Company and the Pratt-Whitney Company are also manufacturers of the only 400 to 600 h.p. in current use by the Army and Navy for training purposes.

Potential producers of 1000 h.p. engines or more for combat airplanes are Continental and Lycoming. Continental now has an engine of their own design under development which appears to be extremely attractive from a military point of view.

Manufacturers of engines of less than 200 h.p. suitable for primary training comprise a total of seven, i. e. Continental, Jacobs, Kinner, Lycoming, Monasco, Ranger and the Naval Aircraft Factory at Philadelphia. These are all capable of supplying primary training requirements.

There now exists an immediate requirement for approximately 2700 engines of the 400 - 600 h.p. of the total of 6000 quoted above, and 1600 of the 200 h.p. class to implement the increased training program. The balance are 1000 h.p. or more. - 1700 engines.

-2-

The Pratt Whitney Company and Wright Aeronautical Company and Allison Company, manufacturers of combat engines, now have on order (Army, Navy and foreign) sufficient orders to utilize their full capacity.

Means for increasing the capacity of the engine industry for 1000 h.p. engines or more, needed for combat airplanes, include the following:

(1) License engines of the 400 h.p. class produced by Curtiss Wright and Pratt Whitney for manufacture in the plants of Continental and Lycoming.

(2) Place production orders for the improved model of Continental engine for combat airplanes.

(3) Continue limited production of 400 h.p., engines in Wright Aeronautical and Pratt Whitney plants pending the time that Continental and Lycoming can undertake full production.

(4) Consider refinancing or management for Continental Company as an individual aircraft engine manufacturer similar to Allison. This will insure competition in the liquid-cooled field as well as the air-cooled field.

(5) Provide definite authority for obtaining first priority on machine tool requirements for the Continental and Lycoming Companies necessary for the production of, first, 400 h.p. engines and, second, 1000 h.p. engines.

Prepared by General Deth } at Treasury
 Capt. Kraus }
 Major Lyon } May 10, 1940



IN REPLY
REFER TO FILE NO.

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 16, 1940

72

MEMORANDUM TO MR. McREYNOLDS:

The headquarters office for Emergency Relief purchasing within Region No. 14, comprising Missouri, Kansas, Iowa, Nebraska, and Oklahoma has been established at Kansas City, Missouri because of its central location, the availability of the principal buying markets, and consequent transportation advantages.

An office will be maintained at Des Moines, Iowa, and the present State Procurement Officer will be designated Deputy Regional Procurement Officer for that State.

Indicative of the volume of purchasing within the State of Missouri for the fiscal year 1939, there were 39,282 purchase orders issued as compared to 11,376 for the State of Iowa during the same period. A Treasury Accounts Office is maintained at Kansas City, Missouri, which will facilitate the expeditious handling of work at the regional headquarters. There is no Treasury Accounts Office at Des Moines, Iowa.

C. E. Mack
Clinton E. Mack
Special Agent In Charge

*I telephoned
this information to
Senator Herring's secretary
in absence of the Senator. He
expressed himself as content
the Senator to convey his
desires any further
discussion*

*Myl
17/15 pm 16 May*

73
May 16, 1940

MEMORANDUM TO MR. MOREYNOLDS:

The headquarters office for Emergency Relief purchasing within Region No. 14, comprising Missouri, Kansas, Iowa, Nebraska, and Oklahoma has been established at Kansas City, Missouri because of its central location, the availability of the principal buying markets, and consequent transportation advantages.

An office will be maintained at Des Moines, Iowa, and the present State Procurement Officer will be designated Deputy Regional Procurement Officer for that State.

Indicative of the volume of purchasing within the State of Missouri for the fiscal year 1939, there were 39,282 purchase orders issued as compared to 11,376 for the State of Iowa during the same period. A Treasury Accounts Office is maintained at Kansas City, Missouri, which will facilitate the expeditious handling of work at the regional headquarters. There is no Treasury Accounts Office at Des Moines, Iowa.

Clifton E. Mack
Clifton E. Mack
Special Agent In Charge

CEM:cm1

NOV 74

May 16, 1940

MEMORANDUM TO MR. MCKINLEY:

The headquarters office for Emergency Relief purchasing within Region No. 14, comprising Missouri, Kansas, Iowa, Nebraska, and Oklahoma has been established at Kansas City, Missouri because of its central location, the availability of the principal buying markets, and consequent transportation advantages.

An office will be maintained at Des Moines, Iowa, and the present State Procurement Officer will be designated Deputy Regional Procurement Officer for that State.

Indicative of the volume of purchasing within the State of Missouri for the fiscal year 1939, there were 39,382 purchase orders issued as compared to 11,376 for the State of Iowa during the same period. A Treasury Accounts Office is maintained at Kansas City, Missouri, which will facilitate the expeditious handling of work at the regional headquarters. There is no Treasury Accounts Office at Des Moines, Iowa.

Clifton E. Mack
Clifton E. Mack
Special Agent in Charge

CEM:cm

May 16, 1940
10:05 a.m.

75

Senator
Clyde L.
Herring

Hello,

HMJr: Hello, Senator.

H: How are you, sir?

HMJr: I'm fine.

H: Fine. Say, Henry, I just came back from Iowa with the delegation in my vest pocket for renomination to receive a wire that the Procurement Division is being taken from Des Moines and being sent down to this anti-Roosevelt state of Missouri to Kansas City.

HMJr: Well.....

H: The Treasury Division of Procurement -- under W.P.A.

HMJr: Really?

H: Yeah.

HMJr: Let me look into it right away.

H: All right. I told Jesse Jones at the meeting the day before yesterday I wouldn't let him take that authority away from you and now, by golly, you're taking this away from me.

HMJr: Well.....

H: (Laughs)

HMJr: I don't know a thing about it but we'll stop it.

H: Ah -- yes. What they're doing is combining five states, but I think they could just as well combine it up there. We have five states around us.

HMJr: They're taking it down to Missouri?

H: Yes, taking it down to Kansas City.

HMJr: Well, I'll be darned.

H: Down there among the enemies and I don't want to have it.

HMJr: Well, and where is it now?

H: It's in Des Moines.

HMJr: Is that where you want it?

H: Yes, that's where I want it.

HMJr: What?

H: Yes. It's been doing good work there and it would make necessary -- all our suppliers would have to move to Kansas City with their offices, and it's a hardship on a lot of our friends out there.

HMJr: Unless there's something that I don't know about.....

H: I know -- I know you wouldn't but I thought there was no use going to Reynolds, I better talk to you.

HMJr: Well now.....

H: I think there may be some justification for it.

HMJr: I wonder -- I wonder -- you see Reynolds isn't with me. He's over.....

H: Oh, he isn't?

HMJr: No, Reynolds is over with Carmody.

H: Well, this is under -- is under the Treasury, the Procurement Division of the Works Progress.

HMJr: No. No, they've taken that away from me. That's over with Carmody.

H: It is?

HMJr: Yeah, all of that stuff -- public buildings -- is this -- Reynolds?

H: No, this is W.P.A. -- that pays the bills for W.P.A.

- 3 -

HMJr: No, that's with me.

H: Yeah.

HMJr: That's with me.

H: They pay the bills for W.P.A.

HMJr: I'll look into it. Unless there's something that I don't know, we'll keep it in Des Moines.

H: Thank you. Just -- let me know what you can do, will you?

HMJr: I'll definitely let you know.

H: Thank you.

HMJr: Goodbye.

H: Thank you.

May 16, 1940

HM, Jr called Pa Watson today and told him the R.F.C. bill was going very badly because Jones was doing various things. Pa Watson called Steagall again today.

5-16-40

79

Dear Jesse:

I see by the papers that you have given testimony before the Senate and House Banking and Currency Committees in which you state that I am in favor of every item of your bill authorizing the Reconstruction Finance Corporation, among other things, to return \$300,000,000 to the Treasury.

I have before me a copy of the Treasury Department's report on your bill which my Bureau of the Budget has forwarded to these committees.

I am in full accord with this report and hope that you will go along with it.

Sincerely,

(7 AR)

Hon. Jesse Jones,
Administrator,
Federal Loan Agency,
Washington, D. C.

Handed to Pres
by Hump - 5/16/40

COPY

EU

May 13, 1940

My dear Mr. Chairman:

Further reference is made to your letter of May 8, 1940, requesting the views of the Treasury Department on S. 2886, A Bill "To authorize the purchase by the Reconstruction Finance Corporation of stock of Federal Home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes".

Section 1 (1) of the bill would authorize the Reconstruction Finance Corporation, upon approval of the Federal Loan Administrator, to purchase at par any of the stock of the Federal Home Loan Banks owned by the United States, and would authorize the Secretary of the Treasury to sell such stock to the Reconstruction Finance Corporation. The Secretary of the Treasury holds \$124,741,000 of the capital stock of the Federal Home Loan Banks and although existing law provides for the retirement of the stock held by the Secretary of the Treasury, there is no provision authorizing the transfer or sale of such stock. The Treasury does not have any objection to Section 1 (1) of the bill.

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time and recommends against the proposed change.

Under existing law the Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell on the open market the whole or any part of the preferred stock, capital notes, or debentures of any national bank, state bank, or trust company acquired by the Corporation. Section 1(2) of the bill would change the existing law so as to permit the Reconstruction Finance Corporation to sell such securities with the approval of either the Federal Loan Administrator or the Secretary of the Treasury. The Reconstruction Finance Corporation now has the authority to make such sales on its own initiative provided at least 60 days' notice of any proposed sale is given to the issuer or maker. (See Section 5 (a) of the Reconstruction Finance Corporation Act, as amended).

While the Treasury has no particular objection to this change in the law if it is divorced from the other changes referred to above, nevertheless, it is subject to a general objection from the standpoint of the confusion that might arise when either one of two public officers can authorize action with respect to a particular subject.

Under existing law the total amount of loans, commitments, etc., by the Reconstruction Finance Corporation to railroads, or their receivers or trustees, may not exceed at any one time \$350,000,000 in addition to the loans and commitments made prior to January 31, 1935. Section 2 of the bill would raise this limitation to \$500,000,000.

The Reconstruction Finance Corporation may now make loans or advances, or renewals or extensions of loans or advances and may permit loans or advances to run so as to mature not later than January 31, 1945. Section 2 would change this date to January 31, 1955.

From the standpoint of the Treasury there appears to be no objection to the changes proposed by Section 2 of the bill.

Section 3 would amend the existing law under which national banks may make real estate loans in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 60 per centum of the principal within the 10 years, so as to authorize such loans to be made for a period of 15 years provided at least 60 per centum of the principal is amortized within the 15 years.

- 3 -

National banks can now make "real estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "80 per centum of the appraised value of the real estate offered as security" and for a term of not more than 8 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. Another exception is that a real estate loan may be made "in an amount not to exceed 80 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than 10 years". It is the underlined 40 and 10 in the preceding sentence which would be changed by the bill. The 40 would be changed to 80 and the 10 to 15. Thus, national banks would be permitted to make real estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real estate loans. Their power to do so has been progressively liberalized since that time and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against Section 3 of the bill.

The Secretary of the Treasury holds all the stock of the Reconstruction Finance Corporation, in the total amount of \$500,000,000. Section 4 of the bill would authorize the Corporation, with the approval of the Federal Loan Administrator, to make payments to the Secretary of the Treasury for the partial retirement of its capital stock at par, or in payment of dividends on such stock from the earnings of the Corporation. Since, under existing law, the aggregate amount of the notes, debentures, bonds or other obligations of the Reconstruction Finance Corporation issued and outstanding is based upon the amount of the Corporation's subscribed capital, the bill provides that the aggregate amount of such obligations which the Corporation is authorized to issue and have outstanding shall not be decreased or affected by reason of the cancellation or retirement of any of the capital stock of the Corporation. From the standpoint of the Treasury there is no objection to this amendment.

-4-

Section 5 provides that the aggregate amount used by the Corporation to purchase stock of Federal Home Loan Banks under Section 1, or to retire the capital stock of the Corporation or pay dividends on such stock under Section 5, may not exceed \$300,000,000, the aggregate amount to be determined by the Secretary of the Treasury. The Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, is to determine what portion of the aggregate amount determined by the Secretary of the Treasury shall be used for the purchase of stock of the Federal Home Loan Banks, the retirement of the capital stock of the Reconstruction Finance Corporation, or the payment of dividends on the capital stock of the Corporation. The Treasury has no objection to this provision.

With the exception of the provisions to which objection is made above, the Treasury Department recommends enactment of S. 3938.

I have been advised by the Director of the Bureau of the Budget that there is no objection to the submission of this report to your Committee, with the understanding that no commitment would thereby be made with respect to the relationship of the proposed legislation to the program of the President.

Very truly yours,

(Signed) HERBERT E. GASTON

Acting Secretary of the Treasury.

Hon. Robert F. Wagner,
Chairman, Committee on Banking
and Currency,
United States Senate,
Washington, D. C.

84
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TO AMEND THE RECONSTRUCTION FINANCE CORPORATION ACT

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SIXTH CONGRESS

THIRD SESSION

ON

S. 3938

A BILL TO AUTHORIZE THE PURCHASE BY THE RECON-
STRUCTION FINANCE CORPORATION OF STOCK OF
FEDERAL HOME-LOAN BANKS; TO AMEND THE
RECONSTRUCTION FINANCE CORPORATION
ACT, AS AMENDED, AND FOR OTHER
PURPOSES

MAY 14, 1940

Printed for the use of the Committee on Banking and Currency



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GOVERNMENT PRINTING OFFICE
WASHINGTON : 1940

231440

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CHARLES W. TOBEY, New Hampshire

II

AMEND RECONSTRUCTION FINANCE CORPORATION ACT

TUESDAY, MAY 14, 1940

UNITED STATES SENATE, SUBCOMMITTEE ON
RECONSTRUCTION FINANCE CORPORATION MATTERS
OF THE BANKING AND CURRENCY COMMITTEE,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:30 a. m. in room 301, Senate Office Building, Senator Robert F. Wagner presiding.

Present: Senator Wagner (chairman of the subcommittee), Adams, Radcliffe, Hughes, Herring, Smathers, Townsend, and Frazier.

Present also: Senator Glass.

Senator WAGNER. The subcommittee will come to order. We will proceed with a hearing on S. 3938 introduced by Senator Glass. The committee reporter will make the bill a part of the record at this point.

(The bill, S. 3938, is as follows:)

[S. 3938, 76th Cong., 3d sess.]

A BILL To authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (1) section 304 of the Act approved March 9, 1933 (48 Stat. 1, 6), as amended, is amended further by inserting after the phrase "Sec. 304." and before the first sentence thereof the following: "(a) The Reconstruction Finance Corporation, upon the approval of the Federal Loan Administrator, may purchase at par any part of the stock of the Federal home-loan banks owned by the United States, as evidenced by certificates, receipts, or otherwise, and the Secretary of the Treasury is authorized on behalf of the United States to sell such stock to the Corporation; and any stock so purchased by the Corporation shall be held subject to the same conditions, requirements, rights, and privileges now provided by law for or in connection with the ownership by the United States of such stock, including all dividend and retirement provisions. (b)"; and (2) section 304 of the Act approved March 9, 1933 (48 Stat. 1, 6), as amended, and section 1 of the Act approved June 10, 1933 (48 Stat. 119), as amended, are amended further by inserting after the words "Secretary of the Treasury" wherever they appear therein the words "or the Federal Loan Administrator".

Sec. 2. That (a) section 5 of the Reconstruction Finance Corporation Act, as amended, is amended further by substituting for the figure "\$350,000,000" appearing in the third proviso of the third sentence of the third paragraph thereof the figure "\$500,000,000"; and (b) section 3 of the Act approved January 31, 1935 (49 Stat. 1, 2), as amended, is amended further by substituting for the words "January 31, 1945" appearing in the first sentence thereof the words "January 31, 1955".

Sec. 3. That section 208 of the Act approved August 23, 1935 (49 Stat. 684, 706), as amended, is amended further by substituting (a) for the word "ten" wherever it appears in the third sentence thereof the word "fifteen", and (b) for the figure "40" appearing in the third sentence thereof the figure "60".

Sec. 4. That section 2 of the Reconstruction Finance Corporation Act, as amended, is amended further by adding immediately after the first paragraph thereof the following:

"The Corporation is authorized to make payments from time to time to the Secretary of the Treasury in amounts to be determined by the Corporation, with the approval of the Federal Loan Administrator, for the partial retirement of its capital stock at par or in payment of dividends from earnings.

"Notwithstanding the provisions of section 9 of the Reconstruction Finance Corporation Act, as amended, section 205 (a) of the Emergency Relief and Construction Act of 1932, or any other provision of law, the aggregate amount of notes, debentures, bonds, or other such obligations which the Corporation is authorized to issue and have outstanding at any one time shall not be decreased or affected by reason of any cancellation or retirement of capital stock."

"Sec. 5. The Reconstruction Finance Corporation shall purchase stock of any Federal home-loan bank under section 1 hereof, or retire capital or pay dividends under section 4 hereof, in an aggregate amount not to exceed \$300,000,000 to be determined by the Secretary of the Treasury; the Reconstruction Finance Corporation, upon the approval of the Federal Loan Administrator, to determine that portion of such aggregate which shall be used for purchase of such stock for retirement of capital, or for payment of dividends hereunder.

Senator WAGNER. Senator Glass, do you care to say anything in regard to your bill before we hear Mr. Jones?

Senator GLASS. No; I do not care to say anything at this time. I introduced the bill by request.

Senator WAGNER. Have you anything you would like to have made a part of the record at this point?

Senator GLASS. It might be well to introduce into the record a letter I received from Mr. Jones.

Senator WAGNER. That will be made a part of the record by the committee reporter.

(The letter from Jesse H. Jones, Federal Loan Administrator, dated May 13, 1940, is as follows:)

FEDERAL LOAN AGENCY,
Washington, May 13, 1940.

HON. CAMERON GLASS,

United States Senate, Washington, D. C.

DEAR SENATOR GLASS: I favor the adoption of the Glass bill, S. 3938, for the following reasons:

A. It authorizes the return to the Treasury of \$300,000,000 from its investments in lending agencies in keeping with the President's Budget message. It permits the Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, to determine what portion of said sum shall be returned (1) by the purchase of all or any part of the \$124,741,000 of the capital stock of the Federal Home Loan banks held by the Treasury; (2) by the retirement of Reconstruction Finance Corporation capital stock; and (3) by the payment of dividends from earnings of the Corporation.

\$300,000,000 can be returned to the Treasury in this manner without affecting the efficiency or impairing the solvency of the Reconstruction Finance Corporation or the Home Loan banks. The stock in the Home Loan banks is a sound investment and pays dividends in excess of the cost to the Reconstruction Finance Corporation of the money necessary to buy such stock from the Treasury.

B. It increases the amount available for loans to railroads by \$150,000,000, which is necessary if we are to aid the roads in reorganizing, and enable them to borrow at reasonable rates from private sources. Also the general limitation date on maturities of Reconstruction Finance Corporation loans is raised from 1945 to 1955.

C. It permits the Reconstruction Finance Corporation to buy or make loans upon preferred stock in banks and insurance companies upon the request of the Federal Loan Administrator, when approved by the President, instead of upon the request of the Secretary of the Treasury, only, as at present. This is a proper function of the Federal Loan Administrator.

The Reconstruction Finance Corporation is responsible for each such investment and must determine whether it shall be made. The amendment would facilitate the work and obviate unnecessary delay.

D. Under existing law national banks may make loans on improved farm land and improved business and residential properties in an amount not to exceed 90 percent of the appraised value of the property when secured by a first mortgage.

and when installment payments are required sufficient to amortize 40 percent or more of the principal amount of the loan within a period of not more than 10 years.

The amendment permits such loans where 60 percent of the loan will be amortized within 15 years, instead of 40 percent within 10 years. The amendment does not change the requirements as to security, it does not change the ratio of payments, nor the total amount a bank may have invested in such loans, which may not exceed 60 percent of the amount of its time and savings deposits, nor more than its paid in and unimpaired capital, plus its unimpaired surplus funds, whichever is the greater.

The longer maturity makes a better loan from the standpoint of both the bank and the borrower, because of the larger proportion of the loan that will be amortized. It makes possible the stimulation of business and employment through financing the construction and rehabilitation of business buildings, and gives banks a little more latitude in finding profitable investments for some of their unemployed funds, and enables them to serve better their communities. A prudent borrower may not be willing to have too large a percentage of his mortgage mature in too short a period. Experience in recent years has proved that a loan regularly and properly amortized seldom gets in trouble.

I have discussed the bill with the President, and it has his approval.

Sincerely yours,

JESSE H. JONES, Administrator.

Senator WAGNER. We will now hear from Mr. Jones.

STATEMENT OF JESSE H. JONES, FEDERAL LOAN ADMINISTRATOR, WASHINGTON, D. C.

Mr. Jones, may we hear from you with reference to S. 3938, which as I understand is proposed legislation recommended by you and introduced by Senator Glass?

Mr. JONES. First I would say that I sent each of you a letter in regard to the matter.

Senator WAGNER. No doubt all members of the subcommittee have the letter. And Senator Glass has put into the record the letter he received from you.

Mr. JONES. I tried in that letter to outline the purposes of the bill and to give our reasons for favoring the proposed legislation.

Senator WAGNER. All right.

Mr. JONES. This manner of giving the Treasury \$300,000,000 in accordance with the President's budget message is in our opinion the soundest and best way to do it from the standpoint of the Reconstruction Finance Corporation, from which is expected the \$300,000,000.

Senator TOWNSEND. You say "from which is expected the \$300,000,000." For what purpose is it expected?

Mr. JONES. To return to the Treasury capital in lending agencies not now needed.

Senator TOWNSEND. Well, by that do you mean to say that you have \$300,000,000 of capital you do not need?

Mr. JONES. I did not say it exactly that way, Senator Townsend. We can provide the Treasury with the \$300,000,000 without impairing the solvency or efficiency of the Corporation.

Senator TOWNSEND. Do you mean to say that that is possible?

Mr. JONES. Yes; that is possible. Obviously and quite naturally I am trying to comply with the President's budget message, and to do it in the best and soundest way it can be done.

Senator TOWNSEND. I can understand that, that you feel that is what you are trying to do, but if you had your own way about it is that the way you would do it?

Mr. JONES. Very nearly. I think it is proper for the R. F. C. to own capital stock in home-loan banks that is now owned by the Treasury, for the reason that it is contemplated that stock will be repaid from time to time as the banks do not need the capital. I think the R. F. C. has the organization and facilities better to bring that about than the Treasury, and I think we can keep in closer touch with it. Banks are now under the supervision of the Federal Loan Administrator, and I believe that plan would be sound. That would put \$124,741,000—

Senator TOWNSEND (interposing). The real object back of all this is to keep going beyond the \$45,000,000,000 debt limit, is it not?

Mr. JONES. Well, nobody has told me what the object was, except you now.

Senator TOWNSEND. But you do know that, do you not, without anybody telling you?

Mr. JONES. You can testify to that, perhaps.

Senator TOWNSEND. No; I do not want to testify to it. I want your opinion on it.

Mr. JONES. I shall not argue that. I might say, however, if anybody wanted to know my opinion about it, that—

Senator GLASS (interposing). That is what you are called up here for.

Senator TOWNSEND. Yes.

Mr. JONES. I am going to give you an observation now that is not called for by your consideration of this bill but that is pertinent: If I were the Congress I would not hesitate to increase the debt limit to \$50,000,000,000.

Senator TOWNSEND. We might not think it proper but at any rate we do not think we ought to go round the bush. If we are going to do it we ought to say: Let us increase the debt limit, but not go to the R. F. C. and say to them, "We want \$300,000,000 from you," and extract it like pulling teeth.

Senator GLASS. And then you say to issue bonds to cover that amount?

Mr. JONES. Do you mean to borrow the money to do this?

Senator GLASS. Yes.

Mr. JONES. That is correct.

Senator GLASS. That would seem to show the situation.

Senator TOWNSEND. Is not that irregular bookkeeping, Mr. Jones?

Mr. JONES. Senator, I would not say that it was at all.

Senator TOWNSEND. Is it not a new method of bookkeeping to say the least? We held hearings here and tried to keep other people from adopting that method, held those hearings a few years ago.

Mr. JONES. I think it is actually sound and proper for the R. F. C. to own this stock. The stock pays dividends producing substantially more than cost to the R. F. C. It has substantial earnings and surplus, and I will be very glad to give you that figure if you want it.

Senator TOWNSEND. I recognize that, but I think if the R. F. C. has \$300,000,000 in stock it does not need it ought to put that money back in the Treasury in the regular way.

Mr. JONES. This is going to be a regular way.

Senator WAGNER. Senator Townsend, what do you mean by "regular way"?

Senator TOWNSEND. Not by a method of going round the bush.

Mr. JONES. Let me explain a little further. I did not finish what I had in mind when I referred to the \$124,741,000 of the \$300,000,000. Now, if you had not had any question on your debt limit, or of needing this money to be returned to the Treasury, I had intended recommending to the directors of the R. F. C. that we pay the Treasury out of our earned surplus a substantial dividend. I would have done that in any event, and had talked to them about it before this question was ever raised. That amount probably would have been not more than \$125,000,000, or perhaps \$100,000,000, but I thought we had earnings enough so that we could give that much money back to the Treasury, and that we should do it. I intended to so recommend before this question was raised. If we pay them dividends of \$100,000,000 and buy the stock then we would only have to reduce our amount by \$75,000,000 in order to give them the entire \$300,000,000. If you should raise the debt limit or if they should not give the entire \$300,000,000, we would not have to reduce our capital by \$75,000,000.

We have outstanding at this time a total of \$1,881,000,000, I think it is, of investments, and in the main they are sound investments. So we have \$285,000,000 of earned surplus. I cannot imagine that it would take more than \$125,000,000 under any circumstances to cover all losses. That would leave us \$160,000,000 of surplus, and that is a sound surplus, and we could return that money to the Treasury if we wanted to. So I had thought we would probably give them back \$100,000,000. I thought that would please the conservative element in Congress.

Senator TOWNSEND. Is there not the prospect, in fact has there not been made the statement that the President is going to send up on the Hill a recommendation that we raise probably \$800,000,000 to \$1,000,000,000 for armement, for the War and the Navy Departments and other purposes? If he does there is going to have to be something done about the debt structure. And if that is coming why don't we take it all at one time at bat?

Mr. JONES. And not do it piecemeal?

Senator TOWNSEND. Yes; why ask for this \$300,000,000 now?

Mr. JONES. That is for the Congress to determine.

Senator TOWNSEND. That has probably developed since you recommended this legislation.

Mr. JONES. Yes; that has been developing in the last few days pretty fast, and properly so, I suppose. But even in that event, Senator Townsend, it would not hurt us at all to handle the matter in this way, to give the Treasury back \$250,000,000 or \$300,000,000 if we did it in this manner.

Senator WAGNER. I do not see anything irregular about this. What is there irregular about this, Senator Townsend? You indicate that it is an irregular method, and what is it? If you can spare the transfer of \$300,000,000 why should not that be done?

Mr. JONES. I see no reason why it should not be done.

Senator GLASS. The Treasury raises no objection to that provision of the bill.

Senator WAGNER. I understand that. I would not subscribe to anything that is irregular, because that connotes there is something wrong about this. I think it is perfectly proper.

Mr. JONES. There is nothing irregular or improper about it.

Senator WAGNER. That is what I say.

Senator TOWNSEND. It is adopting a method of bookkeeping that has not been the custom. Is not that a fact, Mr. Jones?

Mr. JONES. Well, you have not had any custom on this sort of thing.

Senator TOWNSEND. Have you heretofore been accustomed to adopting this method of bookkeeping?

Mr. JONES. I said a moment ago that we would have paid the Treasury a dividend this year had this question not been brought up.

Senator TOWNSEND. Well, that is all right; but why do it in this way?

Mr. JONES. We would not have paid the \$300,000,000 because we could not have afforded it, but we could have returned some of our capital. I would rather buy this stock in home-loan banks than to reduce our capital because of the uncertainty in the world and the fact that the R. F. C. will be called upon undoubtedly to do many things that private capital and private interests will not do and cannot afford to do, but that the R. F. C. can and should do as a Government agency.

Senator TOWNSEND. Have you not authority now to buy that stock?

Mr. JONES. No; and the Treasury has not authority to sell it. That is the reason it is put here in this bill. I might say that this manner of doing the thing is our own. We figured out this manner of giving the money. It was not the suggestion of the Treasury Department. All they want is \$300,000,000 and it is our business to find the best way to give it back to the Treasury without impairing the solvency and efficiency of these corporations.

Senator WAGNER. Well, that is that. Will you now go to the other items of the bill?

Mr. JONES. I am ready.

Senator WAGNER. I think it would be better for you to proceed in that way.

Mr. JONES. Does any other member of the subcommittee desire to ask me any questions?

Senator WAGNER (chairman of the subcommittee). Have any of the members of the subcommittee any questions they would like to ask before Mr. Jones proceeds to discuss other items of the bill?

(A pause without response.)

Mr. JONES. What is the next one?

Senator WAGNER. The next is your \$150,000,000.

Mr. JONES. The railroad loans?

Senator WAGNER. Yes; the railroad loans.

Mr. JONES. We are out of available lending funds to railroads; and we are in that position by reason of an inadvertence in the drafting of the bill, which I think was in 1934, when we asked the Congress to give us authority to guarantee railroad loans as well as to make them, but to treat guaranteed loans the same as though they were loans actually made.

Senator GLASS. Before we get to that let me say that we have not completed section I of the bill yet.

Mr. JONES. What else do you wish?

Senator GLASS. What is the reason for making this provision for the purchase of the stock of Federal home-loan banks, now authorized to be done by the Secretary of the Treasury with the approval of the President, also by the lending agency? In other words, to have two persons do what one is required to do now. And the Treasury is opposed to it.

Mr. JONES. I know. They do not want to give up the authority. It is clearly the function of the R. F. C. and the Federal Loan Administrator and in no sense a function of the Treasury. We are not required to have the approval of the President or the Secretary of the Treasury in making any other loan we make. But in the hurry with your banking act, on March 9, 1933, the present procedure was set up as to how we can help banks by putting in capital. In practice if a bank—well, I will take Lynchburg because I do not think we have had any applications from Lynchburg.

Senator GLASS. No.

Mr. JONES. If a bank in Lynchburg needed some capital they would go to Richmond—

Senator TOWNSEND (interposing). You are talking now about any national bank, I take it?

Mr. JONES. Yes. If any bank needs capital, and in the case I started to illustrate with they would go to Richmond and make application to the R. F. C. Our agency at Richmond would investigate the matter and determine whether in their opinion the capital was needed, and if it was proper for the R. F. C. to put it in, and how. Our agent would come to us with a recommendation. We would review it, I mean our executives and staff and the men in charge of that branch of our business.

Senator TOWNSEND. You are speaking of the present plan and not the future plan?

Mr. JONES. Yes, the present plan. Then they make their recommendation to the directors of the R. F. C., and they approve it. Then we send over a perfunctory letter to the Secretary of the Treasury to the effect that X Bank of Lynchburg needed the capital, and that we thought it advisable to put it in. That letter is turned over to a clerk, and that clerk considers the matter for a period, which has averaged 2 weeks in the last year, to determine whether in his opinion it should be done.

In other words, the policy there is taken over by the Treasury. Obviously the Secretary of the Treasury cannot know about all these various and sundry things. He must operate through his boards, through his clerks. Then that clerk determines, we will say, that he does not think the bank needs that capital. So he turns it down. He has to be persuaded and argued with, and that necessarily brings about delay. It is not the way it should have been done in the beginning, but we had no other check then on the R. F. C. We say to the Treasury: You now have the Federal Loan Administrator, and this plan would obviate a lot of delay and a lot of irritation, the irritation being to people who need the money, people in the community affected.

Senator GLASS. Have you not acquired stock in some five thousand or six thousand banks?

Mr. JONES. We have acquired capital notes of some sixty-two hundred banks. This plan would remove all of the rough edges. It is highly desirable, and it is a plan that would avoid unnecessary delays

and institutions. If you prefer to leave it like it is, do so, but this is the way it ought to be done. The other way is not necessary and is not the way it should be done.

Senator TOWNSEND. Have you had cases where the Treasury has disapproved your action?

Mr. JONES. A good many of them. In addition to that it is the delay, the unnecessary red tape.

Senator TOWNSEND. Then they have approved over five thousand?

Mr. JONES. Yes.

Senator TOWNSEND. And disapproved some?

Mr. JONES. Yes, but not a great many. We have on an average a delay of 2 weeks and sometimes much longer. I could cite you a number of cases and I am sure you would probably agree with the R. F. C.'s findings. At all events, if the R. F. C. now thought it should buy stock in a bank, or lend on stock in a bank, and the Federal Loan Administrator approved it, it still would have to have the approval of the President, and there it must be done through somebody else.

Senator TOWNSEND. Then the Comptroller's office has nothing to do with it?

Mr. JONES. The Comptroller's office and the Treasury are one and the same.

Senator GLASS. It was not so intended by law. The Comptroller of the Currency is supposed to be an absolutely independent office. The law does not even require him to report to the Secretary of the Treasury. It requires him to report to the Congress.

Mr. JONES. That is the way it should be, but that is not the way it is.

Senator GLASS. You say that is not the way it is being done, but that is what the law requires.

Mr. JONES. That is correct. The Comptroller of the Currency has just as much authority as any other clerk in the Treasury and no more. That is, he assumes no more authority. The general counsel—

Senator TOWNSEND (interposing). Is that because he does not assume the authority that rightfully belongs to him, or because he accedes to the wishes of the Secretary?

Mr. JONES. He accedes to the wishes of the Secretary in order to hold his job.

Senator TOWNSEND. Is he appointed by the Secretary of the Treasury?

Mr. JONES. He is appointed by the President, but under the law the Secretary of the Treasury employs the deputies and fixes their salaries. So it is an incongruous thing if I know what that word means, but it is so nevertheless.

Now, getting back to the question of advisability of helping a bank, there is nobody in the Treasury who has ever run a business or a bank. How in the name of goodness can they know what is proper? They cannot.

Senator GLASS. I think the R. F. C. has done wonderfully wise work in administering an utterly unsound law. I do not think the taxpayers of this country should ever have been required to boost mismanaged and corrupt banks.

Mr. JONES. We do own stock now in about 4,500 banks.

Senator GLASS. Yes.

Mr. JONES. And we have gotten our money out of 2,700 of them. They are gradually working out. We are having to nurse them and to advise with them, although a great many of them are no trouble at all. There are a few hundred of the 4,500 that need watching, need help, that we have to advise with. I do not think that ultimately we will lose any money through our investment in banks; in fact, I am sure we will not, notwithstanding the fact that we will have to take some substantial losses.

Senator TOWNSEND. That will depend a good deal upon what happens to business, I mean in the matter of the banks.

Mr. JONES. Obviously so.

Senator GLASS. The taxpayers of the country should not be required to boost mismanaged banks. Every one of them ought to have been allowed to fail that would otherwise fail, when the banks generally were failing.

Senator WAGNER. Right there, since we are discussing that section of the bill, I think it is only fair to read the report of the Secretary of the Treasury on it, on the section to which Mr. Jones has just referred:

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time, and recommends against the proposed change.

Mr. JONES. May I comment on that?

Senator WAGNER. Surely.

Mr. JONES. It has worked satisfactorily because of the patience of the R. F. C. and of the people who have had to have help. If that is the only place to get it you have to wait on the pleasure of the fellow who is going to say yes or no as the case may be.

The Secretary states that he knows of no compelling reason. He does not know of any reason to the contrary except that these clerks in his office do not want to give up the powers they have of saying yes or no. They would not know what a compelling reason was. I am speaking now of the clerks who do these things. It is not fair to them because they do not understand it. There is not one who would know how to go into your city or town or community and determine whether a bank should have more capital or not.

I am speaking a little bit critically of the Comptroller's office and of the Treasury but not near as critically as I could if I were to give vent to my actual feelings and opinion about the situation.

I think the present plan is restrictive. I do not think those clerks would know how to examine a bank. If you were running a good bank they would feel they would have to find something to criticize. I think the banks of the country would be better off without the office of the Comptroller of the Currency.

Senator TOWNSEND. I notice, Mr. Jones, in the concluding paragraph of your letter you say:

I have discussed the bill with the President, and it has his approval.

Mr. JONES. Yes; I discussed every item of the bill with the President, and it has his hearty approval. I did it as late as Saturday afternoon.

Senator GLASS. It is perfectly apparent to me that the Secretary of the Treasury does not want to give up any existing authority; also that the Administrator of the lending agencies wants to acquire this authority.

Mr. JONES. I do not want to acquire it. I want to facilitate the work.

Senator GLASS. Well, you cannot do that except by acquiring this additional authority.

Mr. JONES. Yes. The directors of the R. F. C. are not going to do any foolish things. You can rub my name out of the bill, and his, too, and the President's, and you have loaned \$10,000,000,000 without the approval of the President or of the Secretary of the Treasury, and we are going to get it all back.

Senator GLASS. I think you have done remarkably good work with an utterly bad law.

Mr. JONES. I thank you. This is up to you gentlemen.
Senator TOWNSEND. I think you have done a wonderful job, but do not think you will get all the money back.

Mr. JONES. We will get it all back, and bring some more back with it.

Senator TOWNSEND. Well, I am afraid not.
Senator WAGNER. What about this section of the bill?

Mr. JONES. There is no reason against it except that some clerk in the Treasury wants this power. I might say further that only about 20 percent of the banks are national banks. Why then should the Comptroller's office, or the Secretary of the Treasury who is the Comptroller's office, say whether a State bank can have some help or not. It should not be.

Senator TOWNSEND. You are speaking of State banks that are members of the Federal Reserve?

Mr. JONES. Of both. The Comptroller's office has absolutely nothing to do with a member bank or a nonmember bank as to this matter, and about 60 percent of our banks are nonmember banks, and only about 20 percent of them are national banks.

Senator TOWNSEND. In case you want to make a loan to a State bank, what about that?

Mr. JONES. If it did not suit the fellow to approve it, where are you? I think that is all I can say now on that subject. What is the next thing?

Senator WAGNER. You had just briefly referred to railroad loans.

Mr. JONES. I started to say that when we asked for the privilege of guaranteeing a real estate loan instead of making it, it was approved by this committee. Senator Couzens was the most interested member at the time. Senator Fletcher was the chairman of the committee, and while it was on the floor the thought occurred to Senator Couzens that there ought to be a limit. I was sitting in the press gallery—

Senator GLASS (interposing). You meant railroad loans and not real estate loans.

Mr. JONES. I am talking about railroad loans.

Senator GLASS. But you said real estate loans.

Mr. JONES. I beg pardon. Senator Fletcher sent up a note to me and asked what limit should be put on it. As I have said, Senator Couzens raised the question. I sent him back a note and said \$350,000,000 in addition to the present loans then outstanding and committed. I thought that would give us enough.

Senator TOWNSEND. How much was that?

Mr. JONES. About \$800,000,000 total. But it was intended to give us a revolving fund of about \$800,000,000. The language in the act as it came out did not permit this \$450,000,000 that we then had outstanding and committed, to become a part of the revolving fund. As these loans are repaid that money dies insofar as reloading is concerned, so our present revolving fund is only \$350,000,000. We had in the bill last year, and in the Wheeler-Lee bill, an increase of \$150,000,000. You passed that bill last year and we are simply retiring that. So we are now entirely out of funds for railroad loans.

Senator WAGNER. Do you still have applications for railroad loans coming in?

Mr. JONES. Oh, yes. And some of these railroads will come out of the courts, out of reorganization, and we have to help them because private money will not help.

Senator TOWNSEND. What percentage of the railroad loans are guaranteed loans?

Mr. JONES. Very, very few. In two or three instances maybe.

Senator TOWNSEND. What proportion of your \$450,000,000 has been paid off? What is the amount of the loans to railroads now?

Mr. JONES. Including \$202,000,000 of railroad securities we bought from the P. W. A., we have authorized a total of \$1,398,000,000 in railroad loans. We have actually spent for those loans \$896,000,000; \$405,000,000 has been repaid.

Senator TOWNSEND. Of the \$450,000,000, or was a portion of that the revolving fund?

Mr. JONES. Some of it is the revolving fund. The most of it represents the older loans, and some P. W. A. loans were sold. So we have outstanding now about \$490,000,000 in railroad securities or loans, and we have commitments now outstanding of something like \$10,000,000 more than our available funds, but our commitments are not all taken. Therefore we can over-commit some but not a great deal.

Senator TOWNSEND. Have you collected \$10,000,000 from the \$450,000,000 that is still in your revolving fund, or if you do collect it you can still use it?

Mr. JONES. Yes, but we still need this \$350,000,000.

Senator RADCLIFFE. Those with the amount of your old loans unpaid amount to about \$450,000,000?

Mr. JONES. No; they amount to more than that.

Senator RADCLIFFE. You had \$490,000,000.

Mr. JONES. We have \$155,000,000 of loans where railroads are in receivership, and we have a lot of loans where railroads are not in receivership, like that B. & O. and the New York Central, and I cannot name all of them; but we have a substantial amount of loans to railroads not in receivership.

Senator RADCLIFFE. I understood you to say that your outstanding loans were about \$490,000,000, with \$10,000,000 of commitments, and that your revolving fund was \$350,000,000.

Mr. JONES. The revolving fund only applies to loans made and authorized since this limitation of \$350,000,000 was put on.

Senator RADCLIFFE. But if you have exhausted \$350,000,000 and had only \$490,000,000, that would seem to indicate that you have only \$140,000,000 of old loans.

Mr. JONES. No; I cannot give you the exact figures, and it is a little confusing, but that is not the way it works out.

Senator TOWNSEND. If the total loans are \$490,000,000 and you have loaned all of the \$350,000,000 revolving fund, and you must have it all the time, it would seem that you only have the difference between \$350,000,000 and \$490,000,000.

Senator RADCLIFFE. That is the way it struck me at first thought.

Mr. JONES. Mr. Mulligan, do you know how much of our railroad commitments have not been disbursed?

Mr. MULLIGAN. The story about that is that out of \$471,000,000 there is \$20,000,000 P. W. A., which I leave out; but with \$471,000,000 outstanding, \$207,000,000 of which represents a part of the \$350,000,000 that has been disbursed since February 1, 1935, and the \$264,000,000, a part of the old amount—there is \$207,000,000 outstanding and \$152,000,000 of commitments.

Senator TOWNSEND. But your total is \$471,000,000.

Mr. MULLIGAN. Yes, sir.

Senator TOWNSEND. And you have \$350,000,000 in the revolving fund, and it is bound to be that amount and cannot be less because it is a revolving fund.

Mr. JONES. That is right.

Senator TOWNSEND. The difference between \$471,000,000 and \$350,000,000 is \$121,000,000.

Mr. JONES. Of the loans that were outstanding at the time when the \$350,000,000 limit was put on, we still have \$264,000,000 outstanding.

Senator TOWNSEND. Then you have not loaned the full \$350,000,000.

Mr. JONES. It has not been disbursed. \$207,000,000 of it is outstanding, and there are commitments for \$252,000,000.

Senator RADCLIFFE. That is in addition to the \$471,000,000?

Mr. JONES. Yes, sir.

Senator TOWNSEND. Then you add your commitments.

Mr. JONES. We have loans outstanding of \$210,000,000, and have commitments of \$152,000,000.

Senator TOWNSEND. You have the \$152,000,000 for your commitments?

Mr. JONES. No. Add it to your \$207,000,000.

Senator TOWNSEND. Then that represents \$359,000,000.

Mr. JONES. That is right. And we have only \$350,000,000.

Senator RADCLIFFE. Then your figure of \$490,000,000 disregards the commitments.

Mr. JONES. That included \$264,000,000 of old loans.

Senator RADCLIFFE. The \$490,000,000 did not include the commitments.

Mr. JONES. No. That represented loans outstanding at the time.

Senator TOWNSEND. When you make a commitment you have the money to loan, have you not, out of the \$350,000,000?

Mr. JONES. We expect to have it.

Senator TOWNSEND. Well, you must have it.

Mr. JONES. We have overcommitted a little.

Senator TOWNSEND. You have overcommitted \$10,000,000.

Mr. JONES. That is right.

Senator TOWNSEND. I still cannot get it through my skull and it must be a little thick I suppose.

Senator RADCLIFFE. It did not include the commitments. It is only the loans actually made, I mean the \$470,000,000.

Senator TOWNSEND. You do not make commitments unless you have the money. But Mr. Jones says he has made commitments of \$10,000,000.

Senator RADCLIFFE. That other figure represented loans plus commitments.

Senator TOWNSEND. All right, \$471,000,000 plus \$150,000,000.

Senator RADCLIFFE. Whatever the figure is.

Senator TOWNSEND. That represents \$621,000,000 of which you have \$350,000,000 in your revolving fund.

Mr. JONES. Yes, sir.

Senator TOWNSEND. That would leave \$271,000,000 of old loans.

Mr. JONES. That is right, or pretty close to it. But the fact remains that we have no more money with which we can make railroad loans or commitments, and we have need of this \$150,000,000.

Senator GLASS. If you have already loaned \$491,000,000 why do you fix the limitation at \$500,000,000?

Mr. JONES. The 500 million limitation, Senator, is merely increasing the revolving fund.

Senator GLASS. By \$10,000,000?

Mr. JONES. No, by \$150,000,000.

Senator GLASS. If you loaned \$490,000,000, it seems to me—

Mr. JONES. Well, the limitation.

Senator TOWNSEND. All you want here is to increase your revolving fund by \$150,000,000?

Mr. JONES. That is all we want.

Senator TOWNSEND. And you collect it out of old loans and bring it back; it is no new money?

Mr. JONES. No; we merely use the \$150,000,000.

Senator WAGNER. It is an increase of \$150,000,000 by authorization—which I think you need, under the circumstances.

Mr. JONES. We undoubtedly need it; because when they go into receivership, they have got to have it. There is no other place where they can get it.

It is exactly what we did last year when we asked for a \$150,000,000 increase.

Senator TOWNSEND. Next is an extension of your limitation of R. F. C. loans from 1945 to 1955. Why do you ask for an extension now, when 1945 is 5 years off?

Mr. JONES. Well, it is desirable, Senator, to be able to give longer terms on these loans. There is a little confusion now in our law; some of it can be done and some cannot. Some kinds of loans we can make for as long a period as we want to, and others we cannot.

Senator TOWNSEND. What in the law limits it?

Mr. JONES. I cannot explain it.

Senator TOWNSEND. What?

Mr. JONES. I have been trying to get my lawyer to explain it to me for 2 weeks, and he has not been able to do it; so I am sure I cannot do it to you.

It just permits our extending loans. In some cases a loan already made cannot be extended beyond 1945.

Senator TOWNSEND. Well, businessmen like you and me are terribly handicapped, are we not?

Mr. JONES. We certainly are—by lawyers.

Senator GLASS. As Mr. Jefferson said, it is impossible to expect any sensible action from any Congress that contains 156 lawyers; and I think this one contains that many.

Mr. JONES. More, I think, Senator.

Senator HUGHES. We sometimes make a mess of it, as it is. I do not know what would happen if we had more lawyers.

Mr. JONES. That is desirable, Senator. A man comes in and needs perhaps more than 4 years' time, to be able to pay his loans back; and this would enable us to make it as long as 14 years.

Senator TOWNSEND. I thought you had sufficient authority.

Mr. JONES. We thought so, but we find we cannot extend a loan that is already made. We can make a new one, and this is just clarifying that.

Senator HUGHES. That is occasioned by the wording of some of the statutes, I suppose?

Mr. JONES. Yes.

Senator SMATHERS. Of the lawyers' construction of them?

Mr. JONES. Yes. It is not a serious matter. It is desirable.

Senator HUGHES. It is not serious, if you can get this authority?

Senator WAGNER. Now we come to another controversial section—section 3.

Mr. JONES. What is section 3, Senator?

Senator WAGNER. That is extending real-estate loans from 10 to 15.

Mr. JONES. Yes.

Senator GLASS. Well, I am learning something, now, about the bill that I introduced.

Mr. JONES. One of your troubles is that you trust your friends.

Senator GLASS. Yes, and I find that I cannot; because I am utterly opposed to commercial banks filling their vaults with real-estate loans. Goodness knows, they are filled up to the brim now with United States bonds—62 percent of all the indebtedness in the banks. And now to fill them up further with real-estate loans does not appeal to me.

Mr. JONES. Senator, if you live with the proposition, I think you would feel differently.

Senator GLASS. Why, for 50 years a national bank was not permitted to make a single, solitary real-estate loan; it was not permitted to own any real estate except the bank in which it conducted its business. That happened for 50 years; and I do not see any reason why we should now liberalize that section of the bill. We liberalized it once and made it 10 years instead of 5.

Senator WAGNER. You have the reports both from the Secretary of the Treasury and the Federal Reserve System opposing that particular provision; and I should like to hear from you.

Mr. JONES. Well, that is the best proof that it is right.

Senator HUGHES. Senator Glass, the State banks used to make a good many of those loans, and now they are not making them.

Senator GLASS. They are not making them?

Senator HUGHES. They are not making them.

Senator GLASS. Well, they ought not to be made.

Senator HUGHES. How is real estate to get started to be developed or to proceed in any way if you do not have some loans? They have got to be financed.

Senator GLASS. Well, they ought not be financed by commercial banks. Commercial banks are supposed to be liquid and prepared to respond to any demand upon the deposits.

Senator TOWNSEND. What evidence have you, Mr. Jones, that there is a real demand for this extension of time? That is the thing that I want to know. I had a real feeling that the banks were now able to take care of all the applications they had, and that they were doing it. Now, perhaps they are not. I should like to get your reaction on that.

Mr. JONES. Well, I was waiting for Senator Glass to get through testifying.

Senator GLASS. Well, my testimony is that it is an utterly bad provision of the bill that I introduced; and if I had had an opportunity to read the bill before I introduced it, I would have told you so then; but Mike Flynn, of the Wall Street Journal, took the liberty of coming into my office and taking my paper out, without my knowledge, and keeping me blind for about two hours and a half.

Mr. JONES. I am going to try to convince you that it is a good provision.

Senator GLASS. You cannot do it; but go ahead.

Mr. JONES. Let me try.

Banks can now lend on real estate for 25 or 30 years.

Senator ADAMS. Would you be good enough to speak just a little louder, please?

Mr. JONES. Banks can now lend on real estate for 25 or 30 years, if the loan is insured by the F. H. A.; and that loan may be for 80 or 90 percent of the cost of the property. So why not leave it to the judgment of the banker, if he wants to make an amortized loan on improved farms or business property that is income bearing and leave it to his judgment whether he will make a loan running for half as long.

Senator GLASS. What is the necessity for change, if he can make a loan for 25 or 30 years?

Mr. JONES. You cannot do it on a business property. There is now ample credit for residential property. There is no place to go to borrow money on a business building of any character, except to life-insurance companies; and they largely lend 30 to 40 percent. They claim to lend up to 50 percent, but they do not. It is very restrictive.

Senator TOWNSEND. But you can make all these loans—any that you have mentioned—from the R. F. C. account?

Mr. JONES. Would you rather have the R. F. C. make them?

Senator TOWNSEND. I am asking you that question.

Mr. JONES. Yes.

Senator GLASS. Certainly I would rather have you do that. The commercial banks have no business loading their portfolios up with loans of this description.

Senator TOWNSEND. If you can do it, how much demand have you had that you have not been able to supply? That is the question I had.

Mr. JONES. Senator, I am trying to create a demand and I am trying to do something that will create work, for the building of a business

building or the modernization or rehabilitation of a business building, as well as a residence. We are all trying to get people back to work.

Senator TOWNSEND. I understand that; but I still want to know if you have been able to do it in the R. F. C. Everybody knows that you have been able to do it.

Mr. JONES. We do not offer to do it.

Senator TOWNSEND. Why?

Mr. JONES. Because we think the banks ought to do it.

Senator GLASS. They are not loans that are readily payable.

Mr. JONES. They are better, Senator, than loans secured by stocks and bonds.

Senator GLASS. Well, I am not talking about gambling, now. I am talking about real estate.

Mr. JONES. Well, who borrows from the banks? I should like to have the banks have some place to invest their money.

Senator GLASS. Well, a great many people borrow from them who have no business borrowing from them.

Mr. JONES. Well, hardly enough borrow from them to enable them to pay their expenses.

Senator GLASS. That is because the Government has gone into the banking business and has deprived the banks of that much business.

Mr. JONES. Well, that is why I am opposed to having the R. F. C. go into this. We try to help banks make loans.

Senator ADAMS. How much unused loan capacity is there now in the R. F. C.?

Mr. JONES. About a billion dollars.

Senator ADAMS. And there are 50 billions in the banks?

Mr. JONES. Yes, sir.

Senator GLASS. Fifty billions of what?

Senator ADAMS. Deposits.

Senator GLASS. Yes; but deposits of money or of United States bonds?

Senator ADAMS. They originally were money of depositors, which they put through the window.

Senator GLASS. Yes.

Senator ADAMS. A large part of the funds, of course, has gone into Government bonds, as well as other loans.

Mr. JONES. No bank has been hurt in this country from real-estate loans made by the bank, where the banker did not lend more than 60 percent of the value and where he loaned it on improved property; and you cannot find a bank in the United States that has lost on that kind of a loan.

Real estate that was held by banks when the trouble came, back 10 years ago, largely was not on loans made on real estate; it was where the loans had been made on stocks and bonds, and without security, and so forth; and when the fellow went broke and his stock went down to nothing and the security was of no value, they went after the borrower and said, "Give us some more security." And all he had, maybe, was a town lot or a little building or some kind of real estate; and the banking fraternity regards that as a real-estate loan.

It was not a real-estate loan at all. It was a loan on stocks and bonds that had not been amortized; and so it winds up as a real-estate loan; and it was not a real-estate loan.

You cannot find in the United States a bank that has been hurt by an amortized real-estate loan on business property; and I challenge the Treasury Department to find one and come up and tell the committee. I give them a week's notice.

Senator ADAMS. If you could confine your loans to 60 percent of the depressed value, that would be one thing; but the difficulty is in boom values and it is in working up your tables of value.

Senator TOWNSEND. Yes.

Senator ADAMS. I know that in our part of the West we went through real-estate booms, and loans of 60 percent of the value proved to be bad because the value was wrong.

Mr. JONES. But the bank was not seriously hurt by that, because it did not make enough of them to hurt it.

Senator TOWNSEND. I was not arguing against that, but I have been saying that I do not seem to be able to find enough demand for it.

Mr. JONES. You have not been looking for it, have you?

Senator TOWNSEND. Yes. I am president of a little bank down there, and I was trying to find out from you if you had a demand which you had to turn down, for loans of long standing. You say you do not have.

Mr. JONES. Senator, I repeat that I am trying to create a demand and am trying to put people to work and to give the bank a means of using these funds. It is better to put part of the funds in a good loan of that kind than to put it all in stocks and bonds.

Senator TOWNSEND. I agree with all that, but I do not think the demand is there.

Mr. JONES. All right. It is only permissive; you do not have to make the loans. If somebody wants to build a store building or rehabilitate a store building, and he wants to pay you back a thousand dollars a year for 15 years, or something like that, it enables you to make loans on which our bank examiners cannot come in and hit you on the head and say, "Charge that off."

Senator TOWNSEND. Well, in the bank of which I am president we now do that.

Senator HERRING. All he is asking is that the national banks be permitted to do what you do, and to have its approved policy.

Senator GLASS. It is very necessary for a commercial bank always to be in a position to respond to the demands on it.

Mr. JONES. Your deposits are insured.

Senator GLASS. This whole thing belongs to investment banking, and it does not belong to commercial banks.

Mr. JONES. But you do not have any more investment banking; there is not any more investment banking, to speak of.

Senator GLASS. Well, "to speak of."

Mr. JONES. There never has been, Senator, any investment banking in real estate, except these fellows who sold bonds—which we are all against. There has never been any sound investment banking in real estate.

Senator GLASS. There ought not be, by commercial banks.

Mr. JONES. A few weeks ago or perhaps a few months ago when we had a little flare-up, some Government bonds went down 9 points and some went 6 or 5 or 7 or 8 points down.

Senator ADAMS. You mean thirty-seconds?

Mr. JONES. No; points—from 109 to 107, or something like that. Back in 1922 some of them went down 20 points—and not just Government bonds but other securities and other bonds. They go down. They have quoted an equity value in newspapers; and the examiner goes in and says, "What is the bond worth?" "Well, it is worth 86."

It cost 100, and he has the bank charge off the 14 points.

Senator TOWNSEND. Not in governments: he cannot ask them to charge them down below par.

Mr. JONES. All right; but if he has to sell the Government bonds, where has he got to sell them to?

My point is that if you have a good mortgage made under these restrictions, and which is current, the bank examiner is not going to be able to tell you to charge it down. It does not depreciate in value, and the bank examiner cannot bother you.

But if you buy some Bethlehem bonds at 90 or 100 and they go down to 80, they will make you charge it down.

But all the top-hat bankers say, "That is all right, but do not make a real-estate loan."

Senator ANAMS. Part of it is the element of liquidity, and the other is in safety; that is, the liquidity is in the bonds and the safety is in real estate.

Mr. JONES. Senator, there is no liquidity in bonds. You try today to sell 200 million of Government bonds and see where your liquidity is. Who is going to buy them?

Suppose you try to sell them today, or suppose you try to sell any other bonds: There is no real market. There is a quoted market, but nobody offers to buy and sell anything, and there is no real market. Of course, now when we are dealing in these billions and billions, there is no market for these bonds.

Senator TOWNSEND. That was the evidence yesterday.

Mr. JONES. Why, certainly. I would rather have a good mortgage than these bonds; because the bank examiner can make me charge the bonds down, but he cannot make me charge the mortgage down.

I happen to have been in the real-estate business for 40 years, and I know it is a sound business. I know it is as necessary to have office places of business and to have hotels as it is to have the clothes you wear; and it ought to have its place in lending and its place in banks.

You limit the amount the banker can lend to 80 percent of the amount of his deposits; so the limitations will not permit any bank to get hurt by these loans, and it may do some good. It cannot do any harm.

Senator GLASS. I just do not agree with you that the commercial banks have any business making loans on real estate.

Mr. JONES. Senator, the commercial banks are too restricted now. Let's let them do something.

Senator GLASS. I do not know whether there are any restrictions on God's earth. You are constantly giving the advice to let people run in debt. The curse of this earth is that the whole world is in debt.

Mr. JONES. Well, the Nation is in debt; and we have to follow the leader, haven't we?

Senator GLASS. Well, not in that way.

Mr. JONES. We have ability to make these loans, but we do not make them.

Senator GLASS. Why?

Mr. JONES. Because we think the banks ought to have that opportunity.

Senator GLASS. Oh, pshaw! You are not making them because you do not think they are a sound proposition.

Mr. JONES. No; I beg your pardon; we could lend five or ten billion dollars that we have not loaned because we have not been willing to do so.

Senator WAGNER. I know that in New York there is no demand for office buildings just now.

Mr. JONES. No; but New York is not the only spot in the country.

Senator WAGNER. But isn't that true?

Mr. JONES. It is true in New York and in Chicago, and it might be true in Philadelphia.

We are now building office buildings in Houston, and we do not need to borrow the money to do it, because we have them financed.

But you cannot go on forever without building office buildings and hotels and apartment buildings and stores and theaters and things that are just as necessary as any part of your life.

Senator WAGNER. Well, the other day I heard some testimony that there was no demand for any investment money for those purposes at all, at the present, because we are so overbuilt in that regard that there will not be any demand for additional money for the construction of that kind of building for some time to come.

Mr. JONES. As I said a while ago, I am trying to create the demand.

Senator WAGNER. But we heard nothing about there being any difficulty in getting loans. The difficulty was in getting customers for such a building. That is the reason it is not now being undertaken.

Mr. JONES. Well, as I said before, I am trying, if possible, to create something or find something.

Nothing in it can hurt. The only hurt in this is the hurt feelings of the Comptroller's Office and the Treasury. They do not like it.

Senator GLASS. Why do you think this Government would be denying commercial banks, for 50 years, the right to make loans on real estate? Didn't the commercial banks get on fairly well then?

Mr. JONES. I do not think it was a good law.

Senator GLASS. Well, I do; I think it was a good law. But I was persuaded to let them make loans for 5 years and then some fellow like you induced us to make an extension so that they could make them for 10 years; and now you want to make them for 15 years.

Mr. JONES. I should like to make it 15; and the only objection that the Federal Reserve has got and that Eccles has got—

Senator GLASS. I do not care anything about that.

Mr. JONES. He wants to make it 20 years, but he wants to rewrite the whole Federal Reserve Act.

Senator GLASS. I know he does. If he keeps on much longer, it ought to be rewritten; because they are ruining the system.

Senator WAGNER: He says, on that point:

The Board is not advised of any substantial reason for an immediate liberalization of the existing power of national banks to make real estate loans.

Mr. JONES: They have not waked up for 2 years, over there; they have been asleep and have nothing to do.

Senator WAGNER (reading):

and is opposed to the enactment of piecemeal banking legislation where no great or immediate urgency exists—

and so on. I am going to put the entire letter into the record:

TREASURY DEPARTMENT,
Washington, May 10, 1940.

MY DEAR MR. CHADMAN: Further reference is made to your letter of May 8, 1940, regarding the views of the Treasury Department on S. 3938, a bill to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes.

Section 1 (1) of the bill would authorize the Reconstruction Finance Corporation, upon approval of the Federal Loan Administrator, to purchase at par any of the stock of the Federal home-loan banks owned by the United States, and would authorize the Secretary of the Treasury to sell such stock to the Reconstruction Finance Corporation. The Secretary of the Treasury holds \$124,741,000 of the capital stock of the Federal home-loan banks and although existing law provides for the retirement of the stock held by the Secretary of the Treasury, there is no provision authorizing the transfer or sale of such stock. The Treasury does not have any objection to section 1 (1) of the bill.

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time and recommends against the proposed change.

Under existing law the Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell on the open market the whole or any part of the preferred stock, capital notes, or debentures of any national bank, State bank, or trust company acquired by the Corporation. Section 1 (2) of the bill would change the existing law so as to permit the Reconstruction Finance Corporation to sell such securities with the approval of either the Federal Loan Administrator or the Secretary of the Treasury. The Reconstruction Finance Corporation now has the authority to make such sales on its own initiative provided at least 60 days' notice of any proposed sale is given to the issuer or maker. (See sec. 5 (c) of the Reconstruction Finance Corporation Act, as amended.)

While the Treasury has no particular objection to this change in the law if it is divorced from the other changes referred to above, nevertheless, it is subject to a general objection from the standpoint of the confusion that might arise when either one of two public officers can authorize action with respect to a particular subject.

Under existing law the total amount of loans, commitments, etc., by the Reconstruction Finance Corporation to railroads, or their receivers or trustees, may not exceed at any one time \$350,000,000 in addition to the loans and commitments made prior to January 31, 1935. Section 2 of the bill would raise this limitation to \$500,000,000.

The Reconstruction Finance Corporation may now make loans or advances or renewals or extensions of loans or advances and may permit loans or advances to run so as to mature not later than January 31, 1945. Section 2 would change this date to January 31, 1935.

From the standpoint of the Treasury there appears to be no objection to the changes proposed by section 2 of the bill.

Section 3 would amend the existing law under which national banks may make real-estate loans in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 40 percent of the principal within the 10 years, so as to authorize such loans to be made for a period of 15 years provided at least 60 percent of the principal is amortized within the 15 years.

National banks can now make "real-estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 percent of the appraised value of the real estate offered as security" and for a term of not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real estate loans which are insured under the provisions of title II of the National Housing Act. Another exception is that a real-estate loan may be made "in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 percent or more of the principal of the loan within a period of not more than 10 years." It is italicized 40 and 10 in the preceding sentence which would be changed by the bill. The 40 would be changed to 60 and the 10 to 15. Thus, national banks would be permitted to make real estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real-estate loans. Their power to do so has been progressively liberalized since that time, and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against section 3 of the bill.

The Secretary of the Treasury holds all the stock of the Reconstruction Finance Corporation, in the total amount of \$500,000,000. Section 4 of the bill would authorize the Corporation, with the approval of the Federal Loan Administrator, to make payments to the Secretary of the Treasury for the partial retirement of its capital stock at par, or in payment of dividends on such stock from the earnings of the Corporation. Since, under existing law, the aggregate amount of the notes, debentures, bonds, or other obligations of the Reconstruction Finance Corporation issued and outstanding is based upon the amount of the Corporation's subscribed capital, the bill provides that the aggregate amount of such obligations which the Corporation is authorized to issue and have outstanding shall not be decreased or affected by reason of the cancellation or retirement of any of the capital stock of the Corporation. From the standpoint of the Treasury there is no objection to this amendment.

Section 5 provides that the aggregate amount used by the Corporation to purchase stock of Federal home loan banks under section 1, or to retire the capital stock of the Corporation or pay dividends on such stock under section 5, may not exceed \$300,000,000, the aggregate amount to be determined by the Secretary of the Treasury. The Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, is to determine what portion of the aggregate amount determined by the Secretary of the Treasury shall be used for the purchase of stock of the Federal home loan banks, the retirement of the capital stock of the Reconstruction Finance Corporation, or the payment of dividends on the capital stock of the Corporation. The Treasury has no objection to this provision.

With the exception of the provisions to which objection is made above, the Treasury Department recommends enactment of S. 3938.

I have been advised by the Director of the Bureau of the Budget that there is no objection to the submission of this report to your committee, with the understanding that no commitment would thereby be made with respect to the relationship of the proposed legislation to the program of the President.

Very truly yours,

HERBERT E. GASTON,
Acting Secretary of the Treasury.

Hon. ROBERT F. WAGNER,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Washington, May 15, 1940.

Hon. HENRY F. WAGNER,
Chairman, Banking and Currency Committee,
United States Senate, Washington, D. C.

DEAR SENATOR WAGNER: This is in response to your letter of May 8, 1940, requesting an expression of the Board's views with reference to S. 3938, a bill to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes.

The only section of this bill which directly affects the Federal Reserve System is section 3, which would amend section 24 of the Federal Reserve Act relating to the authority of national banks to make real estate loans. Section 3 would liberalize in some respects the power of national banks to make real estate loans; but it would represent only a partial approach to the problem in a bill dealing primarily with unrelated subjects. It would not in any way affect the power of State member banks and other insured State banks to make such loans.

The Board is not advised of any substantial reason for an immediate liberalization of the existing power of national banks to make real estate loans and is opposed to the enactment of piecemeal banking legislation where no great or immediate urgency exists. The existing laws are unsatisfactory in many respects because they reflect the cumulative results of various attempts to meet competitive conditions and specific situations and emergencies. The Board would prefer that further detailed amendments to the banking laws be postponed until the problem can be given adequate consideration as part of a comprehensive review by Congress of the existing banking laws, such as that which your committee has been authorized to make pursuant to Senate Resolution No. 125.

Therefore, if S. 3938 is to be enacted, the Board would prefer that section 3 be omitted. If your committee is not disposed to omit section 3 from the bill, however, the Board hopes that the committee will give consideration to the following:

Section 24 of the Federal Reserve Act applies only to national banks and authorizes them to make real estate loans secured by first liens on improved real estate, including improved farm land and improved residential and business properties, subject to certain limitations and restrictions. It provides, among other things, that:

"The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 50 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act."

Section 3 of the bill would amend this provision so as to permit amortized loans to be made for terms not longer than 15 years, instead of 10 years, if the installment payments are sufficient to amortize 60 percent, instead of 40 percent, of more of the principal of the loan within such period.

The Board would favor a liberalization of the power of national banks to make real-estate loans on an amortization basis, provided that the law were also amended at the same time so as to do everything within the power of Congress to place all insured banks on an equal competitive basis with respect to such business.

The laws of the 48 States governing the making of real estate loans by State banks are far from uniform. Banks organized under the laws of some States are permitted to make real-estate loans on a much more liberal basis than national banks, whereas banks organized under the laws of other States are subject to more severe limitations than national banks. This places national banks at a competitive disadvantage in some States and State banks at a competitive disadvantage in other States.

Inasmuch as all State banks derive their corporate powers from the laws of the States in which they were organized, it is impossible for Congress to enlarge their corporate powers; but any enlargement of the powers of national banks has a

tendency to encourage the enactment of State legislation similarly enlarging the powers of State banks. On the other hand, since State banks can be members of the Federal Reserve System and can have their deposits insured only with the permission of Congress and by complying with such conditions as Congress may prescribe, it is possible for Congress to require them to conform to the same limitations and restrictions in exercising their corporate powers as Congress has prescribed for national banks.

In order to eliminate unjust discriminations between various classes of banks subject to the jurisdiction of Congress and to place all of them on an equal competitive basis with respect to making real-estate loans, in so far as it lies within the power of Congress, therefore, it is respectfully recommended that, if section 3 of the bill is enacted, it be coupled with a provision requiring all insured banks to comply with the same limitations and restrictions on the making of real-estate loans as are applicable to national banks.

Very truly yours,

(Signed) CHESTER MORRILL,
Chester Morrill, Secretary.

Mr. JONES, Senator, when he comes to rewriting the Federal Reserve Act, then he is going to want these loans made for 20 years, and not 15. I know, because I talked to him.

Senator GLASS. Well, he is not going to rewrite the Federal Reserve Act any time soon.

Mr. JONES. That is why I want you to fix this amount.

Senator WAGNER. I will read to the committee that portion of the Secretary's letter which refers to this section:

Section 3 would amend the existing law under which national banks may make real-estate loans in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 40 percent of the principal within the 10 years, - so as to authorize such loans to be made for a period of 15 years provided at least 60 percent of the principal is amortized within the 15 years.

I think that describes that accurately.

National banks can now make "real-estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 percent of the appraised value of the real estate offered as security" and for a term of not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. Another exception is that a real-estate loan may be made "in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 50 percent or more of the principal of the loan within a period of not more than 10 years." It is italicized "40" and "10" in the preceding sentence which would be changed by the bill. The "40" would be changed to "60" and the "10" to "15." Thus, national banks would be permitted to make real-estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real estate loans. Their power to do so has been progressively liberalized since that time and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against section 3 of the bill.

That is their comment on that section.

Mr. JONES. He has had no complaint from anybody that it has been too greatly liberalized; I mean he has no complaint from any banker. Because if you consider the banker who would make one of these loans, if he won't make it, he won't make it. He does not need a law to tell him not to make it. If he would make it, he ought to be permitted to make it. He ought to be permitted to run his bank.

Senator FRAZIER. Why is it that the average commercial bank has been afraid to make real-estate loans or, at least has not made any real estate loans?

Mr. JONES. Real estate loans have always been cursed—improperly so, because it is the best security they can have if they make the loan properly.

Senator ADAMS. Another reason is that the deposits are payable on demand; and they want their funds in such shape that if the depositors come in, they can meet their demands. And you cannot cash real estate loans.

Mr. JONES. You can cash them better than Government bonds.

Senator ADAMS. Well, of course, it is a terrible thing to disagree with a man in your position.

Mr. JONES. Well, it is a fact.

Senator TOWNSEND. Give an illustration of that, please. That is rather startling.

Senator ADAMS. You see, you are from Houston, and I think you are judging the United States by Houston.

You see, we have not had Jesse Joneses in all our towns, and they are not prospering like Houston.

Mr. JONES. What did you want?

Senator TOWNSEND. I want an illustration of why real estate loans can be cashed in better than Government bonds.

Mr. JONES. If the occasion comes around where your banks are required to pay out their deposits to the depositors, they can only pay them by the Government's printing money to pay them with.

What are your deposits—50 billions?

Senator ADAMS. Roughly.

Mr. JONES. Suppose the depositors of 20 billions would come in and ask for their money: Where are you going to get it? It is going to be printed, and Congress is going to print it.

Senator GLASS. Yes, and we are on an irredeemable basis now.

Mr. JONES. I would a good deal rather have my money invested in the property over there [indicating].

Senator GLASS. Yes, and it is difficult to determine what the property is worth. You would have to go through a process of delay; and in the meantime the man who deposited the money would be gone out of the bank.

Mr. JONES. How are you going to determine how much money it is worth?

Senator GLASS. Well, I cannot determine that, and nobody can. But once we could.

Mr. JONES. Nobody can determine it now.

Senator TOWNSEND. I am frank to say I am encouraged by what you say; but I have been afraid, before, that it was not as liquid as Government bonds.

Senator GLASS. I have a piece of property I should like to sell, but I cannot get a taker for it.

Senator FRAZIER. I believe it was the bankers who said that they cannot make loans on real estate and on offices because the Comptroller's office and the examiners would not stand for it.

Mr. JONES. That is right. The Comptroller's office is too restrictive. That is why I say we would be better off without it. Canada has no bank examiners; England has no bank examiners; France has none.

Senator FRAZIER. They seem to have a different system than we have, and perhaps they do not have the crooked bankers that we have.

Mr. JONES. Well, these banks are being run for profit, and they ought to be allowed to run them as they see fit.

Senator GLASS. You would advocate no restrictions?

Mr. JONES. I do not think there ought to be many.

Senator WAGNER. Will you discuss section 4 and section 5 now, Mr. Jones?

Senator TOWNSEND. Section 4 authorizes the R. F. C. to make payments to the Secretary of the Treasury for partial retirement of its capital stock or payment of dividends.

Senator WAGNER. I do not see any objection to that.

Mr. JONES. That is not controversial, is it?

Senator WAGNER. I should not think so.

Section 5?

Senator TOWNSEND. Why should you be required to purchase stock of the Federal home loan bank? Why should you be required to do that?

Mr. JONES. I tried to answer that for you awhile ago, and I stumbled around a good bit. I cannot do a very good job of answering that.

Senator TOWNSEND. Perhaps I did not understand it, then.

Senator ADAMS. It is just too plain, is it not?

Senator GLASS. Well, I confess to simplicity. It is the first time in the 40 years that I have been in Congress that I introduced a bill which I did not understand, but just because I had confidence in the man who gave it to me.

Mr. JONES. Thank you very much for that, Senator.

Senator FRAZIER. Are you going to vote for it now?

Senator GLASS. No; I am not going to vote for that real estate proposition.

Senator ADAMS. I have been embarrassed; because I understood that Senator Glass introduced the bill and I had confidence in it, but now my confidence is wobbling a little.

Senator HERRING. Mr. Jones, your thought is that if this is increased from 10 to 15 years, it would encourage people to build buildings, because they would know the deadline is not 10 years but in 15 years, and you would have only 40 percent left unpaid instead of 60 percent left unpaid, when it is due; and that would encourage people, because they would have a breathing spell?

Mr. JONES. That is right. If you are a prudent investor, you would be willing to let it come due in 15 years, but you would not be willing to let it come due in 10 years.

Senator HERRING. And then there would be only 40 percent left?

Mr. JONES. That is right.

Senator TOWNSEND. But the chairman has raised the point that there is no need for it.

Senator WAGNER. I have not heard any testimony of a need for it.

Senator HERRING. That may be the reason; the 10-year limit may be the reason, whereas a 15-year limit might encourage it.

Mr. JONES. Senator, I do not say it will put everybody to work, but it may put somebody to work.

Senator GLASS. Anybody who cannot pay his debt in 10 years has no business going in debt.

Mr. JONES. I think it would be a very helpful amendment to the bill. Senator WAGNER. Does the committee want to go into executive session now? Is there anything further?

Senator ADAMS. Mr. Chairman, were you going to have any further discussion of section 5? I came late; perhaps that has already been covered. That is where you permit \$300,000,000 to go into the Treasury, so it will be available there to be spent by the Treasury and not on the indebtedness of the Federal Government.

Mr. JONES. I testified, Senator, that this was the R. F. C.'s method, with my cooperation and insistence, of giving to the Treasury \$350,000,000 and paying it back out of the capital of these lending agencies; and we can do this without impairing their solvency in any way.

Senator ADAMS. Your capital is represented by R. F. C. notes outstanding, is it not?

Mr. JONES. Yes, the capital stock of \$500,000,000 was appropriated by Congress in 1932.

Senator ADAMS. But you do not have anything that does not represent a borrowing from the Federal Treasury or a borrowing for which the Federal Treasury is responsible?

Mr. JONES. That is correct.

Senator ADAMS. So it is pure bookkeeping?

Mr. JONES. Just bookkeeping; except I said before you came, I think, that if this proposition had not come up, I was going to advise the R. F. C. to pay a substantial dividend back to the Treasury, out of our earnings this spring. Now we can. We have got a total gross earnings of \$285,000,000. I think at least \$150,000,000 or \$160,000,000 of it is perfectly sound.

Senator ADAMS. How much was charged off awhile back?

Mr. JONES. Nothing.

Senator ADAMS. Was an item charged off 2 years ago?

Mr. JONES. By Congress?

Senator ADAMS. Yes.

Mr. JONES. Yes; appropriations. But you appropriated the money; it was not our business. Congress appropriated R. F. C. money, when they should have appropriated directly from the Treasury.

Senator ADAMS. That is what we are doing here—asking you to put money back, so that we can appropriate without borrowing it ourselves.

Mr. JONES. That is right; we are putting some money back, that you can appropriate.

Senator TOWNSEND. Don't you think that since the question is bound to come of the increase of the debt in the form of 800 million or a billion, it ought to come up together and not piecemeal?

Mr. JONES. Senator, there is absolutely good reason for doing this, even if you are going to increase the debt to \$100,000,000,000.

Senator ADAMS. Mr. Jones, if you had more confidence in Jesse Jones than in Congress would you vote for this section 5?

Mr. JONES. I would vote for the bill. There is nothing wrong with it; there is no bad bookkeeping in it.

Senator ADAMS. I was saying that I have more confidence in Jesse Jones than I have in Congress.

Mr. JONES. Well, I haven't. I think Congress is all right.

Senator GLASS. Oh, good gracious alive. You don't think anything of the kind.

Senator HUGHES. I think I have a better opinion of it than a good many members of it have, themselves.

The CHAIRMAN. Congress is all right when they vote our way, and Congress is all wrong when they vote against our way.

Senator GLASS. Well, they always vote against my way.

Senator HERRING. We are going to vote with you on your bill here.

Senator GLASS. Well, I am not—not on that real-estate proposition.

Senator SMATHERS. I move we go into executive session.

Senator WAGNER (chairman of the subcommittee). Gentlemen, we shall go into executive session.

(Thereupon, at 12 o'clock noon, the subcommittee went into executive session, and the committee reporter was excused.)

COPY

May 10, 1940

My dear Mr. Chairman:

Further reference is made to your letter of May 8, 1940, requesting the views of the Treasury Department on H. 3928, A Bill "To authorize the purchase by the Reconstruction Finance Corporation of stock of Federal Home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes".

Section 1 (1) of the bill would authorize the Reconstruction Finance Corporation, upon approval of the Federal Loan Administrator, to purchase at par any of the stock of the Federal Home Loan Banks owned by the United States, and would authorize the Secretary of the Treasury to sell such stock to the Reconstruction Finance Corporation. The Secretary of the Treasury holds \$124,741,000 of the capital stock of the Federal Home Loan Banks and although existing law provides for the retirement of the stock held by the Secretary of the Treasury, there is no provision authorizing the transfer or sale of such stock. The Treasury does not have any objection to Section 1 (1) of the bill.

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time and recommends against the proposed change.

Under existing law the Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell on the open market the whole or any part of the preferred stock, capital notes, or debentures of any national bank, state bank, or trust company acquired by the Corporation. Section 1(2) of the bill would change the existing law so as to permit the Reconstruction Finance Corporation to sell such securities with the approval of either the Federal Loan Administrator or the Secretary of the Treasury. The Reconstruction Finance Corporation now has the authority to make such sales on its own initiative provided at least 60 days' notice of any proposed sale is given to the issuer or maker. (See Section 5 (a) of the Reconstruction Finance Corporation Act, as amended).

While the Treasury has no particular objection to this change in the law if it is divorced from the other changes referred to above, nevertheless, it is subject to a general objection from the standpoint of the confusion that might arise when either one of two public officers can authorize action with respect to a particular subject.

Under existing law the total amount of loans, commitments, etc., by the Reconstruction Finance Corporation to railroads, or their receivers or trustees, may not exceed at any one time \$350,000,000 in addition to the loans and commitments made prior to January 31, 1935. Section 2 of the bill would raise this limitation to \$500,000,000.

The Reconstruction Finance Corporation may now make loans or advances, or renewals or extensions of loans or advances and may permit loans or advances to run so as to mature not later than January 31, 1945. Section 2 would change this date to January 31, 1955.

From the standpoint of the Treasury there appears to be no objection to the changes proposed by Section 2 of the bill.

Section 3 would amend the existing law under which national banks may make real estate loans in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 60 per centum of the principal within the 10 years, so as to authorize such loans to be made for a period of 15 years provided at least 60 per centum of the principal is amortized within the 15 years.

National banks can now make "real estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 per centum of the appraised value of the real estate offered as security" and for a term of not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. Another exception is that a real estate loan may be made "in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than 10 years". It is the underlined 40 and 10 in the preceding sentence which would be changed by the bill. The 40 would be changed to 60 and the 10 to 15. Thus, national banks would be permitted to make real estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real estate loans. Their power to do so has been progressively liberalized since that time and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against Section 3 of the bill.

The Secretary of the Treasury holds all the stock of the Reconstruction Finance Corporation, in the total amount of 1800,000,000. Section 4 of the bill would authorize the Corporation, with the approval of the Federal Loan Administrator, to make payments to the Secretary of the Treasury for the partial retirement of its capital stock at par, or in payment of dividends on such stock from the earnings of the Corporation. Since, under existing law, the aggregate amount of the notes, debentures, bonds or other obligations of the Reconstruction Finance Corporation issued and outstanding is based upon the amount of the Corporation's subscribed capital, the bill provides that the aggregate amount of such obligations which the Corporation is authorized to issue and have outstanding shall not be decreased or affected by reason of the cancellation or retirement of any of the capital stock of the Corporation. From the standpoint of the Treasury there is no objection to this amendment.



Section 3 provides that the aggregate amount used by the Corporation to purchase stock of Federal Home Loan Banks under Section 1, or to retire the capital stock of the Corporation or pay dividends on such stock under Section 5, may not exceed \$300,000,000, the aggregate amount to be determined by the Secretary of the Treasury. The Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, is to determine what portion of the aggregate amount determined by the Secretary of the Treasury shall be used for the purchase of stock of the Federal Home Loan Banks, the retirement of the capital stock of the Reconstruction Finance Corporation, or the payment of dividends on the capital stock of the Corporation. The Treasury has no objection to this provision.

With the exception of the provisions to which objection is made above, the Treasury Department recommends enactment of S. 3938.

I have been advised by the Director of the Bureau of the Budget that there is no objection to the submission of this report to your Committee, with the understanding that no commitment would thereby be made with respect to the relationship of the proposed legislation to the program of the President.

Very truly yours,

(Signed) HERBERT E. GASTON

Acting Secretary of the Treasury.

Sen. Robert F. Wagner,
 Chairman, Committee on Banking
 and Currency,
 United States Senate,
 Washington, D. C.

5/16/40

JT

PLAIN

89

TOKYO VIA SHANGHAI & NR

Dated May 16, 1940

Rec'd 8:28 p.m.
May 17

Secretary of State,
Washington.

Seventeenth.

"ATTACHE COMMERCE.

73, May fifteenth. Japanese trading, shipping and industrial circles reportedly concerned regarding latest European war developments and invasion Belgium and Netherlands view belief hostilities will spread still further and involve other nations. Industrial circles reportedly concerned regarding increased difficulty anticipated securing vital foreign raw materials required for heavy industries. While protracted war might benefit Japan's exports eventually, most recent developments will mean strengthening import controls in British, French and Netherlands territories which will seriously affect Japanese export trade these territories. Particular concern felt regarding possible withdrawal Netherlands shipping from Japan South Seas services which would make imports of Netherlands Indies rubber petroleum scrap iron and bauxite difficult in view acute shortage Japanese bottoms. Sharp drop

-2- #- May 17, from Tokyo

drop sterling following latest war developments resulted temporary suspension Tokyo yen sterling quotations on May eleventh but business resumed thirteenth with exchange banks receiving permission quote nominal rates individually and freely as they deem proper. Prior suspension sterling transactions eleventh nominal selling rate against pound was quoted at one shilling five and thirteen sixteenths pence, lowest price sterling terms yen since August 1932. Nominal yen sterling selling rate May thirteenth one shipping five and five eighth pence and buying rate one shipping five and seven thirty seconds pence. Yen dollars rate remained unchanged at twenty three and seven sixteenths. In order supplement supplies daily necessities and conserve supplies important material government reportedly intends restrict production and sale of non-urgent goods and luxuries. Meanwhile government has announced nationwide ticket rationing system for matches sugar will be introduced from July first. Monthly allotment matches per person two small boxes or about five matches per day. Monthly sugar allotment will amount point seven eight pounds per person. Also reported coupon system to be adopted for limited amount cotton goods from beginning June, bulk of which will be distributed rural areas. Finance Ministry authorities reportedly engaged

-3- #- May 17 from Tokyo

engaged drafting measures support value military notes in China against drastic decline value fapi. Steps reported under consideration include strict maintenance present buying and selling rates for military notes, withdrawal of army notes to army notes to some extent, stricter control over expenditures by travellers and encouragement exports from Japanese controlled areas. Meanwhile government has moved to check travel to yen bloc areas by requiring all Japanese citizens to submit evidence of good reason for visiting Japanese controlled areas. Reports from Peiping dated fourteenth state Japanese banks North China instructed refuse accept or make payments in notes of banks Japan, Chosen, Taiwan, Manchukuo, and Mongolia in effort to force wider use North China federal reserve currency. In further effort support value federal reserve notes and military notes and adjusting foreign trade with China to prevent excess shipment to that country and ensure Chinese imports required Japan, China Affairs Board and Finance Ministry reportedly agreed levy control tax one excess profits made from sale goods to China and organization importers and exporters guilds. Tax collected from excess profits made from sale Chinese goods to Japan will reportedly be allocated to importers guilds this country to compensate for losses suffered due rising commodity prices in China. Tone of stock market dull past week until news spread

-4- // May 17 from Tokyo .

spread hostilities received when some issues firmed slightly but optimistic buying noticeably absent due apprehension regarding possible involvement Japan over status Netherland Indies. Future trade prospects also so uncertain that cautious sentiment marked trading. Bank Japan note issue May eleventh three one three naught million decline one five three million past week. Bank Japan loans May eleventh five naught five million decline four four million during week. Japan Central Silk Association has reportedly petitioned government to take steps stabilize raw silk quotations and has made following proposals: standard limit for raw silk for year beginning July first should be established at one six five naught yen per bale with government buying silk from reserve fund to stabilize price if quotations fall twenty per cent below this level and providing transactions above two thousand yen level; thirty per cent of any margin over standard price, forty per cent over margin excess eighteen hundred yen, and total excess over two thousand yen should be earmarked for reserve fund. During week ending May eleventh raw silk prices advanced by one six five per bale to one six one naught under stimulus of expectation that Central Raw silk Association's proposals would be acceptable to government and reports of damage to mulberry trees caused by recent frost. Estimated loss to spring cocoon crop from frost about four

per

-5- #May 17, from Tokyo

per cent from original estimates. April silk shipments totalled one eight three six five bales valued at three naught eight two three thousand yen, declining ten point eight per cent value and seventeen point nine per cent value compared previous month. April shipments included one two four one nine bales to United States, five four five three bales to Europe and four five three bales to Australia. Japanese press reports claim that serious efforts will be made develop trade relations with Far Eastern countries and concrete proposals already reported have been drafted for basis of negotiations with Turkey, Iran, Iraq, Syria, Afghanistan, and Greece. Foreign trade read **thousands** exports one to six seven nine three imports nine one five seven five. Trade with foreign currency countries first four months exports five six two eight one four imports nine naught five eight three three, imports excess totalled three four three naught six nine or nine two one five two larger than corresponding period consarper. Industrial share prices eleventh ninety six point naught nine index ninety eight point forty eight weeks average ninety six point fifteen index ninety eight point fifty four. END. Signed Smith."

INFOCOM COMMERCE.

GREW

NPL

(Confidential)

P A R A P H R A S E

A telegram of May 16, 1940, from Consul Reed at Hanoi reads substantially as follows:

On account of the uncertain conditions prevailing in the Far East and the alleged need of keeping a stock of trucks which may be pressed into service in case there is an adverse development in the situation, for the time being the Governor General of Indochina ^{is prohibiting} (*) the exportation to China of trucks, according to information reaching Consul Reed. The action affects about 650 trucks which are at Haiphong now and which were bought under the Universal Trading Company loan.

TELEGRAM SENT

VRH

PLAIN

May 16, 1940

AMERICAN LEGATION

STOCKHOLM

150, sixteenth.

Your 507, May 14.

License required before funds can be transferred from Danish account in Central Hanover Bank Trust Company to account Stockholm Enskilda Bank in same institution. Applications should be filed through regular channels making full disclosure of the facts.

HULL

(PL)

EA:PL:MSG

Eu

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

98

INTER-OFFICE COMMUNICATION

DATE May 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 5:15 yesterday evening Mr. Livesey of the State Department told me by telephone that Dr. Feis would discuss the subject of confidential cablegram No. 686 sent by Ambassador Bullitt under date of May 15, 1940, with Under Secretary Welles on Thursday morning. Livesey had just sent the message over to me, and would welcome any comment that we might care to make.

I sent a copy of the cablegram to the Secretary's residence with the note thereon to the effect that Mr. Bernstein, I believe, agreed with me that the Government should not take a position on this matter to the extent of giving an official warning. On the other hand, I thought Mr. Basil Harris might be able to suggest a way for discussing the matter informally with American insurance companies, if this was found desirable. I mentioned this subject to the Secretary at 8:40 this morning. He thought we should take no position unless pressed by the Department of State.

After the 9:30 meeting I showed Mr. Basil Harris a copy of the message. Better to be prepared should the State Department place the question before us for our opinion, it was agreed that Mr. Harris should make a discreet inquiry of the largest marine insurance company in New York, Messrs. Johnson and Higgins. Mr. Harris telephoned me at 10:15 that he had spoken with his friend, Laboteax, in the above mentioned firm. He had been informed that not over 5% of the total of Italian marine insurance was covered on this market. This business had never been very acceptable to American underwriters. If any request should be made now, it was the belief that the American companies would not accept any further Italian insurance. Mr. Laboteax was not aware that any recent inquiries had been received for placing more Italian insurance on this market, but he promised to look into the situation and let Mr. Harris know if he had any more information of interest.

At 10:20, in agreement with Mr. Harris, I telephoned Mr. Livesey and gave him the foregoing information. At 10:30 Dr. Feis telephoned me back stating that he had discussed the matter with Mr. Welles and that the latter agreed with us that we should do nothing in the premises, since the State Department is also convinced that American underwriters would not accept any new Italian business. Dr. Feis thanked us for the information which Mr. Harris had obtained. I told Mr. Harris immediately of this conversation, and he said he would do nothing more unless he heard from me. Mr. Harris gave added information to the effect that a friend in New York thought that it would be impossible to cancel any outstanding insurance under existing contracts.

J.M.S.

DEPARTMENT OF STATE
WASHINGTON

May 15, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 686 of May 15 from Paris.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 15, 1940, 6 p.m.

NO.: 686

RUSH.

The following is strictly confidential.

For the President, the Secretary of State and the Secretary of the Treasury.

I have just been told by Charveriat that the Italians are making transfer of all the insurance on their ships from London to the United States. The object of the Italians is to be paid in good American dollars in case of war losses.

It is my belief that the United States Government discreetly should issue a warning to all U. S. insurance companies to refuse to issue any marine insurance to the Italians. In addition, I believe that they should be advised to cancel any outstanding insurance of this nature. It might have some influence if this act should become known tonight in Italy - it is a good club at any rate.

BULLITT.

EA:LWW

(Copy)

TREASURY DEPARTMENT

99

INTER OFFICE COMMUNICATION

DATE May 16, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Although sterling opened at 3.21, three cents lower than last night's close, the rate exhibited a firm tendency all day and reached a high of 3.26-1/2 late in the afternoon. The final quotation was 3.25. The turnover figures given below indicate that the volume of trading in sterling was light today.

Sales of spot sterling by the six reporting banks totaled £338,000, from the following sources:

By commercial concerns.....	£129,000
By foreign banks (Far East, Europe and South America).....	£209,000
Total.....	£338,000

Purchases of spot sterling amounted to £258,000, as indicated below:

By commercial concerns.....	£179,000
By foreign banks (Europe and Far East).....	£79,000
Total.....	£258,000

The following reporting banks sold cotton bills totaling £12,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 9,000 by the National City Bank
3,000 by the Guaranty Trust Company
£12,000 Total

The forward quotations for sterling, which weakened considerably during the three days following Germany's invasion of the Low Countries, have shown a firmer tendency this week, and are now quoted close to pre-invasion levels. Today's discount for one-month delivery was 1-3/4%, as compared with 2-3/4% on Monday last. The discount for three-months delivery was 4-3/8%, as compared with 6-1/2%.

Developments in the other important currencies were as follows:

The French franc moved with sterling on the basis of a cross rate of 176.40 francs per pound. It closed at .0184-1/4.

The Swiss franc, after moving off to a new low of .2130, subsequently recovered to .2150. It closed at .2135.

The discount for the Canadian dollar continued to widen today. At the close, it was 19-1/4%.

The final quotation for the reichsmark was .4000.

The rate for the yuan against sterling was unchanged in Shanghai, at 3-15/16d. In terms of dollars, it improved 1/16¢ to 5-5/16¢.

There were no gold transactions consummated by us today.

The Federal Reserve Bank reported the following shipments of gold from England, which will be sold to the U. S. Assay Office at New York:

\$1,646,000	representing two shipments by Samuel Montagu & Company, London, to the Bankers Trust Company, New York.
42,000	shipped by the Guaranty Trust Company, London, to its head office in New York.
36,000	shipped by Samuel Montagu & Company to the Guaranty Trust Company, New York.
<u>\$1,724,000</u>	Total

Although there was no holiday in India today, a New York bank received a cable from Bombay stating that the bullion markets in that center were closed.

The price fixed for spot silver in London advanced 7/16d to 23-1/2d. The forward quotation was 23-5/16d, up 3/8d. The U. S. equivalents were 34.26¢ and 33.62¢ respectively. Indian and speculative interests were again reported as buyers in a small market. The London silver prices are now some 2-1/2d higher than those which prevailed last Thursday, and in the same period the U. S. equivalents have experienced a net gain of about 2-1/2¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made no purchases of silver under the Silver Purchase Act today.



CONFIDENTIAL

lw

TELEGRAM SENT

PLAIN

May 16, 1940

AMERICAN LEGATION

STOCKHOLM

151, Sixteenth.

Your 503, May 14.

Cannot answer inquiry re removal of dollar balances New York banks in absence of applications for licenses filed through regular channels making full disclosure of facts. Future deposits will be subject to control of Executive Order 8405 of May 10, 1940.

HULL
(FL)

EA:FL:MSG EU

Paraphrase of telegram from Batavia, May 16, 1940.

Secretary of State,
Washington.

Commerce and Treasury should be given the following data:

The guilder of the Netherlands Indies is now a completely independent currency with about one billion guilders' gold reserve in New York, Capetown, and London, made up of former Netherlands and Netherlands Indies gold reserves according to a well-informed local official. There will be no regulations interfering with the selling or buying of foreign exchange for legitimate business and other transactions or purposes. The guilder is tied to the American dollar. It is planned by the Government to publish regulations to control foreign exchange transactions on May 20th. Former remittances to the Netherlands which averaged according to an official announcement around two hundred fifty million guilders yearly have now all been stopped. When arrangements are completed for keeping the funds from getting into the hands of the enemy, it is planned to remit relief funds, pension funds for widows and certain others, also monies for the equipment and maintenance of the Netherlands Army which is now being organized

-2-

organized in Allied Countries, etc. Compared with former annual remittances, it is expected that the total of the foregoing will be small, which may result in the Indies, with its large yearly export surplus, having in the future a very large annual favorable balance of payments. The Netherlands Indies guilder's position would seem, therefore, to be very strong.

DCA:CHK:BLS:SS

May 16, 1940
3:10 P.M.

*16 May 12-13
I called Senator Overton
and told him to support
Administration, closed by Overton
if when Overton
was resigning
MS*

Allen J. Ellender: Hello, Mr. Morgenthau.

H.W.Jr: Hello, Senator. How are you?

E: Fine, sir. How are you?

H.W.Jr: How did you like what the President said?

E: Couldn't be any better! I tell you one thing, it's going to serve as an anecdote, I believe, to all this hysteria that's going around the country about us not being prepared.

H.W.Jr: Yeah.

E: I'll tell you, if you read the record, the last -- just about the last two pages of last night's -- or yesterday afternoon, you'll find more mis-information there than any record I've ever read. It's a crime for people to get up on the Senate floor and talk about things when they don't know what it's all about.

H.W.Jr: Well now, what can I do today?

E: Well now, this is what I'd like you to do for me. You recall three or four years -- three years ago when Senator Overton and I called on you with reference to the appointment of a Collector of Internal Revenue, Mr. Fontenot, and it was your desire to keep him there. Now, I have positive information that Mr. Fontenot has been working for the past 12 months against me -- he wants to be a candidate against me, and in order to accomplish his purpose he's going to resign, I understand, from the -- from the present duties he's occupying.

H.W.Jr: Yeah.

E: And what I want you to do, Mr. Secretary -- I've been here pitching all I know how and they're all trying to get me down there, and what I want you to do, if you will, is to consult with

- 2 -

Senator Overton and myself as soon as that happens so as to get a successor.

H.M.Jr:

Hello?

E:

Yes, sir.

H.M.Jr:

Well, that's a fair request.

E:

Yes.

H.M.Jr:

That's a fair request.

E:

Yes.

H.M.Jr:

Well, any time you gentlemen are ready will you let me know?

E:

Yes, sir. Well, when is he going to resign?

H.M.Jr:

I'll -- this is the first I've heard of it.

E:

Oh, is that right?

H.M.Jr:

I haven't heard a thing. I'll look into it.

E:

Oh well, I've got several telegrams this morning and between you and me, Mr. Secretary, I have a brother-in-law -- now, of course I'm not trying to get him in the bad or anything like that -- but my brother-in-law has been working in -- under Mr. Fontenot for about two years now. He's a splendid boy, and he gave me to understand of the activities of Mr. Fontenot -- now of course I could probably get Mr. Fontenot in a hatsack (?) but I don't work that way. I don't want to do anything like that; I don't want to bring the Department in bad light or anything like that. The only thing I ask is that if and when he does resign, please let us select somebody and if -- we'll give you a panel and what we want is to put a good man there and if he's not satisfactory and doesn't meet up with the job, why you know what to do with him.

H.M.Jr:

Well, that's a fair enough request, and in the meantime I'll look into the situation right away.

- 3 -

E: Thank you, very much.

H. M. Jr: Thank you for calling.

E: Thank you. Goodbye.

HSM

GRAY

Milan

Dated May 16, 1940

Rec'd 1 p. m.

Secretary of State,
Washington.

31, May 16, 5 p. m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 192.50; 335.50; 509;
not listed; 976; 199.50; 1629; 60.25; 219. Volume
124,150.

Market continued active prices irregular some
issues closing above yesterday's lows.

NOT SIGNED

CSB

MA

PLAIN

London

Dated May 16, 1940

Rec'd 8:10 a.m.

Secretary of State
Washington

1230, May 16, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

The following official announcement has been
made public:

"The Treasury and Board of Trade call the attention of traders and others to the fact that the Trading With The Enemy legislation applies to any area which is in the occupation of a power with whom His Majesty is at war. At the present time The Netherlands (with the exception of the province of Zeeland) and the Grand Duchy of Luxemburg are in German occupation and commercial, financial or other intercourse or dealings with persons or concerns in those countries are prohibited without express authority. That does not apply to Netherlands overseas dependencies as long as business with them does not involve intercourse with The Netherlands proper. Returns should be made under paragraph 5 of the Trading With The Enemy (custodian) Order 1939 to the custodians of enemy property of all
moneys

MA -2- tel # 1230, May 16 2 p.m. from London

moneys which would be payable to persons or concerns in those countries and of any property held or managed in this country for or on behalf of such persons or concerns except where payment is made by permission of the Trading With The Enemy Branch. "Under present conditions the greatest caution should be exercised in regard to transactions with any part of Belgium. No remittances should be made in respect of existing commitments and no new commitments should be entered into with persons or concerns in any part of Belgium without previous consultation with the Trading With The Enemy Branch."

KENNEDY

DDM

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

110

May 16, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

I am furnishing the following information concerning conditions at the Boeing Aircraft Company, Seattle, Washington, as of possible interest to you.

This Bureau's Seattle Division has received information from an inspection official of the United States Army Air Corps to the effect that the Machinists Union Local No. 751 is presently considering proposals for the new labor contract to be negotiated with the Boeing Aircraft Company effective July 1, 1940; further, that proposals regarding such negotiations were scheduled to be considered by the meeting of this Local which took place on April 27, 1940. The above mentioned official stated that information in his possession indicates the Communist faction in control of the Union plans to procure adoption by the Boeing Aircraft Local of such radical demands to be incorporated in the new contract that the Boeing Aircraft Company would find acceptance impossible, thus rendering to the Union an excuse for creating a strike situation on or about July 1, 1940. It was also stated that the Communists controlling this Union are allegedly determined to prevent construction of aircraft for Great Britain and France, this being the real purpose for creating a strike situation, although the results, as indicated by the above mentioned Army official, would be to delay the production of aircraft being manufactured under contract for the United States Army Air Corps. It is reported that with a very few exceptions, all employees of the Boeing Aircraft Company belong to the instant Local.

Similar information to the above, with regard to alleged plans on the part of Communists in the Machinists Union to create a strike situation at the Boeing Aircraft Company, has been reported to the Seattle Division of this

The Honorable
The Secretary of the Treasury

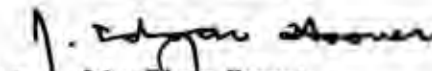
Page 2

Bureau by an official of the United States Immigration and Naturalization Service. Likewise, an official of the Seattle Police Department has furnished to the Bureau's Seattle Division the following information allegedly obtained by an officer of that department from confidential sources:

"The labor situation at Boeing's plant is becoming more serious every day. The aeronautical Mechanics Union is entirely under the control of the Communist Party. Its business agent and the majority of the executive board are Party members. The Party has decided that the terms of the new union agreement shall be such that the Company will be unable to meet them. Then should the Boeing people take contracts for planes for the Allies, the union will hold out for their agreement. However, if they do not take such contracts, the union will back down on some of their demands. The Party is determined to keep this plant from turning out planes for the Allies."

I have furnished the above information to Brigadier General Sherman Miles, Assistant Chief of Staff, G-2, War Department, and Rear Admiral Walter S. Anderson, Director, Naval Intelligence. These data have also been furnished to the Honorable Adolf A. Berle, Jr., Assistant Secretary of State, for information purposes, although no investigation is being conducted with regard to this matter by the Federal Bureau of Investigation.

Sincerely yours,


John Edgar Hoover
Director

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

May 16, 1940

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Sincerely yours,

John Edgar Hoover
Director

JOHN EDGAR HOOVER
DIRECTOR

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

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May 17, 1940

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

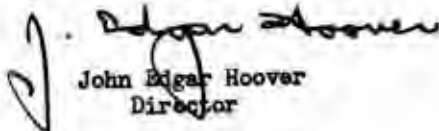
My dear Mr. Secretary:

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This official has also advised that employees of the Boeing Aircraft Company are expected to strike on or about July 1, 1940.

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Sincerely yours,


John Edgar Hoover
Director

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

115

May 17, 1940

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

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Sincerely yours,

John Edgar Hoover
Director

HSM

TELEGRAM SENT

GRAY

May 16, 1940

noon

AMERICAN CONSULATE

SHANGHAI (CHINA) VIA NAVAL RADIO

INFO: AMEMBASSY, PEIPING, CHUNGKING

210.

Your 414, May 13, 6 p. m.

On May 13 the Treasury issued the following general license under the freezing control:

"A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any of the following: Javasche Bank, Nederlandsche Handel-Maatschappij, Nederlandsch Indische Handelsbank and Nederlandsch-Indische Escompto Maatschappij.

"Banking institutions within the United States making such payments, transfers, or withdrawals shall file promptly with the appropriate Federal Reserve Bank weekly reports showing the details of the transactions during such period."

Sent to Shanghai. Repeated to Peiping and Chungking.

HULL
(HF)

EA:FL:MSG

FE

PA/H

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: May 16, 1940, noon

NO.: 1345

Reference is made to telegram of April 23, No. 1083 from the Embassy.

FOR THE TREASURY FROM HEATH AND FOR THE DEPARTMENT'S INFORMATION.

According to the official statement recently issued the long term debt of the Reich increased during January by 295 million marks to a total of 27,190 million marks on January 31st. This added to the increase of 1454 million marks in short term debt (see my telegram under reference) makes a total increase during January of 1749 million marks which is slightly above the December increase of 1695 million marks but well under the rate of borrowing during the first three months of the war which averaged two and one fourth billion marks. The increase in long term borrowing was almost exclusively in the form of bonds the Renten Bank loan during the month having amounted to only nine million marks.

It is somewhat surprising that there was such a relatively small increase in the government debt during January. According to all indications at the beginning of the year, there was an accelerated rate of spending by the Government. It is possible that the explanation lies

in

- 2 -

in the large increases in unpaid bills for goods and services - see my telegram referred to above. Also, the transportation tie-up and the cold spell caused interruptions of production and deliveries.

There still has been no announcement of new and higher taxes. One source has said that any tax increases were recently indefinitely postponed by Hitler's personal order. In the absence of tax increases and in view of the recent increase in military operations and presumably in government expenditures in connection therewith it is probable that the rate of government borrowing has accelerated during the past two months. This view finds support in press reports that the issuance of the 4 percent five year Treasury certificates introduced on March 12 (see my No. 641, March 14, 11 a.m.) has to date reached the surprising total of two and one half billion marks although during the period of their sale the issuance of government short term paper and of the so called "liquidity" long term loans to the savings bank and insurance companies continued. It is noted that the interest on liquidity loans now being issued has been reduced from four and one half to four per cent.

KIRK.

EA:LNW

EH

PLAIN

119

Shanghai via N.R.

Dated May 16, 1940

Rec'd 4:55 p.m.

Secretary of State,
Washington.

428, May 16.

FROM COMMERCIAL ATTACHE

Not to be disseminated
without consulting Commerce.

Special financial. Shanghai open market foreign exchange rates firmed considerably past few days due firstly to rumors regarding China peace negotiations which were officially denied, secondly favorable position of Chinese currency from intensification of European War, thirdly run on Shanghai banks of several belligerent nationals forcing banks to liquidate exchange holdings to meet withdrawals, fourthly tight money conditions created by speculators requirements for cash. Inter bank spot selling this morning break on May second of five nine sixteenths cents and four three thirty seconds pence as compared with four seven sixteenths and three fifteen thirty seconds on May eleventh, however renewed buying and short covering lowered rates to five three eights and four toward noon. May delivery one thirty second cent lower but sterling same as spot, June one quarter cent and one eighth pence lower than spot. Gold bars slumped this morning to a low since May first of yuan five six five naught as compared yuan seven one three naught

-2- 428, May 16, 4:55 p.m. from Shanghai.

naught on May eleventh, Shanghai general stocks have slumped past few days due to bear sentiment as to position of local foreign enterprises in light of European developments and to firmer exchange rates while some liquidation of local stock was necessary to secure cash to meet margin requirements of those who hold New York Stock Exchange positions, average yesterday three five two point five four. Bank Japan yen one for Chinese yuan one point ten which is lowest for yen since July twenty last year, military scrip yen one for Chinese yuan one point two six higher than Bank Japan yen notes because scrip may be used as currency outside Shanghai whereas restrictions were placed on such use of Bank Japan yen notes December last. Chinese financial circles believe higher rates than present untenable because think control likely to start buying to replenish stabilization fund, furthermore control believed unlikely to make same mistake as in last four months 1939 when higher rates permitted heavy excess of merchandise imports. Relative to suggestions that yen should be dissociated from F R B currency

Domel

-3- 428, May 16, 4:55 p.m. from Shanghai.

Domei Tokyo quotes Japanese Finance Minister as stating that official policy will continue to maintain parity between yen and Federal Reserve Bank currency but is attempting to reduce outstanding amount of F. R. B. currency and military scrip in circulation in China to prevent depreciation of their values, and that there is no prospect of changing such parity. Domei Peiping reports that Japanese authorities North China are requiring all holders of yen currency to convert into Federal Reserve Bank notes prior June fifteenth, travellers from Japan entering North China must convert yen notes into Federal Reserve Bank currency before departure from Japan. Similar measures taken in Central China December. Domei Peiping reports beginning June sixteenth postal telegraph remittances between North China and Manchuria inaugurated with amounts from F R B yuan one to five hundred permitted. Inform Commerce.

CSB

BUTRICK

TELEGRAM SENT

EH

GRAY

May 16, 1940

5 p.m.

AMERICAN CONSUL,

SHANGHAI (CHINA) VIA NAVAL RADIO

INFO: AMEMBASSY, PEIPING, CHUNGKING

RUSH.

212

Department's 210, May 16, noon.

Treasury has revoked general license no. 8.

Your 414, May 13, 6 p.m., will receive further
consideration.

HULL
(HF)

EA:FL:MSG

FE

123

5/16/40

124

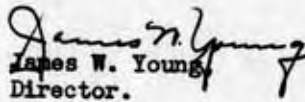
BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

May 17, 1940

From DIRECTOR

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

For Sent at the request of Mr.
Noble, Under Secretary of Com-
merce.


James W. Young,
Director.

May 16, 1940

125

ECONOMIC DEVELOPMENTS

THE VOLUME OF AIRCRAFT EXPORTS since the beginning of the war has been considerably smaller than might have been expected in view of the obvious requirements of the Allied belligerents. For the first 8 months of the conflict, shipments to France, England, and Canada have averaged only \$1.4 million. The total number of planes shipped to these countries from September to March was only 637 and completed engines 1,002.

EXAMPLES:

	Aircraft Exports (Number)			Aircraft, Engines & Parts (Million dollars)	
	France	England	Canada	Total	France, Eng- land, Canada
<u>1939</u>					
January	72	25	2	4.8	2.9
February	114	29	7	6.8	4.1
March	132	36	7	8.7	4.5
April	109	10	7	7.5	3.4
May	156	12	28	10.4	5.5
June	149	42	31	10.6	6.4
July	122	43	24	9.0	6.7
August	138	57	24	12.1	10.5
September	62	0	44	15	10.5
October	43	0	34	8.1	6.2
November	62	0	0	3.0	1.3
December	294	19	4	6.8	4.1
<u>1940</u>		171	53	28.9	24.9
January	233	66	41	25.2	17.6
February	180	47	19	20.6	11.9
March	210	122	2	20.7	15.2
April	--	--	--	21.7	16.0

FROM THE STARTPOINT of our own defense needs the cause of this slow development of exports should be determined. It could be due to (1) Lack of aggressive purchasing by the Allies, (2) Inability of our industry to expand more rapidly because of tool or labor bottle-necks, or (3) reluctance of the industry to invest additional capital without adequate protection because of the inevitability of severe liquidation at the end of the war.

- 2 -

COMPLETE FACTS FOR ASSESSING the difficulty (no doubt in the hands of the War and Treasury Departments) are not available to us but we do have some interesting information beyond the rumors circulated in the daily press.

(1) Expansion in the industry, as indicated by employment data, was not rapid during 1939 in the light of our own air-defense budget and increased Allied purchases. Even more significant is the sharply reduced rate of expansion in the first quarter of this year. This does not necessarily indicate a labor bottleneck—only that the industry has not expanded rapidly enough for our own safety.

Employment in Aircraft Industry
(January 1939=100)

<u>1939</u>	
January.....	100
July.....	158
December.....	212
<u>1940</u>	
January.....	228
February.....	230
March.....	236

(2) What this means in terms of productive capacity we do not know exactly since the figures were suppressed as a precautionary measure. From March to September of 1938 (when data were still being issued) production of all types averaged close to 350 planes per month. The employment figures indicate that production today is between 800 and 1,000 planes per month.

Aircraft Production
(Number of planes)

	<u>Total</u>	<u>U.S. Government</u>	<u>Commercial</u>	<u>Export</u>
<u>1938</u>				
March	347	128	120	99
April	410	149	189	72
May	387	103	181	103
June	326	99	134	93
July	296	85	139	72
August	345	81	190	74
September	330	83	183	64

- 3 -

(3) Our figures on inventories show that there is not a tremendous amount of goods in process which will alter the growth picture given above within a short time. As a matter of fact, inventories have increased relatively less than employment.

Inventories - Aircraft Industry
(January 1939=100)

<u>1939</u>	
January.....	100
June.....	115
October.....	126
November.....	136
December.....	142
<u>1940</u>	
January.....	153
February.....	171
March.....	186

(4) Our information as to the cause of this slow rise is somewhat conflicting. Orders dropped off precipitously from October to March—in February and March orders were at the June level. Incentive for expansion would seem to be lacking on this score. Backlogs were very steady from November to March, despite declining orders, although there was a large jump from June to November. Since the end of March unfilled orders have no doubt increased, but we do not have more recent figures. The fact that backlogs have been equal to about 20 months production, however, would seem to offer considerable stimulus to expansion.

New Orders Unfilled Orders
(January 1939=100)

<u>1939</u>		
January	100	100
June	99	108
October	301	218
November	260	283
December	172	297
<u>1940</u>		
January	185	299
February	61	298
March	71	298

STIMULANCE The trend of orders has not been such as to motivate intensive expansion in the aircraft industry—the character of the business is a factor in this situation. Backlogs have been very large relative to industry generally but not for an industry likely to require substantial readjustment at the end of the war.

It is therefore possible that some method for guaranteeing orderly liquidation of new investment is required. This should not be a difficult problem as capital requirements in the industry, other than for engines, are not large. The potential capital turnover in the industry, including engines, propellers, etc., is estimated at between 250 and 350 percent.

It would also be possible to expand production with existing plant through subletting contracts, or the equivalent, to companies now operating considerably below their potential capacity.

THE ADVANCE OF THE GERMAN ARMY into the Low countries produced a selling wave of near panic proportions in security and certain commodity markets. Stock values were reduced by billions as most issues broke through last August quotations. This reaction may seem strange in view of the price rise that followed the outbreak of the war in September. The difference then and now, however, is that today traders are concerned about the possibility of the war ending with a German victory within a relatively short time.

EXHIBITS:

	1939		1940	
	Aug. 1	Aug. 21	Sept. 30	Nov. 15
Stock Prices - Dow-Jones:				
Industrials.....	143	134	159	148
Railroads.....	29	26	36	21
Public Utilities.....	26	25	25	25
Bond Prices - Dow-Jones....	90.3	87.7	89.5	89.6
85.6				
Commodities (in cents):				
Wheat (per bushel)	65	68	84	105
nearest future.....				86
Corn (per bushel)	42	44	51	67
nearest future.....				59
Cotton (per lb.)	9.16	8.48	9.28	10.45
nearest future.....				9.47
Lard (per lb.)	5.75	5.75	6.90	6.15
cash Chicago.....				5.37

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SIGNIFICANCE: If this movement continues, or even if stock prices are sluggish around the present level, the effect upon the business situation is apt to be quite unfavorable. Sales of consumers' durable goods and investments in plant and equipment have always been restricted by heavy declines in security values.

SUPPLEMENTING our report of last week, we attach list of principal export commodities affected by the closing of the Scandinavian and Low country markets to our products. These countries took 10 percent of our exports in 1939. There could be some effect to this loss through our goods replacing Scandinavian and Low country exports to other countries—difficult to say how large this effect might be.

	Exports to	
	<u>Scandinavia</u>	<u>Low Countries</u>
	(Monthly aver. 1939—thous. of dols.)	
Principal Industrials:		
Automobiles	730	417
Trucks	687	356
Aircraft	85	384
Tire casings	81	99
Industrial machinery	490	328
Agricultural machinery	361	58
Steel mill products	981	709
Copper	690	198
Gasoline	895	555
Lubricating oil	486	560
Chemicals	574	580
Principal Agriculturals:		
Cotton	1,295	1,313
Dried fruit	439	397
Tobacco	509	378
Corn	56	339
Wheat	—	1,023
Oilcake and meal	—	534
Other commodities	5,870	5,237
Total	13,849	13,487

United Kingdom: One of the results of the wartime trade restrictions is a trend toward freezing of the trade in the restricted commodities within established trade channels. Import licenses are in general issued only to established importers on the basis of trade during a normal prewar period. This results in increased difficulties for the entry of new firms abroad or in the United Kingdom into the trade, while the existing firms tend to become more strongly entrenched. In the case of Government purchases, there has long been a tendency to place orders with well established concerns at home or abroad as distinct from a system of open competitive bidding.

The German invasion of Denmark and Norway has brought considerable injury to Lancashire. Apart from Manchester's position as an import center for food products and the importance of Lancashire as a source for Scandinavian coal imports, the invasion has stopped the considerable exports of cotton manufactures from Lancashire to the invaded countries. Denmark was regarded as Lancashire's best European customer.

Italy: Reports from Rome indicate a scarcity of butter which is due very largely to the refusal of the merchants to sell at a fixed price. Ordinary laundry soap has disappeared from the market and there has been an advance of 70 percent in the price of potatoes. Wednesday has been added to the regular meatless days, of which there are now three in a week.

An indication of the food situation in Italy is presented by the following weekly food rations included in the labor contract negotiated with Italian laborers going to Germany for agricultural work: 13.23 pounds of potatoes; 6.08 quarts of skimmed milk; 9.92 pounds of bread; 2.2 pounds of wheat flour; 0.55 pounds of sugar; 0.55 pounds of salt; 0.55 pounds of fat; 1.1 pounds of meat.

Spain: An account of the Spanish economic situation is contained in a report covering the first quarter of the present year. There has been a slight improvement over the last quarter of the preceding year, but no decline in the high postwar living costs and widespread unemployment. There was no relaxation in the rationing of foodstuffs. The production of oranges for the 1939-1940 season was approximately 40 percent below normal prewar figures, but an increased production is expected for the 1940-41 season. The olive crop season for 1939-1940 was 30 percent short and barely sufficient for the rationed domestic consumption. Industry is operating under a considerable handicap, as illustrated by the case of an assembling plant which has a substantial number of motor trucks unfinished on account of the difficulty in securing tires, wheels, and springs which, under the terms of the import permit, must be of domestic manufacture.

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France: Under the recent agreement between the British and French Governments, all purchases of wood pulp and paper from the United States, Canada, and other foreign countries, are centralized in the Paper Control Board of the Ministry of Supply, London. France is in urgent need of wood pulp and paper and it is expected that the available supply will be exhausted within a month to six weeks.

Brazil: The invasion of the Netherlands and Belgium is expected to bring considerable injury to the trade and exchange position of the country. Brazil generally had an annual favorable trade balance of about \$8,000,000 with the Netherlands and Belgium, the same as the one recently lost from the invasion of the Scandinavian countries. Exports of coffee, tobacco, cocoa, and cotton will be particularly affected by the loss of the Dutch market.

May 16, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percentage increase, May 11, 1940 from—	
	May 13	Aug. 26	Sept. 16	May 4	May 11	May 13, 1939	Aug. 26, 1939
Commodities	76.4	74.8	79.3	78.9	78.4	2.6	4.8
Farm products	64.4	61.1	69.7	71.3	69.2	7.5	13.3
Foods	68.5	66.7	75.5	72.5	71.6	4.5	7.3
All commodities other than farm products and foods	81.0	80.4	82.4	82.6	82.5	1.9	2.6
Hides and leather products	92.1	92.6	98.3	102.5	102.2	11.0	10.4
Textile products	67.0	67.4	71.4	71.5	72.3	7.9	7.3
Fuel and lighting materials	74.8	73.2	74.1	72.3	72.3	- 3.3	- 1.2
Metals and metal products	93.7	93.5	94.9	95.0	94.5	0.9	1.1
Building materials	89.6	89.7	90.7	92.6	92.0	2.7	2.6
Chemicals and drugs				76.8	76.8		
House-furnishing goods	86.8	87.0	87.1	89.9	89.9	3.6	3.3
Miscellaneous	74.3	73.1	76.1	76.9	76.8	3.4	5.1
Raw materials	69.4	66.2	73.0	73.7	72.5	4.5	9.5
Semi-manufactured articles	74.3	74.4	82.0	79.5	78.2	5.2	5.1
Finished products	80.4	79.3	82.3	81.6	81.5	1.4	2.8

Source: U. S. Department of Labor, Bureau of Labor Statistics.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		May 17	August 30	Sept. 13	May 8	May 15
Copper, electrolytic, New York	per lb.	10	10 1/2	12	11 1/2	11 1/2
do, prompt shipment, New York	do	4.75	5.05	5.50	5.00	5.00
do, New York	do	4.84	5.14	6.64	6.14	6.14
do, straits, New York	do	48 7/8	49 3/4	1/75	47 5/8	51 1/2
do, plantation, N.Y.	do	16 3/16	16 13/16	22 1/2	20 5/8	23 1/2
do, light native Cows, Chicago.	do	10 1/2	11	15	13	13 1/2
do, 13-15 denier, Serioplans, N.Y.	per lb.	2.80	2.72	3.21	2.88	2.83
do, middling, aver- age, 10 markets.	per lb.	9.28	8.53	9.01	10.24	9.43
do, cloth, 60 x 64, 1/2 inches, N. Y.	per yd.	4 3/16	4 5/8	5 3/8	4 7/8	4 3/4
do, tops, July 1940 futures, New York.	per lb.	2/80.8	3/81.5	3/111.9	93.9	94.0
do, raw, 960, duty free, New York	do	2.92	2.92	3.70	2.82	2.90
do, Acre, New York	do	4.50	4.38	6.45	6.15	5.72
do, Santos, No. 4, New York	do	7 1/2	7 5/8	7 3/4	7 1/4	7 1/4
do, cash, Chicago.	do	6.45	5.65	7.75	6.15	5.37
do, cottonseed oil, July 1940 futures, N. Y.	do	3/6.59	3/5.61	3/7.30	6.88	6.47
do, July 1940 fu- tures, Chicago	per bu.	3/ .73 3/8 3/2	.67 1/4 3/2	.85 3/8	1.04 7/8	.85 5/8
do, good and choice, 20-240 lbs., Chicago	per cwt.	4/7.10	6.88	8.13	6.00	5.68
do, beef, medium, 20-1,100 lbs., Chi.	do	9.13	8.38	8.88	8.88	9.00

Annual. 2/ July 1939 futures. 3/ December 1939 futures. 4/ Hogs weighing 220-250 lbs.

Notes: All commodities, with the exception of wool tops, cottonseed oil, hogs, and
wheat, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken
from the Rail Street Journal, and hogs and steers are from the U. S. Department of
Agriculture, Bureau of Agricultural Economics.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron 1/	Steel Scrap 2/	Finished Steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
May 16	20.61	14.08	2.336
August 29	20.61	15.62	2.336
September 19	22.61	19.25	2.336
October 3	22.61	22.50	2.336
1940:			
May 7	22.61	16.75	2.261
May 14	22.61	17.98	2.261

1/ Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

2/ Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

3/ Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

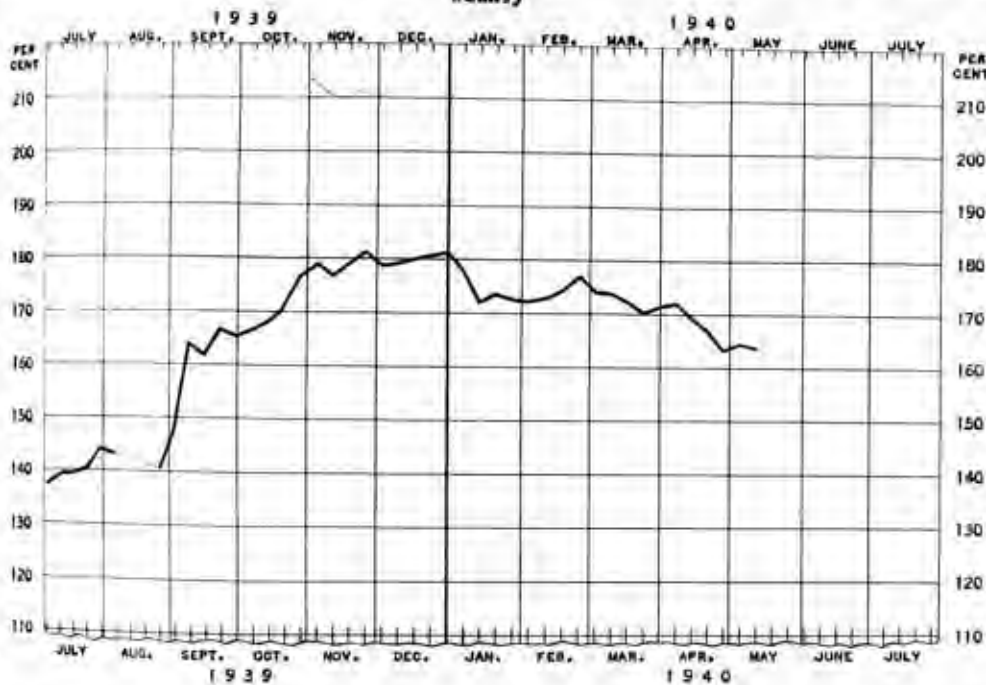
Date	Motor gasoline, 65 octane	light fuel oil, number 2	Diesel oil, ships' bunkers	Bunker oil, grade "C", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
May 17	4.75 - 4.875	3.00 - 3.75	1.45	0.75 - 0.89
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
May 8	4.375 - 4.75	3.625 - 3.75	1.70	0.75 - 0.90
May 15	4.375 - 5.00	3.50 - 4.00	1.70	0.75 - 0.89

Source: Platt's Oilgram.

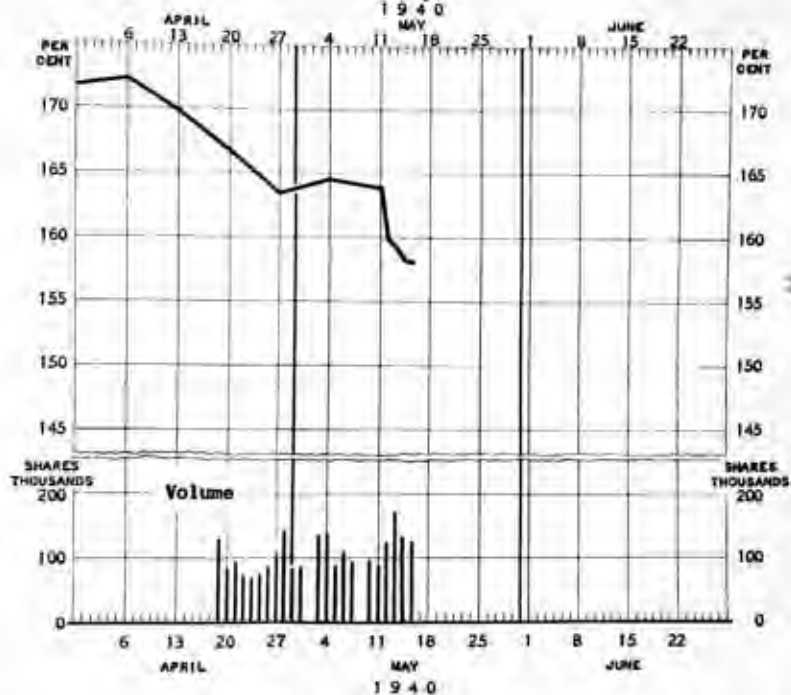
ITALIAN STOCK PRICES
(Milan)

Dec. 31, 1927 = 100

Weekly



Daily*



*DAILY FOR LATEST WEEK ONLY

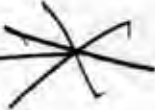


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TREASURY DEPARTMENT
WASHINGTON

May 16, 1940.

MEMORANDUM FOR THE SECRETARY:

Just as a matter of information, the S/S MARIGOLA has loaded 7,000 tons of copper, and is expected to sail tonight or tomorrow morning for Italy. 

The S/S ROMA is loading 1,119,000 pounds of copper and is expected to sail Saturday for Italy.

The S/S FORTUNATA is now expected to begin loading at 4 P. M., tomorrow afternoon.

Indications are that the Italians are working overtime on all their ships.

Daniel Harris

May 16, 1940
9:18 a.m.

H.M.Jr: Hello.

Operator: Secretary Hopkins calling. There you are.

H.M.Jr: Hello.

Harry Hopkins: Henry, this is Harry.

H.M.Jr: Yeah.

H: Have you seen this proposal the Department of Agriculture is -- on use of the Stabilization Fund for strategic war materials?

H.M.Jr: Wallace gave it to me yesterday.

H: Well now, could you tip me off how you feel about it?

H.M.Jr: Well, I -- I gave it to Harry White last night to study it. All I can tell you is how I feel about the Stabilization Fund.

H: Yeah. Well, I know how you feel about that.

H.M.Jr: Well, I haven't changed. I still feel.....

H: Henry, here's what I think. That it's a cumbersome scheme, that it won't get the stuff, that we've got a scheme to get it, insofar as it's humanly possible to get it, and that you don't need this.

H.M.Jr: Yeah.

H: And I think it's -- ought to be kicked out of the window, but I don't know enough about it to kick it out. I mean, I don't -- it's not up my alley, particularly.

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

H: And I think it would be kicked out of the window this morning by you very quickly, by the boss, because he went over the whole thing last night and he certainly didn't mention that.

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H.M.Jr: Uh-huh. Well.....

H: Without ever having the thing get into a lot of formal conferences around here.

H.M.Jr: Well, after all, at Cabinet the President asked you to line up a plan and to see Jesse Jones and all that.

H: Well, I'm going to pitch -- I'd just as soon pitch it out the window on the grounds that it's cumbersome, and.....

H.M.Jr: Well, I don't think -- just -- as far as the Stabilization Fund end of the thing goes, that isn't what the thing is there for.

H: That's right.

H.M.Jr: See?

H: Yeah.

H.M.Jr: And I don't mind -- you can quote me and say that that isn't what the thing is there for.

H: Yeah.

H.M.Jr: And I'm opposed to it being used for that purpose.

H: All right, Henry.

H.M.Jr: Does that take care of that?

H: Perfectly clear. All right, old boy.

H.M.Jr: Thank you.

H: Goodbye.

May 16, 1940
10:05 a.m.

Senator
Clyde L.
Herring:

Hello.

HMJr:

Hello, Senator.

H:

How are you, sir?

HMJr:

I'm fine.

H:

Fine. Say, Henry, I just came back from Iowa with the delegation in my vest pocket for renomination to receive a wire that the Procurement Division is being taken from Des Moines and being sent down to this anti-Roosevelt state of Missouri to Kansas City.

HMJr:

Well.....

H:

The Treasury Division of Procurement -- under W.P.A.

HMJr:

Really?

H:

Yeah.

HMJr:

Let me look into it right away.

H:

All right. I told Jesse Jones at the meeting the day before yesterday I wouldn't let him take that authority away from you and now, by golly, you're taking this away from me.

HMJr:

Well.....

H:

(Laughs)

HMJr:

I don't know a thing about it but we'll stop it.

H:

Ah -- yes. What they're doing is combining five states, but I think they could just as well combine it up there. We have five states around us.

HMJr:

They're taking it down to Missouri?

H:

Yes, taking it down to Kansas City.

HMJr:

Well, I'll be darned.

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H: Down there among the enemies and I don't want ^{them} to have it.

HMJr: Well, and where is it now?

H: It's in Des Moines.

HMJr: Is that where you want it?

H: Yes, that's where I want it.

HMJr: What?

H: Yes. It's been doing good work there and it would make necessary -- all our supplies would have to move to Kansas City with their offices, and it's a hardship on a lot of our friends out there.

HMJr: Unless there's something that I don't know about.....

H: I know -- I know you wouldn't but I thought there was no use going to Reynolds, I better talk to you.

HMJr: Well now.....

H: I think there may be some justification for it.

HMJr: I wonder -- I wonder -- you see Reynolds isn't with me. He's over.....

H: Oh, he isn't?

HMJr: No, Reynolds is over with Carmody.

H: Well, this is under -- is under the Treasury, the Procurement Division of the Works Progress.

HMJr: No. No, they've taken that away from me. That's over with Carmody.

H: It is?

HMJr: Yeah, all of that stuff -- public buildings -- is this -- Reynolds?

H: No, this is W.P.A. -- that pays the bills for W.P.A.

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HMJr: No, that's with me.

H: Yeah.

HMJr: That's with me.

H: They pay the bills for W.P.A.

HMJr: I'll look into it. Unless there's something that I don't know, we'll keep it in Des Moines.

H: Thank you. Just -- let me know what you can do, will you?

HMJr: I'll definitely let you know.

H: Thank you.

HMJr: Goodbye.

H: Thank you.

May 16, 1940
10:55 a.m.

H.M.Jr: Hello.

Operator: Congressman Steagall.

H.M.Jr: Thank you. Hello.

Henry
Steagall: All right, how are you?

H.M.Jr: I'm fine and how are you?

S: All right, thank you. Sorry I didn't get your call sooner but I was doing some outside errands, was late getting in this morning but I called you some time ago, and they said you were busy.

H.M.Jr: Well, I had - twice a week, I see the press - they were here when you called.

S: Yes. I should have called you and told you yesterday, I ~~didn't~~ think to do it, I took it for granted that Mr. Foley and those boys were keeping up with it, but we're not having any meeting today.

H.M.Jr: You're not.

S: Because the House meets at eleven o'clock.

H.M.Jr: Huhhuh.

S: And they're all in a stew over there, today.

H.M.Jr: How are you all coming on this RFC bill?

S: Well we haven't talked about it in executive session, there's been very few expressions about it.

H.M.Jr: I see.

S: That I've heard. The Committee seems to - insofar as any indications that I've gotten is concerned, don't seem to have any particular view or any stubborn attitude about it. They look upon it as kind of - not - a fair amount of course. I haven't talked to them about it yet in executive session. We'll work it out some kind of way.

- H.M.Jr: How about those two provisions that I objected to.
- S: Well, that's what I'm talking about.
- H.M.Jr: Oh!
- S: Oh! We aren't going to have trouble with the Bill, I'm afraid the Republicans will vote against the Bill. I don't know that they are, but I have an idea that the Republicans all vote against supporting the Bill.
- H.M.Jr: But -
- S: But as to the two items, that's what I'm talking about. There hasn't been any expression that I could - I don't know that I've heard a man say - I haven't thought to find out. I've just thought I'd wait until I got through these hearings and try to work it out.
- H.M.Jr: But you think you can work it out.
- S: Oh we'll work it out some way, they'll all be satisfied.
- H.M.Jr: Fine.
- S: I think we can work it out.
- H.M.Jr: Well if there's any change, would you let me know.
- S: I will.
- H.M.Jr: How's the Housing Bill?
- S: Well, we're just marking the time, a little bit high on, to do some preliminary work with the Rules Committee.
- H.M.Jr: Fine.
- S: I told Mr. Straus and Gene Cox thought that we ought to take a little time for him to feel out the Committee and kind of know where we are before we go before him.
- H.M.Jr: I see.
- S: So we're not going to ask for Rules until some time the first of next week.
- H.M.Jr: I see.

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- S: And he thinks by that time we can smooth away. I'll tell you where we are about it. We can't testify these two fellows here that are opposed to it. Every time we agree with them about one thing they spring something else and the only way you can agree with them is let them kill the Bill.
- H.M.Jr: I see.
- S: So we're just going to have to get a rule and roll up our sleeves and fight it out in the House.
- H.M.Jr: I see.
- S: But I think we can make concessions enough to pass the Bill without seriously interrupting the program.
- H.M.Jr: I see.
- S: That's about the best I can see in the situation.
- H.M.Jr: Well that sounds plausible.
- S: But we'll get by, we're going to have a bill of some kind. I feel confident we can get by with it.
- H.M.Jr: One other thing.
- S: Yes.
- H.M.Jr: When are you going to continue your hearings on this article?
- S: I don't think we can meet them before Monday, because the House meets at eleven tomorrow, and with this preparedness stuff and with the relief bill over there, the boys kind of insist on just not meeting today or tomorrow.
- H.M.Jr: I see. There won't be another meeting until Monday.
- S: That's - not before Monday.
- H.M.Jr: Good.
- S: Fine.
- H.M.Jr: Thank you.

May 16, 1940
3:10 p.m.

Allen J. Ellender: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Senator. How are you?

E: Fine, sir. How are you?

H.M.Jr: How did you like what the President said?

E: Couldn't be any better! I tell you one thing, it's going to serve as an antidote, I believe, to all this hysteria that's going around the country about us not being prepared.

H.M.Jr: Yeah.

E: I'll tell you, if you read the record, the last -- just about the last two pages of last night's -- or yesterday afternoon, you'll find more mis-information there than any record I've ever read. It's a crime for people to get up on the Senate floor and talk about things when they don't know what it's all about.

H.M.Jr: Well now, what can I do today?

E: Well now, this is what I'd like you to do for me. You recall three or four years -- three years ago when Senator Overton and I called on you with reference to the appointment of a Collector of Internal Revenue, Mr. Fontenot, and it was your desire to keep him there. Now, I have positive information that Mr. Fontenot has been working for the past 12 months against me -- he wants to be a candidate against me, and in order to accomplish his purpose he's going to resign, I understand, from the -- from the present duties he's occupying.

H.M.Jr: Yeah.

E: And what I want you to do, Mr. Secretary -- I've been here pitching all I know how and they're all trying to get me down there, and what I want you to do, if you will, is to consult with

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Senator Overton and myself as soon as that happens so as to get a successor.

- H.M.Jr: Hello?
- E: Yes, sir.
- H.M.Jr: Well, that's a fair request.
- E: Yes.
- H.M.Jr: That's a fair request.
- E: Yes.
- H.M.Jr: Well, any time you gentlemen are ready will you let me know?
- E: Yes, sir. Well, when is he going to resign?
- H.M.Jr: I'll -- this is the first I've heard of it.
- E: Oh, is that right?
- H.M.Jr: I haven't heard a thing. I'll look into it.
- E: Oh well, I've got several telegrams this morning and between you and me, Mr. Secretary, I have a brother-in-law -- now, of course I'm not trying to get him in the bad or anything like that -- but my brother-in-law has been working in -- under Mr. Fontenot for about two years now. He's a splendid boy, and he gave me to understand of the activities of Mr. Fontenot -- now of course I could probably get Mr. Fontenot in a hatsack (?) but I don't work that way. I don't want to do anything like that; I don't want to bring the Department in bad light or anything like that. The only thing I ask is that if and when he does resign, please let us select somebody and if -- we'll give you a panel and what we want is to put a good man there and if he's not satisfactory and doesn't meet up with the job, why you know what to do with him.
- H.M.Jr: Well, that's a fair enough request, and in the meantime I'll look into the situation right away.

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E: Thank you, very much.
H.M.Jr: Thank you for calling.
E: Thank you. Goodbye.

May 16, 1940.
3:15 p.m.

H.M.Jr: Hello.
Admiral Noyes: Mr. Secretary?
H.M.Jr: Yes, Admiral.
N: This is Admiral
H.M.Jr: Please.
N: Your message to Paris was transmitted at one o'clock.
H.M.Jr: Thank you so much.
N: I suppose you know, - we don't know how reliable communication is going to be in France.
H.M.Jr: No I didn't know that.
N: Under the circumstances.
H.M.Jr: Well if you can't get it through, nobody can.
N: Well, that's true.
H.M.Jr: That's why I'm going to look to you.
N: Because we've lost touch with Brussels and The Hague now, so -
H.M.Jr: Well, I appreciate your calling me.
N: You're very welcome sir.
H.M.Jr: Thank you.

May 16, 1940.
3:44 p.m.

H.M.Jr: Hello.
Preston
Delano: Mr. Secretary.

H.M.Jr: Talking.

D: I just want to express my appreciation for the very decent thing you said about me today.

H.M.Jr: Hello.

D: Hello.

H.M.Jr: Go ahead.

D: This is Preston talking.

H.M.Jr: Yes, I hear you.

D: I said I just wanted to express my appreciation for the very kind words you said about me today at the press conference.

H.M.Jr: Well, you earned it.

D: Well, it's very nice of you to say it.

H.M.Jr: Oh, that's all right. That was easy.

D: Well, thank you very much.

H.M.Jr: Thank you for calling.

D: All right, goodbye.

H.M.Jr: Goodbye.

May 16, 1940

Leroy-Beaulieu called me up at 8:15 this morning and wanted to know whether we were doing anything about Switzerland and I told him that after a conversation with Wallace, that Wallace would send word to his brother-in-law, the Swiss Minister, to get in touch with Dan Bell who would be glad to help him out.

I checked with Cochran this morning and they had started the thing going yesterday.

Leroy-Beaulieu said that the Swiss had a lot of gold hidden in their mountains, but with Italy coming in most likely from one side and Germany from the other they had better do everything to get their valuables out of the country.

MAY 10 1940

My dear Mr. Hull:

I understand that your Division of Controls has inquired for certain information relating to airplane purchases by the Anglo-French Purchasing Board. I am sending you a copy of an analysis which has been prepared setting forth the situation in detail.

It will give me great pleasure to furnish you any additional information you may wish.

Sincerely,

(Signed, W. W. Clegg, Jr.)

The Honorable,

The Secretary of State.

By Messenger 5:00 pm

5/16/40
FY:bj

PY

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(Signed) H. Morgenthau, Jr.

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of State.

5/16/40
FY:bj

EH

GRAY

Paris

Dated May 16, 1940

Rec'd 4:45 p.m.

Secretary of State,
Washington.

708, May 16, 7 p.m.

FOR THE TREASURY

Today for the first time since last September the banks have encountered a considerable run on deposits. The movement, which is of course attributable to the extremely serious reports from the front and to the presence of even more alarming rumors, has not reached the proportions of a panic.

Despite Dhavernas's assurance this afternoon to the contrary it would seem probable that the Finance Ministry is seriously considering the possibility of moving to a safer area. (END SECTION ONE)

NPL

BULLITT

VRH

GRAY

Paris

Dated May 16, 1940

Rec'd. 4:40 p.m.

Secretary of State,
Washington.

708, May 16, 7 p.m. (SECTION TWO)

Fairly heavy sales took place on the market today but there were no signs of panic. Rentes lost between one and two points with the exception of the 1937 dollar exchange issue which lost about six francs fifty. Other French securities declined from three to seven per cent, internationals were under pressure Suez losing 400 and Royal Dutch 300.

The Bank of France statement for May 9 shows few changes of importance. Note circulation declined slightly while no new advances to the state occurred.

At the suggestion of the Foreign Office we have destroyed certain confidential records including telegrams to and from you.

(END OF MESSAGE)

BULLITT

NPL

GROUP MEETING

May 16, 1940
9:30 a.m.

Present: Mr. Sullivan
Mr. White
Mr. Foley
Mr. Young
Mr. Harris
Mr. Gaston
Mr. Haas
Mr. Cochran
Mr. McReynolds
Mr. Schwarz
Mr. Bell
Mrs Klotz

H.M.Jr: Of the 396 Emergency Relief employees dropped in Procurement, 208 have found other employment. That is not bad.

Herbert?

Gaston: I haven't got anything but a final report from the Coast Guard on the concentration of Japanese tankers. The report is that the result of search was negligible.

H.M.Jr: How was the Berle thing yesterday?

Gaston: I had the men counting there with a counting machine and they told me that there were 1180-some at the time they left.

H.M.Jr: How many?

Gaston: 1180 at the time they left and they were still coming.

H.M.Jr: Ed?

Foley: Dan and I saw Pat Harrison yesterday afternoon and talked to him about general exemption for the Treasury from the Walter-Logan bill. He said he was against the bill and he said he would do what he could to get an exemption. It might be that he could only exempt the financing, but he would try to exempt the entire Treasury, and he was very cooperative.

He also said that he would like to get a call from the President in connection with financing

- 2 -

the defense appropriation.

H.M.Jr: So would I.

Bell: I think it would be very helpful if the President called him. He is in a very cooperative mood right now.

Foley: He says he wants all this petty dickering and fighting to stop and everybody to get together on the Hill and stand with the Administration. He is just sitting there hoping he will get a call to come down so he can discuss exchange ideas.

One more thing. Francis Biddle called up yesterday afternoon while I was down on the Hill and said that Senator Stewart had called him and asked if the Treasury would furnish the services of Thomas F. Saber, an investigator in Chicago, for the wire-tapping committee. They called on Justice and SEC and Interior and they had made people available and the committee was asking for Saber.

H.M.Jr: Who is Saber?

Foley: He is one of our men, apparently, in the Intelligence Unit out in Chicago.

H.M.Jr: Why Saber?

Foley: He just said the committee would like to have his services. He had been checked and they wanted him.

H.M.Jr: Well, you had better find out who he is, and so forth and so on.

Foley: Yes.

H.M.Jr: The three of you (Gaston, Foley and Sullivan) handle it.

What else?

- 3 -

- Foley: The other thing, Jerry Frank called up yesterday afternoon and wanted me to ask you whether you would like to have a man by the name of Whitmore Hodges, who used to be Secretary of the Business Advisory Council and who knows all of the business men, make some kind of a statement calling on business men for patriotic cooperation in connection with war orders and all the rest of the things.
- H.M.Jr: The answer is "nuts." Agree with me, Basil?
- Harris: Yes. I was just wondering whether the machine got it.
- H.M.Jr: You know, all of these people discovering there was a war, Wallace and Ezekiel discovered it -- Ezekiel got so emotional yesterday. I never saw anything like it. He has just discovered there is a war.
- O. K.?
- Sullivan: I have nothing.
- Cochran: Paris and London stock markets are naturally quite weak this morning. Our own market opened strong with steels and airplanes leading the rise. We bought no silver yesterday. It is the first day for quite a while. India may try to get some. Their prices are pretty high. The price in London is almost equal to our American price of 35 cents.
- We had a telegram last night from China, rather insistent on our giving some help to our stabilization fund. I mentioned this because they may bring it up direct with the President.
- E.M.Jr: Phil?
- Young: Do you wish me here at 11:30?
- H.M.Jr: Yes. Also get Collins here at that time, will you? What time did you leave my house last night?
- Young: Did I?

- 4 -

H.M.Jr: Yes.

Young: About 11:00 o'clock.

H.M.Jr: Did you go down to the station with him?

Young: No, sir, I sent him down in the car.

H.M.Jr: Never left until 11:00?

Young: About 11:00 o'clock. It took him quite a while to get his cables off.

H.M.Jr: Chick?

Schwarz: Nothing.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Basil?
Harry?

White: You may have noticed this brief cable from Kennedy on gold. It is a little ironic. If you haven't, I think you probably would like to see it, in the light of his previous letter.

H.M.Jr: Oh, yes, I saw that.

White: Did you intend anything to be done with respect to that Wallace letter? Did you want a written report on it?

H.M.Jr: I tell you what happened. Hopkins called me up a few minutes ago - I can't follow all these things - and he says he thinks the Wallace plan is cockeyed and what did I think about it. I said, "Well, all I know is how I feel about the stabilization fund," and he said, "Well, I know how you feel about it. Have you changed?" And I said, "No." He said, "Well, I have a much better plan to do the strategic materials than Wallace has," and he said, "Do you want to kill the plan?" and I said, "Well, you can

- 5 -

say that I am against using the stabilization fund for those purposes. I don't think those are the purposes," and he said, "Well, the plan is dead."

Let Hopkins take care of it. Hopkins considers himself responsible for strategic war materials.

White: Do you know what plan he has?

H.M.Jr: I think his plan, as I understand it, is that he wants to form a non-profit corporation.

White: Oh, yes.

H.M.Jr: To buy up through the RFC tin and rubber.

Incidentally, I got the President word last night to include in his message provisions giving authority to control exports and reexports of strategic war materials and they have sent word to Jackson to get in a paragraph on that. That is the place to put it.

Anything else, Harry?

White: With reference to the Chinese request, I don't know whether Merle is talking about the same thing, but I am talking about their possible suggestion that we do the same thing with Chinese balances here that we have done with Dutch and Norwegian, et cetera. Now, we were giving some thought to that. Did you want to spend any attention at all - there is over a hundred million dollars that they might be able to put their hands on.

H.M.Jr: Well, Mr. Bell is in charge and under Mr. Bell comes Mr. Upham.

White: Well, it isn't related to that problem, it is related to the question as to whether or not you want to give an opportunity for the Chinese Government to get hold of foreign balances of individual banks, et cetera. It is not a foreign exchange problem as much as a question of whether you want - a question of policy.

- 6 -

H.M.Jr: See whether you can sell it to Mr. Bell. He has had four days' rest.

Bell: I feel good.

White: There is a letter here which Ed Foley and I drafted for your consideration to Mr. Chen and there is a story behind it, if you want to take it up sometime.

F.M.Jr: No, not now.

White: Well, I don't think you want to sign it now.

H.M.Jr: Well, don't leave it on my desk. It would just get forgotten. See me with Foley sometime.

White: The Latin-American exchanges are all getting in bad shape. They will probably get worse.

Gaston: There was a story on the ticker yesterday afternoon that the British Purchasing Commission was buying some 200 small vessels, light vessels and other craft, for use to transport supplies across the channel from England to the Continent. It will present a legal problem. I don't think it is our problem, but I thought you might be interested in it, as to whether we can permit the transfer. The Maritime Commission said that they hadn't yet had an application.

H.M.Jr: I hope I don't get any.

Incidentally, Basil, the English have sent a cable to withhold the navicert on that toluol on that boat and they hope to have an answer today.

Harris: We have got enough time to turn around on it.

H.M.Jr: But I just thought if they do not issue a navicert, what will happen?

Harris: If they do not issue a navicert, the British will take the ship into Gibraltar.

- 7 -

H.M.Jr: Does anybody know who sold that toluol to them?

Harris: Well, the only name that I got was that name on there, 67 Broadway or Broadstreet, or something. I can go back and try and find that. I think I can probably get it.

H.M.Jr: Could you?

Harris: Yes. You mean where it came from and who sold it?

H.M.Jr: Yes, I mean if they would like to sell it over again.

Harris: Yes.

H.M.Jr: It has been done before.

Harris: It is a funny thing. I looked that word up and I can't find that word in the dictionary.

H.M.Jr: I think it is mixed up. It is toluol.

Harris: How do you spell it?

Gaston: T-o-l-u-o-l.

Harris: No such word in the dictionary.

Gaston: It is the basic --

Harris: That is what I thought, but I can't find it.

Gaston: It makes trinitrotoluol.

H.M.Jr: You spelled it differently.

Harris: That is the only word I could get in the dictionary, toluene, and it is a coal part of the tar derivative, but I couldn't find the word toluol and that is the only word I have ever heard of.

Foley: What dictionary did you look in?

Harris: New Deal.

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H.M.Jr: You win. Did you have to borrow one from Harry? That is all right, Basil, that is okay. The word teluol is like the word molybdenum, nobody can pronounce it.

Are you through, Harry?

White: There is just one dismal or remote note or possibility there I would like to suggest, that in the evaluation of gold - remember in your speech you said that so long as there are independent nations, gold will continue to be used. I don't know what the possibility, obviously, is of Germany getting any kind of a decisive victory, but I think that should be taken into calculation.

H.M.Jr: What do you want me to do, make another speech?

White: No, I would want to possibly in reexamining the volume of the gold and the possibility of victory, I think both factors should be taken into consideration, that if the use of gold can be used to make that possible victory any more remote, I think it is kind of an investment. I am not suggesting it, I am merely raising that issue, because any kind of a quick victory by Germany would very definitely alter the possibilities for the use of gold as an international medium of exchange.

Gantoni: By the way, Harry Sherman of the Book of the Month Club called up yesterday afternoon. He said he was writing an article for the Post. I assume it was the Saturday Evening Post. He had heard about your speech and wanted a copy of it and I sent it to him. Maybe he ought to have some other material.

H.M.Jr: Bell?

Bell: Senator Miller is heading the Subcommittee of the Banking and Currency Committee. Miller is taking Burns' place while Burns is on some other work, to consider the Bankhead-Jones bill, that is the agriculture bill that reduces the rate, and so forth. He has asked me to come up there

- 9 -

either tomorrow or Tuesday. I did my best to get out of it, but he insisted. If you have no objections, Mr. Haas and I will go up.

H.M.Jr: All right. What else?

Bell: Senator Hatch said --

H.M.Jr: Where is that appropriation that I wanted to move the gold out of New York to Fort Knox?

Bell: Well, a memorandum went to the President the day I left and I haven't heard anything from it.

H.M.Jr: Will you follow it up and see whether it has gone up on the Hill or not?

Bell: That didn't come back?

H.M.Jr: I don't know. Will you follow it through?

Bell: Yes. I assumed that would come back to prepare an estimate for the President.

Senator Hatch heads the Subcommittee of the Public Lands and Surveys Committee of the Senate, which investigates the administration of the Great Smoky Park and he has asked the Treasury to detail two accountants to help them out on some of the work down there in the accounting. We told him we would be glad to cooperate but it looked to us as though it was a Comptroller General matter and they said they had had it up with the Comptroller General and it would be agreeable to have the Treasury do the job. We told him we would be glad to do it, providing that they had discussed it with the Comptroller General.

H.M.Jr: O. K.

Bell: We signed a general license a few days ago to exempt all of the funds of the Netherlands Government. The Netherlands Minister sent in a letter late last night asking us to revoke

- 10 -

that license. I think there is nothing else to do but revoke it, I guess. We issued it at their suggestion and now they are not certain what is happening and - should we take it up with the State Department at all?

H.M.Jr:

I think so.

Gaston:

We spent quite a lot of time talking to them and asking whether he really wanted this and telling him that we would have much better control and we thought it would be safer not to issue it.

H.M.Jr:

Listen, I told him that by waiting in Norway it was all to the good and then Mr. Welles called me up and put the pressure on and he wanted it done as of that date.

Cotton:

Did he say why he wanted it revoked?

Bell:

Well, they are just afraid of what is going to happen over there, the kind of orders that are coming through from the --

Cotton:

Well, they can't put any pressure on him over here, can they?

Foley:

They can set up a puppet state over there, though.

Bell:

The orders for transfer of these funds may come from the Netherlands.

Gaston:

I think that is all to the good, that we are revoking it on their request.

H.M.Jr:

Will you clear it with State?

Bell:

Yes. The Norwegians apparently wanted the same thing that you had given the Netherlands, a general license, and the Minister talked to Bernstein and he told him what might happen and now he said, before we issued it, that we would like to have him think over those matters. Well, that has been three days ago and he hasn't come back, so apparently he thought them over.

- 11 -

H.M.Jr:

Mac, take a minute and tell them about your idea on a survey of employees. Mac has got a swell idea.

McR:

Well, my idea is to have the Civil Service Commission make a survey of available personnel, particularly in productive fields, civilian fields, based on the Government's needs for additional civilian personnel. They have got to qualify these fellows to go into the Navy Yard and the arsenals and the Navy has an estimate for 50,000 additional civilian employees in this estimate that goes up today and they asked for - they put in, as a matter of routine, exemption from Civil Service. It would permit the Civil Service to recruit them. They can recruit them cheaper than you fellows can after all, but they are going ahead with a survey of available man power - of course, the first thing they will do is to - and what they are doing currently is to find out exactly how far they have gone in the employment service, labor statistics and all the different spots, including the information they have about qualified personnel in the Coast Guard and the Maritime Commission. Find out what the Government - how far it has gone to ascertain available personnel in the various industrial fields as well as the other types of personnel that the Government is going to have to recruit, looking at it from the standpoint of what the Government has got to hire, who there is available and whether there is trained personnel for it.

Now, as a corollary to that, we have got to find out what the situation is and what has been done by the larger industries. We have the same kind of people to hire. I've got some of the large corporation people coming in to talk to me about it. We are getting the best people we can to head it up from the Civil Service angle with the idea that we will find - I have no doubt that we will find that in some fields there is a lack of adequately trained personnel to push your

- 12 -

program forward as fast as you want it. It is too bad, but it doesn't do any good to just find it out, but when we find it out we have got to do something about training them. The idea is to get a training program started.

Now, the Navy Yard has a very intelligent training program plan for training people for Navy Yard work and things of that sort. Now, I want to find out how far that has gone, whether adequate training facilities are being provided and if we are short of trained personnel in the various fields, it is too bad that we haven't got them trained and all that sort of thing, but there is no use remaining in that situation and the quicker we find out about it and undertake to do something about it, the better off we are. It is just a survey proposition to start with, to find out where the lack is, and the next step is, of course, through the President's authority that he has got to enable training programs to be started, and I suspect - I had a conference with some of the corporation people last night. I suspect we could get plenty of cooperation from the larger manufacturing groups in developing training programs for skilled personnel.

White: How big a program are you envisaging, I mean how can you tell whether you have got the adequate number of trained - independent of a particular sized program, that you start on some assumption --

McBr: Well, we have got a program of production. The expansion of production facilities that you have got to hit at in various fields on this present preparedness program, Harry.

White: I say, what are you hitting at? You mean this new possible expenditure or something beyond that?

McBr: Well, as an initial inquiry, we are confining ourselves to what the President is asking today. It doesn't matter if we get the facts with

- 13 -

relation to that size program, you have got the basis on which you can go as much further as you may have to.

H.M.Jr:

It is very intelligent and I think it is excellent.

O. K., gentlemen, thank you all.

ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREETWASHINGTON:
725 15th ST., N. W.

May 17, 1940

This letter from

Friday 7 pm.

Dear Henry, (! I take advantage of your suggestion).

This afternoon I have received a cable from Mennet of which a copy is attached.

Its import is so great that on finding you were on your way to Beacon I decided to send it to you tonight by courier even though you are at your place of rest (so well deserved!). This with the idea that we could talk by telephone as to what should be my next steps.

If in the light of the urgency of the matter (Mennet has just telephoned me it is urgent!) you

feel there is anything I can do.
to forward possible action.
I shall of course be prepared
to be anywhere at any time
you say.

- There are two separate questions.
- (a) material which might some day
or other come from stock.
 - (b) material which is coming along
for early delivery under pending
orders.

There is much to explore if
progress is possible on either count,
which I pray it may be.

Werner says the situation
though hard & full of stress is
nothing like what the newspapers
here are portraying. It is however very serious.
In great haste

Sincerely

Arthur Ross.

May 17, 1940

SECRET

TO: Purvis

FROM: Mounet

Please hand following statement to Morgenthau and suggest that he should bring it to the President's personal notice immediately. Statement begins:

It is clear that Germany is now determined to throw in all her resources in an attempt to force decision over the next few weeks. It is therefore of vital importance to take every possible step to expedite the supply of war material to the Allies.

In particular the enemy is making the utmost use of his numerical preponderance in the air and rapid reinforcement of the Allied Air Forces is of first importance.

French and ourselves very urgently need additional fighter aircraft and would like if possible to secure the 200 Curtiss P 40's which we understand are now in course of delivery to the United States Army.

We are most grateful for the assistance already given to the Allied Governments in regard to the release of this type. We would like also to have as many as possible of Douglas A 20, Glenn Martin B 26 and North American B 25 bombers which the United States have now on order and of which we understand delivery is due to start in August. These could be repaid by equipment of the aircraft now being constructed for us in the United States. If it is impracticable without serious loss of time to adjust aircraft for use with British guns and bomb gears we should of course require the necessary supplies of guns, ammunition bombs and bomb gears of the United States types. We are short of troop carrier aircraft and should be greatly helped if any now in service could be released.

As regards other aircraft we should be grateful for accelerated delivery of materials on order (iron? alloy steels, aluminium alloys, magnesium and plywood; also machine tools and instruments.

If the aircraft can be released 172
it might be possible to expedite their arrival
by the despatch of two or possibly three carriers,
to ship them from Canada. We are investigating
this possibility more fully in the light of your
telegram.

Rest of telegram deals with British
needs only except where stated.

In regard to naval equipment the
great need is for destroyers. We should like if
possible to secure 48 of which 16 (two flotillas)
should have good A.A. armament and 32 (four
flotillas) should be of flush deck type ~~they~~ ^{they}
should be? all complete with torpedoes, ~~reserve~~ ^{reserve}
equipment and large amount ammunition especially
for A.A. guns.

Need for A.A. guns is most urgent.
The types which would seem to be of the most value
are

- (1) 37 m.m. A.A. and anti-tank guns
with spare barrels and
ammunition.
- (2) 3" A.A. guns with spare barrels
and ammunition.
- (3) Other types of short-range A.A.
guns (with calibre above
.303) for naval purposes.

Small arms and small arm ammunition.
Following are required:

The .30 Browning light machine gun;
Browning automatic rifle M 1918 A2;
Thompson sub-machine gun;
Any rifles for example Springfield;
Colts automatic pistols.

Essential that adequate supplies of ammunition for
these weapons should be sent at same time.

Field Guns. 75 m.m. field guns
and ammunition particularly armour piercing ammuni-
tion.

Mortars....

-3-

Mortars and mortar ammunition.
The 4.2 ?vertical? mortar and ammunition for it.

Except as regards short range A.A. guns for naval purposes (of which about 1000 are required) it seems certain that we urgently require and could take delivery of all quantities of items set out in paragraphs 9 to 12 which are likely to be available.

In addition anything which the U.S. Administration could do to ensure the utmost acceleration of delivery of orders already placed for warlike stores and explosives in the U.S. through the British Purchasing Board so as to expedite delivery would be extremely helpful. A list of the more urgent orders follows separately. We shall also have to order more steel. Particulars of our needs in this respect will also be sent later.

Above was drafted before the receipt of your telegrams to which replies will be sent as soon as possible.

174
May 17, 1940

SECRET

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-3-

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Above was drafted before the receipt of your telegrams to which replies will be sent as soon as possible.

7:40 A.M., 5-17-40
gave General Marshall
suggestion on Curtis P-36
Planes

CONFIDENTIAL

May 17, 1940

To: The Secretary
From: Mr. Young

In my memorandum of May 16th, addressed to you, it was stated that delivery on the Swedish order for 144 Vultee Vanguard planes would begin in July and continue through December, 1940.

Colonel Jacquin notified me this morning that delivery would not begin until August 1, 1940, and would not be completed until June 30, 1941.

F.Y.

CONFIDENTIAL

May 17, 1940

To: The Secretary

From: Mr. Young

Neither the DuPont order of 2,500,000 pounds of powder nor the Colt machine gun order has been signed by the Purchasing Board.

DuPont

Mr. Ballantyne advises me that the result of Mr. Purvis' conversation with DuPont was a delay of two or three days before any definite answer could be made by that company to the Purchasing Board's request for immediate production of the 2,500,000 pounds of powder. DuPont requested this delay in order to make a survey of its own production schedule before giving Mr. Purvis a definite statement as to when production could begin.

Colt

Attached herewith is a memorandum to Mr. Purvis, prepared by Mr. Ballantyne, outlining this situation. In summary, the Purchasing Board originally wished to purchase .30 caliber machine guns. The Army persuaded them that they should purchase at least some guns of .50 caliber, which is an improved army machine gun. The Army evidently insists, however, that its deliveries of the .50 caliber guns must be completed in 1941 but that the Army delivery schedules will be so arranged as to meet the peak requirements of the Purchasing Board.

In order to secure these .50 caliber guns, however, the purchasing Governments must put up \$2,500,000. Ballantyne raised the question as to what the United States policy was with respect to the Allies paying the full cost of plant expansion and tooling when the Army was also getting part of the product at the same time.

P.Y.

MEMORANDUM - To Arthur B. Purvis

Re Colts Machine Guns for Aircraft

Following visit of our representatives at the Ordnance Department in Washington on Monday and Tuesday new model gun, accessories and ammunition were released to the Allies. Thereafter representatives of Colts were called to the Ordnance Department on Wednesday.

We were told in confidence today the following:

1. United States Ordnance will defer their deliveries on machine guns of rifle caliber until 1942 in order that Anglo-French 1941 requirements may be met as now scheduled.
2. United States Ordnance will defer half their deliveries of caliber .50 machine gun in such a way that Anglo-French requirements for peak deliveries in certain months may be met as scheduled but United States deliveries of this size gun must be completed in 1941.
3. To accomplish this last item, Colts must have additional machines and machine tools to cost approximately \$2,500,000. This cost must be borne by the purchasing governments.

2.

The British Purchasing Commission representatives are conferring with Colts at Hartford tomorrow on necessary revision of contract including an option to use either commercial or United States Army models.

May 16, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Furn.

182

DATE

May 17, 1940

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

The "X" Corporation manufactures a motor using patented articles, processes, and designs which the United States wants produced in increased quantities for rapid delivery. The "X" Corporation is producing to capacity and, consequently, can not fill orders within the time required. The United States wants to make a contract with the "Y" Corporation which is in a position to fill orders quickly, under which the "Y" Corporation would manufacture the identical motor as the "X" Corporation and would use the same patented articles, processes and designs.

The question is, supposing the "X" Corporation refuses to license the "Y" Corporation to use its patents on reasonable terms, what can the United States do under existing legislation?

I.

The United States can make a contract with the "Y" Corporation to build the motor for delivery within the required time.

Even if the "Y" Corporation does not have the necessary patent rights, it can nevertheless go ahead and produce the motors for the United States without being liable for patent infringement to the "X" Corporation.

However, the "X" Corporation can sue the United States in the Court of Claims for compensation.

This procedure is made possible under the Act of June 25, 1910, as amended by the Act of July 1, 1918 (35 U.S.C. sec. 68), which provides that, if the United States causes to be manufactured for it an invention covered by a United States patent without the license of the owner, the remedy of the owner is to sue the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such manufacture or use.

The Supreme Court has held that the statute relieves a contractor entirely from liability of every kind for the infringement of patents in manufacturing anything for the Government, and that its purpose, as amended, was to stimulate contractors to furnish what is needed by the Government without fear of being liable for patent infringements. Richmond Co. v. United States (1927) 275 U.S. 331; Poland v. Ford Instrument Co., Inc. (C.C.A. 2d, 1940) 108 F. (2d) 762.

II

The United States does not have to compensate the "X" Corporation if the design used by the "Y" Corporation was originated by the winner of an aircraft or aircraft parts or aeronautical accessories competition and was paid for by the Government.

Under the Act of July 2, 1926 (10 U.S.C. sec. 310), as amended by Act of March 3, 1927, provision is made for competitions to encourage progress in the airplane industry. The Act provides that once the Government has paid the winner of such a competition for a design, or has paid a contractor for the furnishing of the winning aircraft or aircraft parts or aeronautical accessories, the Government may contract with anybody to have any of these items constructed according to the winning design without further compensation to the winner.

The holder of a patent on any features of such winning design is entitled to enjoy the exclusive rights under such patent against all other persons except the Government or its assignee.

E. J. F. H.

the designs or separable parts thereof of a winner, as authorized herein, with whom a contract shall not have been made for furnishing or constructing aircraft, aircraft parts or aeronautical accessories in accordance with his designs, then in either case any department of the Government shall have the right without further compensation to the winner to construct or have constructed according to said designs and use any number of aircraft or parts or accessories, and sell said aircraft or parts or accessories according to law as condemned material: Provided, That such winner shall, nevertheless, be at liberty to apply for a patent on any features originated by him, and shall be entitled to enjoy the exclusive rights under such patent as he may obtain as against all other persons except the United States Government or its assignee as aforesaid.

(c) The competitors in design competition mentioned in this section shall submit with their designs a graduated scale of prices for which they are willing to construct any or all or each of the aircraft, aircraft parts, and aeronautical accessories for which designs are submitted and such stated prices shall not be exceeded in the awarding of contracts contemplated by this section.

(f) If the Secretary of War or the Secretary of the Navy shall find that in his judgment none of the designs submitted in said competition is of sufficient merit to justify the procurement of aircraft, aircraft parts, or aeronautical accessories in accordance therewith, then he shall not be obligated to accept any of such designs or to make any payment on account of any of them. If the Secretary of the department concerned shall decide that the designs submitted by two or more competitors possess equal merit, or that certain features embodied in the designs of any competitor are superior to corresponding features embodied in the designs of any other competitor and such features of one design may be substituted in another design, the said Secretary shall in his discretion divide the contracts for furnishing and manufacturing the aircraft, parts, or accessories required, equitably among those competitors that have submitted designs of equal merit, or he may select and combine features of superior excellence in different designs in such manner as may in his judgment best serve the Government's interests and make payment accordingly to the several competitors concerned at fair and reasonable prices, awarding the contract for furnishing or constructing the aircraft, parts, or accessories to the competitor or competitors concerned that have the highest figures of merit in said competition.

(g) In case the Secretary of War or the Secretary of the Navy shall be unable to make contract as above authorized with a winner in said competition for furnishing or constructing aircraft, aircraft parts, or aeronautical accessories covered by the whole or part of the designs of such winner, or shall be unable to agree with a winner in the competition on a reasonable purchase price for the design of such winner with whom a contract may not be made, as aforesaid, he may retain such designs and shall advertise according to law for proposals for furnishing or constructing aircraft, or parts or accessories, in accordance with such designs or combinations thereof as aforesaid and, after all proposals are submitted, make contract on

such terms and conditions as he may consider the best in the Government's interests, with the bidder that he shall find to be the lowest responsible bidder for furnishing or constructing the aircraft, parts, or accessories required, but the said Secretary shall have the right to reject all bids and to advertise for other bids with such other and different specifications as he may deem proper.

(h) If, within ten days after the announcement of the results of said competition, any participant in the competition shall make to the Secretary of War or the Secretary of the Navy a reasonable showing in writing that error was made in determining the merits of designs submitted whereby such claimant was unjustly deprived of an award, the matter shall at once be referred by the Secretary of the department concerned to a board of arbitration for determination and the finding of such board shall, with the approval of the said Secretary, be conclusive on both parties. Such board of arbitration shall be composed of three skilled aeronautical engineers, one selected by the said Secretary, one by the claimant, and the third by those two, no one of whom shall have been a member of the board of appraisal in that competition.

(i) Any person, firm, or corporation that shall complain that his, their, or its designs hereafter developed relating to aircraft or any components thereof are used or manufactured by or for any department of the Government without just compensation from either the Government or any other source, may within four years from the date of such use file suit in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture after the date of this Act.

(j) Only citizens of the United States, and corporations of which not less than three-fourths of the capital stock is owned by citizens of the United States, and of which the members of the boards of directors are citizens of the United States, and having manufacturing plants located within the continental limits of the United States shall be eligible to be awarded any contract under this section to furnish or construct aircraft, aircraft parts or aeronautical accessories for the United States Government, except that a domestic corporation whose stock shall be listed on a stock exchange shall not be barred by the provisions of this section unless and until foreign ownership or control of a majority of its stock shall be known to the Secretary of War or the Secretary of the Navy, as the case may be, and no aliens employed by a contractor for furnishing or constructing aircraft, or aircraft parts, or aeronautical accessories for the United States shall be permitted to have access to the plans or specifications or the work under construction or to participate in the contract trials without the written consent beforehand of the Secretary of the department concerned.

(k) The Secretary of War or the Secretary of the Navy may at his discretion purchase abroad or in the United States with or without competition, by contract, or otherwise, such designs, aircraft, aircraft parts, or aeronautical accessories as may be necessary in his judgment for experimental purposes in the development of aircraft or aircraft parts or aeronautical accessories of the best kind for the Army or the Navy, as the case may be, and if as a result of such procurement, new and suitable designs considered to be the best kind for the Army

or the Navy are developed, he may enter into contract, subject to the requirements of paragraph (j) of this section, for the procurement in quantity of such aircraft, aircraft parts, or aeronautical accessories without regard to the provisions of paragraphs (a) to (e), inclusive, hereof.

(l) The manufacturing plant, and books, of any contractor for furnishing or constructing aircraft, aircraft parts, or aeronautical accessories, for the War Department or the Navy Department, or such part of any manufacturing plant as may be so engaged, shall at all times be subject to inspection and audit by any person designated by the head of any executive department of the Government.

(m) All audits and reports of inspection, made under the provisions of this section, shall be preserved by the Secretary of War or the Secretary of the Navy, as the case may be, for a period of ten years, and shall be subject to inspection by any committee of Congress, and the said Secretaries shall annually make a detailed and itemized report to Congress of all the departments' operations under this section, the names and addresses of all competitors, and of all persons having been awarded contracts and the prices paid for aircraft purchased and the grounds and reasons for having awarded such contracts to the particular persons, firms, or corporations, and all such reports shall be printed and held subject to public distribution.

(n) Every vendor of designs to the War Department or the Navy Department under the provisions of this section, and every contractor for furnishing or constructing for the War Department or the Navy Department, or both, aircraft or aircraft parts or aeronautical accessories, shall deliver to the Secretary of War or Secretary of the Navy, or both, when required by either or both, a release in such form and containing such terms and conditions as may be proscribed by the Secretary of War, the Secretary of the Navy, or both, of claims on the part of such vendor or contractor against the United States arising out of such sale or contract, or both.

(o) All or any appropriations available for the procurement of aircraft, aircraft parts, or aeronautical accessories, for the War Department or the Navy Department shall also be available for payment of the purchase price of designs and the costs of arbitration as authorized by this section.

(p) Any collusion, understanding, or arrangement to deprive the United States Government of the benefit of full and free competition in any competition authorized by this section, or to deprive the United States Government of the benefit of a full and free audit of the books of any person, firm, or corporation engaged in carrying out any contract authorized by this section, so far as may be necessary to disclose the exact cost of executing such contract, shall be unlawful, and any person, firm, or corporation that shall, upon indictment and trial, be found guilty of violating any of the provisions of this section shall be sentenced to pay a fine of not exceeding \$20,000, or to be imprisoned not exceeding five years, or both, at the discretion of the court.

(q) In the procurement of aircraft constructed according to designs presented by any individual, firm, or corporation prior to the passage of this Act, which designs have been reduced to practice and found to be suitable for the purpose intended, or according to

such designs with minor modifications thereof, the Secretary of War or the Secretary of the Navy, when in his opinion the interests of the United States will be best served thereby, may contract with said individual, firm, or corporation, at reasonable prices for such quantities of said aircraft, aircraft parts, or aeronautical accessories as he may deem necessary: *Provided*, That the action of the Secretary of War or the Secretary of the Navy, in each such case shall be final and conclusive.

(r) A board to be known as the patents and design board is hereby created, the three members of which shall be an Assistant Secretary of War, an Assistant Secretary of the Navy, and an Assistant Secretary of Commerce. To this board any individual, firm, or corporation may submit a design for aircraft, aircraft parts, or aeronautical accessories, and whether patented or unpatentable, the said board upon the recommendation of the National Advisory Committee for Aeronautics shall determine whether the use of such designs by the Government is desirable or necessary, and evaluate the designs so submitted and fix the worth to the United States of said design, not to exceed \$75,000. The said designer, individual, firm, or corporation, may then be offered the sum fixed by the board for the ownership or a nonexclusive right of the United States to the use of the design in aircraft, aircraft parts, or aeronautical accessories and upon the acceptance thereof shall execute complete assignment or nonexclusive license to the United States: *Provided*, That no sum in excess of \$75,000 shall be paid for any one design.

(s) The terms "winner" or "winners" as used in this section shall be construed to include not more than three competitors having the highest figures of merit in any one competition.

(t) Hereafter whenever the Secretary of War, or the Secretary of the Navy, shall enter into a contract for or on behalf of the United States, for aircraft, aircraft parts, or aeronautical accessories, said Secretary is hereby authorized to award such contract to the bidder that said Secretary shall find to be the lowest responsible bidder that can satisfactorily perform the work or the service required to the best advantage of the Government; and the decision of the Secretary of the department concerned as to the award of such contract, the interpretation of the provisions of the contract, and the application and administration of the contract shall not be reviewable, otherwise than as may be therein provided for, by any officer or tribunal of the United States except the President and the Federal courts.

Sec. 11. Under such rules and regulations as he may prescribe the President is hereby authorized to present, but not in the name of Congress, a medal to be known as the soldier's medal, of appropriate design, with accompanying ribbon, to any person who, while serving in any capacity with the Army of the United States, including the National Guard and the Organized Reserves, shall hereafter distinguish himself, or herself, by heroism not involving actual conflict with an enemy.

No more than one soldier's medal shall be issued to any one person; but for each succeeding deed or act sufficient to justify the award of the soldier's medal the President may award a suitable bar, or other suitable device, to be worn as he shall direct.

Sec. 12. Under such rules and regulations as he may prescribe, and notwithstanding the provisions of section 14 of this Act, the President is hereby authorized to present, but not in the name of Congress, a distinguished flying cross of appropriate design, with accompanying ribbon, to any person who, while serving in any capacity with the Air Corps of the Army of the United States, including the National Guard and the Organized Reserves, or with the United States Navy, since the 6th day of April, 1917, has distinguished, or who, after the approval of this Act, distinguishes himself by heroism or extraordinary achievement while participating in an aerial flight: *Provided*, That no person shall be eligible for the award of the distinguished flying cross for any act performed prior to November 11, 1918, except officers or enlisted men who have heretofore been recommended for but have not received the congressional medal of honor, the distinguished service cross, or the distinguished service medal and except those officers or enlisted men who displayed heroism while serving as instructors or students at flying schools. No more than one distinguished flying cross shall be issued to any one person, but for each succeeding act or achievement sufficient to justify the award of a distinguished flying cross the President may award a suitable bar or other suitable device to be worn as he shall direct. In case an individual who distinguishes himself shall have died before the making of the award to which he may be entitled, the award may nevertheless be made and the cross or the bar or other device presented to such representative of the deceased as the President may designate, but no cross, bar, or other device hereinbefore authorized shall be awarded or presented to any individual whose entire service subsequent to the time he distinguishes himself has not been honorable.

Sec. 13. Each enlisted or enrolled man to whom there shall be awarded the distinguished flying cross or the soldier's medal shall be entitled to additional pay at the rate of \$2 per month from the date of the act of heroism or extraordinary achievement on which the award is based, and each bar, or other suitable device, in lieu of the distinguished flying cross or the soldier's medal, as hereinbefore provided for, shall entitle him to further additional pay at the rate of \$2 per month from the date of the act of heroism or extraordinary achievement for which the bar or other device is awarded, and said additional pay shall continue throughout his active service, whether such service shall or shall not be continuous.

Sec. 14. That if any section or provision of this Act shall be held to be invalid, it is hereby provided that all other sections and provisions of this Act not expressly held to be invalid shall continue in full force and effect. No provision of this Act shall be retroactive and the provisions hereof shall take effect upon date of approval thereof, except as otherwise provided for herein, and all Acts or parts of Acts contrary to the provisions of this Act or inconsistent therewith be, and the same are hereby, repealed.

Approved, July 2, 1926.

[PUBLIC—No. 446—69TH CONGRESS]

[H. R. 10827]

An Act To provide more effectively for the national defense by increasing the efficiency of the Air Corps of the Army of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act for making further and more effectual provision for the national defense, and for other purposes," approved June 3, 1916, as amended, be, and the same is hereby, amended so that the Air Service referred to in that Act and in all subsequent Acts of Congress shall be known as the Air Corps.

SEC. 2. COMPOSITION OF THE AIR CORPS.—That section 13a of the Act entitled "An Act for making further and more effectual provision for the national defense, and for other purposes," approved June 3, 1916, as amended, be, and the same is hereby, amended by striking out the same and inserting the following in lieu thereof:

*"SEC. 13a. AIR CORPS.—There is hereby created an Air Corps. The Air Corps shall consist of one Chief of the Air Corps, with the rank of major general; three assistants, with the rank of brigadier general; one thousand five hundred and fourteen officers in grades from colonel to second lieutenant, inclusive; and sixteen thousand enlisted men, including not to exceed two thousand five hundred flying cadets, such part of whom as the President may direct being formed into tactical units or bands, organized as he may prescribe: *Provided*, That the Chief of the Air Corps, at least two brigadier generals, and at least 90 per centum of the officers in each grade below that of brigadier general shall be flying officers: *Provided further*, That in time of war 10 per centum of the total number of officers that may be authorized for the Air Corps for such war may be immediately commissioned as nonflying officers: *Provided further*, That as soon as a sufficient number can be trained, at least 90 per centum of the total number of officers authorized for the Air Corps for such war shall be flying officers: *Provided further*, That hereafter in time of peace in order to insure that the commissioned officers of the Air Corps shall be properly qualified flying officers and, for the purpose of giving officers of the Army an opportunity to so qualify, the Secretary of War is hereby authorized to detail to the Air Corps officers of all grades and such officers shall start flying training immediately upon being so detailed, but hereafter such officers shall not remain detailed to the Air Corps for a period in excess of one year or be permanently commissioned therein unless they qualify as flying officers: *Provided further*, That any officer who is specifically recommended by the Secretary of War because of special qualifications other than as a flyer may be detailed to the Air Corps for a period longer than one year, or may be permanently commissioned in the Air Corps, but such officers, together with those flying officers who shall have become disqualified for flying, shall not*

be included among the 90 per centum of flying officers: *And provided further*, That nothing in this Act shall be construed to limit the number of officers in each grade that may be detailed to the Air Corps for training as flying officers except that the total number of officers allotted to the Air Corps shall not be exceeded. Flying units shall in all cases be commanded by flying officers. Wherever used in this Act a flying officer in time of peace is defined as one who has received an aeronautical rating as a pilot of service types of aircraft: *Provided*, That all officers of the Air Corps now holding any rating as a pilot shall be considered as flying officers within the meaning of this Act: *Provided further*, That hereafter in order to receive a rating as a pilot in time of peace an officer or an enlisted man must fly in heavier-than-air craft at least two hundred hours while acting as a pilot, seventy-five of which must be alone, and must successfully complete the course prescribed by competent authority: *And provided further*, That in time of war a flying officer may include any officer who has received an aeronautical rating as a pilot of service types of air craft and also in time of war may include any officer who has received an aeronautical rating as observer. Officers and enlisted men of the Army shall receive an increase of 50 per centum of their pay when by orders of competent authority they are required to participate regularly and frequently in aerial flights, and when in consequence of such orders they do participate in regular and frequent aerial flights as defined by such Executive orders as have heretofore been, or may hereafter be, promulgated by the President: *Provided*, That nothing in this Act shall be construed as amending existing provisions of law relating to flying cadets. On and after July 1, 1929, and in time of peace, not less than 20 per centum of the total number of pilots employed in tactical units of the Air Corps shall be enlisted men, except when the Secretary of War shall determine that it is impractical to secure that number of enlisted pilots.

Enlisted men of the fourth, fifth, sixth, and seventh grades in the Air Corps who have demonstrated their fitness and shown that they possess the necessary technical qualifications therefor and are engaged upon the duties pertaining thereto may be rated as air mechanics, first class, or air mechanics, second class, under such regulations as the Secretary of War may prescribe. Each enlisted man while holding the rating of air mechanic, first class, and performing the duties as such shall receive the pay of the second grade, and each enlisted man while holding the rating of air mechanic, second class, and performing the duties as such shall receive the pay of the third grade: *Provided*, That such number as the Secretary of War may determine as necessary, not to exceed 14 per centum of the total authorized enlisted strength of the Air Corps, shall be rated as air mechanics, first class, or air mechanics, second class."

SEC. 3. TEMPORARY RANK FOR AIR CORPS OFFICERS.—The Secretary of War is hereby authorized to assign, under such regulations as he may prescribe, officers of the Air Corps to flying commands, including wings, groups, squadrons, flights, schools, important air stations, and to the staffs of commanders of troops, which assignment shall carry with it temporary rank, including pay and allowances

appropriate to such rank, as determined by the Secretary of War, for the period of such assignment: *Provided*, That such temporary rank is limited to two grades above the permanent rank of the officer appointed: *Provided further*, That no officer shall be temporarily advanced in rank as contemplated in this section unless the Chief of the Air Corps certifies that no officers of suitable permanent rank are available for the duty requiring the increased rank: *And provided further*, That no officer holding temporary rank under the provisions of this section shall be eligible to command outside of his own corps except by seniority under his permanent commission.

SEC. 4. CONNECTION OF PROMOTION LIST.—That the Secretary of War be, and he is hereby, directed to investigate and study the alleged injustices which exist in the promotion list of the Army and to submit to Congress on the second Monday in December, 1926, this study, together with his recommendations for changes, if any, in the present promotion list.

SEC. 5. AIR SECTIONS OF THE GENERAL STAFF.—That section 5 of the Act entitled "An Act for making further and more effectual provisions for the national defense, and for other purposes," approved June 3, 1916, as amended, be, and the same is hereby, amended by adding the following paragraph at the end thereof:

"That for the period of three years immediately following July 1, 1920, there is hereby created in each of the divisions of the War Department General Staff an air section to be headed by an officer of the Air Corps, the duties of which shall be to consider and recommend proper action on such air matters as may be referred to such division."

SEC. 6. FLYING PAY.—That section 20 of the Act of June 10, 1922 (Forty-second Statutes, page 632), as amended, be, and the same is hereby, amended by striking out the same and inserting the following in lieu thereof:

"Sec. 20. That all officers, warrant officers, and enlisted men of all branches of the Army, Navy, Marine Corps, and Coast Guard, when by orders of competent authority they are required to participate regularly and frequently in aerial flights, and when in consequence of such orders they do participate in regular and frequent flights as defined by such Executive orders as have heretofore been, or may hereafter be, promulgated by the President, shall receive the same increase of their pay and the same allowance for traveling expenses as are authorized for the performance of like duties in the Army. Exclusive of the Army Air Corps, and student aviators and qualified aircraft pilots of the Navy, Marine Corps, and Coast Guard, the number of officers of any of the services mentioned in the title of this Act who may be required by competent authority to participate regularly and frequently in aerial flights as defined by such Executive orders as have heretofore been, or may hereafter be, promulgated by the President shall not at any one time exceed 1 per centum of the total authorized commissioned strength of such service. Officers, warrant officers, and enlisted men of the National Guard participating in exercises or performing duties provided for by sections 92, 94, 97, and 99 of the National Defense Act, as amended, and of the Reserves of the services mentioned in the title

of this Act called to active duty shall receive an increase of 50 per centum of their pay when by orders of competent authority they are required to participate regularly and frequently in aerial flights, and when in consequence of such orders they do participate in regular and frequent aerial flights as defined by such Executive orders as have heretofore been, or may hereafter be, promulgated by the President and when such flying involves travel they shall also receive the same allowances for traveling expenses as are or hereafter may be authorized for the Regular Army: *Provided*, That when officers, warrant officers, and enlisted men of the National Guard are entitled to armory drill pay, the increase of 50 per centum thereof herein provided shall be based on the entire amount of such armory drill pay to which they shall be entitled for a calendar month or fractional part thereof, and the required aerial flights may be made at ordered drills of an Air Service organization, or at other times when so authorized by the President. Regulations in execution of the provisions of this section shall be made by the President and shall, whenever practicable in his judgment, be uniform for all the services concerned."

SEC. 7. APPOINTMENT OF CHIEF OF THE AIR CORPS.—That the third sentence of section 4c of the Act entitled "An Act for making further and more effectual provision for the national defense, and for other purposes," approved June 3, 1916, as amended, be, and the same is hereby, amended by adding thereto the following:

"*And provided further*, That during the period of seven years immediately following July 1, 1926, any appointment as Chief of the Air Corps shall be made from among officers of any grade of not less than fifteen years' commissioned service, and from those who have demonstrated by actual and extended service in such corps that they are qualified for such appointment; and as assistants from among officers of not less than fifteen years' commissioned service of similar qualifications: *Provided*, That the Chief of the Air Corps shall make recommendations to the Secretary of War for the appointment of his assistants."

SEC. 8. FIVE-YEAR AIR CORPS PROGRAM.—For the purpose of increasing the efficiency of the Air Corps of the Army and for its further development the following five-year program is authorized:

PERSONNEL.—The number of promotion-list officers now authorized by law in the grade of second lieutenant of the Regular Army is hereby increased by four hundred and three, and the number of enlisted men now authorized by law for the Regular Army is hereby authorized to be increased by six thousand two hundred and forty: *Provided*, That the increase in the number of officers and enlisted men herein authorized shall be allotted as hereinafter provided. The present allotment of officers to the Air Corps is hereby authorized to be increased by four hundred and three officers distributed in grades from colonel to second lieutenant, inclusive, and the present allotment of enlisted men to the Air Corps is hereby authorized to be increased by six thousand two hundred and forty enlisted men. The President is authorized to call to active service, with their consent, such number of Air Corps reserve officers as he may deem necessary, not to exceed five hundred and fifty, 90 per centum of

whom shall serve for periods of not more than one year, and 10 per centum for periods of not more than two years: *Provided*, That nothing contained in this section shall affect the number of reserve officers that may be called to active duty for periods of less than six months under existing law.

EQUIPMENT.—The Secretary of War is hereby authorized to equip and maintain the Air Corps with not to exceed one thousand eight hundred serviceable airplanes, and such number of airships and free and captive balloons as he may determine to be necessary for training purposes, together with spare parts, equipment, supplies, hangars, and installations necessary for the operation and maintenance thereof. In order to maintain the number specified above, the Secretary of War is hereby authorized to replace obsolete or unserviceable aircraft from time to time: *Provided*, That the necessary replacement of airplanes shall not exceed approximately four hundred annually: *Provided*, That the total number of airplanes and airships herein authorized shall be exclusive of those waiting salvage or undergoing experiment or service tests, those authorized by the Secretary of War to be placed in museums and those classified by the Secretary of War as obsolete: *And provided further*, That the total number of planes authorized in this section shall include the number necessary for the training and equipment of the National Guard and the training of the Organized Reserves as may be determined by the Secretary of War.

METHOD OF INCREASE.—The total increase in personnel and equipment authorized herein shall be distributed over a five-year period beginning July 1, 1926. Not to exceed one-fifth of the total increase shall be made during the first year, and the remainder in four approximately equal increments. The President is hereby authorized to submit to Congress annually estimates of the cost of carrying out the five-year program authorized herein: *Provided*, That a supplemental estimate for the fiscal year ending June 30, 1927, may be submitted to cover the cost of the first annual increment.

SEC. 9. That section 5a of the National Defense Act, as amended, be, and the same is hereby, amended by adding at the end of said section 5a the following:

"To aid the Secretary of War in fostering military aeronautics, and to perform such functions as the Secretary may direct, there shall be an additional Assistant Secretary of War who shall be appointed by the President, by and with the advice and consent of the Senate, and whose compensation shall be fixed in accordance with the Classification Act of 1923."

SEC. 10. (a) That in order to encourage the development of aviation and improve the efficiency of the Army and Navy aeronautical matériel the Secretary of War or the Secretary of the Navy, prior to the procurement of new designs of aircraft or aircraft parts or aeronautical accessories, shall, by advertisement for a period of thirty days in at least three of the leading aeronautical journals and in such other manner as he may deem advisable, invite the submission in competition, by sealed communications, of such designs of aircraft, aircraft parts, and aeronautical accessories, together with a statement of the price for which such designs in whole or in part will be sold to the Government.

(b) The aforesaid advertisement shall specify a sufficient time, not less than sixty days from the expiration of the advertising period, within which all such communications containing designs and prices therefor must be submitted, and all such communications received shall be carefully kept sealed in the War Department or the Navy Department, as the case may be, until the expiration of said specified time, and no designs mailed after that time shall be received or considered. Said advertisement shall state in general terms the kind or aircraft, parts, or accessories to be developed and the approximate number or quantity required, and the department concerned shall furnish to each applicant identical specific detailed information as to the conditions and requirements of the competition and as to the various features and characteristics to be developed, listing specifically the respective measures of merit, expressed in rates per centum, that shall be applied in determining the merits of the designs, and said measures of merit shall be adhered to throughout such competition. All designs received up to the time specified for submitting them shall then be referred to a board appointed for that purpose by the Secretary of the department concerned and shall be appraised by it as soon as practicable and report made to the Secretary as to the winner or winners of such competition. When said Secretary shall have approved the report of said board, he shall then fix a time and place for a public announcement of the results and notify each competitor thereof; but if said report shall be disapproved by said Secretary, the papers shall be returned to the board for revision or the competition be decided by the Secretary, in his discretion, and in any case the decision of the Secretary shall be final and conclusive. Such announcement shall include the percentages awarded to each of the several features or characteristics of the designs submitted by each competitor and the prices named by the competitors for their designs and the several features thereof if separable.

(c) Thereupon the said Secretary is authorized to contract with the winner or winners in such competition on such terms and conditions as he may deem most advantageous to the Government for furnishing or constructing all of each of the items, or all of any one or more of the several items of the aircraft, or parts, or accessories indicated in the advertisement, as the said Secretary shall find that in his judgment a winner is, or can within a reasonable time become, able and equipped to furnish or construct satisfactorily all or part, provided said Secretary and the winner shall be able to agree on a reasonable price. If the Secretary shall decide that a winner can not reasonably carry out and perform a contract for all or part of such aircraft, parts, or accessories, as above provided, then he is authorized to purchase the winning designs or any separable parts thereof if a fair and reasonable price can be agreed on with the winner, but not in excess of the price submitted with the designs.

(d) After contract is made, as authorized by any provision of this section, with a winner in such design competition for furnishing or constructing aircraft, aircraft parts, or aeronautical accessories in accordance with his designs and payment is completed under said contract, and after the purchase of and payment for

May 17, 1940

My dear Mr. Secretary:

I am inclosing herewith, for your records, copy of a memorandum in regard to airplane engines which was prepared in my office by General Brett and Major Lyon, and Captain Kraus.

Yours sincerely,

The Honorable
The Secretary of War.

May 17, 1940

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Assistant Secretary of War.

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May 17, 1940

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Hon. Louis M. Compton,
Assistant Secretary of Navy.

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Yours sincerely,

Hon. Louis M. Compton,
Assistant Secretary of Navy.

May 17, 1940

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Yours sincerely,

Hon. Louis M. Compton,
Assistant Secretary of Navy.

May 17, 1940

My dear Mr. Hinckley:

I am inclosing herewith, for your confidential information, copy of a memorandum in regard to airplane engines which was prepared in my office by General Brett and Major Lyon, and Captain Kraus.

Yours sincerely,

Hon. Robert H. Hinckley,
Civil Aeronautics Authority.

May 17, 1940

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Hon. Robert H. Hinkley,
Civil Aeronautics Authority.

May 17, 1940
8:49 a.m.

Harry
Woodring: Yeah, Henry.

H.M.Jr: Good morning.

W: Good morning.

H.M.Jr: Taking up your offer that when I want something,
need help, to call you direct.

W: Yeah.

H.M.Jr: Two things, last night in talking with the President
I told him about -- he told me about -- we had to
do something to get the French some planes. They've
been fussing around with it and they came through
with a suggestion that could they, on some basis
or other, get the P-36's that we have now on hand
and then they'd put in an order for newer planes
and give them to us later, you see?

W: Um-hm.

H.M.Jr: I spoke to General Marshall about it at a little
after seven this morning and the President said
to call him and he said he'd work on it, but I
wanted to tell you about it so you'd know it first-
hand. You see?

W: These P-36's have already been delivered, you mean?

H.M.Jr: Yeah. The thought being that they'd place an order
for a newer plane and give us a newer plane to take
the places of these. You see?

W: Um-hm. Did Marshall -- of course he liked the idea,
I imagine, of getting the new.....

H.M.Jr: He made no comment. He said he'd go to work on it
and let me know.

W: About.....

H.M.Jr: Hello?

W: Yes, about four or five months ago I think either
the Finns or someone put up that same proposi-
tion to us and I think they told us some law under

which they thought we could do it, but I believe our the general rule that under that law that we had no right to -- to sell Government property.

H.M.Jr: Well, the thought would not be to sell it.

W: No, I know, and I think that they -- I think this law that they cited said that we might exchange. You see what we'd be doing under -- under this proposition, as I understand it, would be exchanging it with an American Aviation Company.

H.M.Jr: Something like that.

W: And whatever they did -- I think that's the way it has to be done and whatever they did with the P-36's wouldn't -- wouldn't matter to us. See?

H.M.Jr: No, you already have these inferences.

W: Yeah, we had -- well, the point is that we wouldn't be disposing of any armament or anything belonging to the United States Army to a foreign Government. I think there's a law against that, but if we turned them in to the Curtiss Wright people.....

H.M.Jr:and they gave us.....

W:and they gave us new ones, whatever they'd do with the old P-36's is no business of ours. See?

H.M.Jr: Right. That's -- well, that's.....

W: I'll talk to Marshall this morning -- right away and.....

H.M.Jr: I just got a note that he's coming to see me at 9:15. I don't know why but he -- he just.....

W: Well, that's probably it.

H.M.Jr: But I -- whatever I do I'm going to let you know. I may not always -- that's what you'd like and what I'd like.

W: I think -- I think it will work out better, don't you?

H.M.Jr: I'm sure it would.

W: All right.

H.M.Jr: Now the other thing.

W: Huhhuh.

H.M.Jr: Yesterday afternoon, I had Brett over here.

W: Uhuh.

H.M.Jr: And I've asked the Navy and we're working out a program on the engine production.

W: Huhhuh.

H.M.Jr: Now, do you want to follow that yourself?

W: I'd like to because I just feel, I think I think along the same lines you do, and all, I thought maybe that if I did follow it I could contribute something.

H.M.Jr: Well, I'm sure - well then, how do you want me to do -

W: I think if you just work right through Brett, and ask Brett to keep me informed you won't have to bother - it's sufficient.

H.M.Jr: Right.

W: All right.

H.M.Jr: And - I mean frankly, I never know, you know, between you and Louis, where I stand, but I'm going to work with you the first instance and then -

W: Well you'll find I'm not very - if I can contribute to anything by your doing it that way I'm glad to do it, if you don't why you won't find me very touchy.

H.M.Jr: Well I'm going to work with you in the first instance.

W: All right.

H.M.Jr: You're the head of the Department and tomorrow or the next day maybe the President won't work through me so it's all the same.

- W: Yes. Well, let's try it that way and then see if it doesn't work out to everybody's advantage.
- H.M.Jr: Well I'm going to make the effort Harry.
- W: All right Henry, and I appreciate it, and I'll do my part.
- H.M.Jr: Now as I say, I just got a note that Arnold and Marshall are on their way over.
- W: Well that's probably what it's about. You can tell them you talked to me and I said that I would like to see it worked out.
- H.M.Jr: Swell. Thank you.
- W: All right.
- H.M.Jr: Thank you lots.

May 17, 1940²⁰⁴
9:53 a.m.

H.M.Jr: Hello.

Operator: Mr. Woodring.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Harry.

Harry
Woodring: Yes.

H.M.Jr: General Arnold is still here and General Marshall has gone up on the Hill.

W: Yes.

H.M.Jr: Now I was just talking with General Arnold about this thing that we worked on with Brett yesterday, about getting Wright & Company and Pratt & Whitney to license on the smaller engines.

W: Huhhuh.

H.M.Jr: And General Arnold said he thought he was going to take that up with them on Monday. Now I made this suggestion, and I realize that I'm asking for punishment.

W: A little louder.

H.M.Jr: I'm asking for punishment.

W: Yes.

H.M.Jr: It's the job of getting Wright and Pratt & Whitney to give the licenses, we're willing to take that into

W: Yes, well I can - better handle it that way.

H.M.Jr: And once they give in a license the actual procurement would be then done by the Army.

W: Huhhuh.

H.M.Jr: But I think that the on everything else we've got to put in, is the fact that Army has tried four or five months to do it and been unable to do it.

- 2 -

W: Yes.

H.M.Jr: Plus the power of the Allied Purchasing behind me.

W: Uh-huh.

H.M.Jr: I'm willing to try it.

W: Well I think it ought to be handled that way anyhow.

H.M.Jr: And then also this thing of trying to get, this confidential thing, the deal I had on it, trying to get Chrysler Company to buy the Continental Motors. See?

W: Yes.

H.M.Jr: And get them in the thing so you would have two people in the liquid cooled instead of just one.

W: Right.

H.M.Jr: I'm willing to try both of those.

W: Well, I think it better. It meets with my approval entirely.

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

W: You tell Brett and Arnold both that I said that not to do anything on that until they hear further from you.

H.M.Jr: Well now, what about Louis Johnson on this?

W: Well that, I don't think.....

H.M.Jr: Will you tell -- say something to Louis?

W: What?

H.M.Jr: Will you speak to Louis or what? Or should I just deal with you and General Arnold?

W: I think with us because he's not doing anything on it, is he?

H.M.Jr: I don't know. Let me ask General Arnold. He says as far as he knows, he doesn't even know anything about it.

- 3 -

W: Well then, just skip it, and go ahead and handle it.

H.M.Jr: Well, what I'll do is, you decide when I have these people in who from the Army should sit at my side.

W: Well I think, I think Burns.

H.M.Jr: You think that.

W: Yes, I'll tell you why. I think I can say, just over the phone to you, I think he can handle it better than Arnold can.

H.M.Jr: O. K. But I'll have somebody representing the Army, at my side, when I talk to these people.

W: And if on the first meeting you want me around, sit beside, for the first meeting, to give our approval of it.

W.M.Jr: I'd love it.

W: O.K.

H.M.Jr: Thank you.

May 17, 1940.
10:02 a.m.

H.M.Jr: Hello.

Operator: Louis Johnson.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Louis Johnson: Hello.

H.M.Jr: Louis?

J: Yes, Mr. Secretary.

H.M.Jr: Got a couple of minutes?

J: Yes, siree.

H.M.Jr: Take me a few minutes to tell you what I've been doing. I was with the President last night, at from five to six, and we went over some of the stuff, and earlier, as you know, you and Brett over here and I had Captain Kraus of the Navy. Did you see a copy of the memorandum they gave me?

J: No.

H.M.Jr: You did not?

J: No.

H.M.Jr: Well, I'll have a copy made and send it over to you right away. Now.....

J: Memorandum on what?

H.M.Jr: On this question of engines which I showed to the President, I mean I'd like to send it over and see what you think of it, you see? Now, here's the thing, the President wants me to continue to help on this whole question, you see?

J: Yes.

H.M.Jr: And I'm personally concentrating on the engine stuff, and he also has given me, last night, this question of trying to get some planes immediately for the Allies, you see?

- J: Yes.
- H.M.Jr: And I called General Marshal, at the President's suggestion, early this morning, and he dropped in before he went up on the Hill, and he's very much worried about whether we can or cannot, you see, and after talking to him and listening to him I've got grave doubts whether we can spare anything. Now, Arnold was with him and he told me that he was going to see the airplane people on Monday.
- J: That's right.
- H.M.Jr: And the suggestion that I made, and I've already talked to Mr. Woodring about it is this. That I'd like to be helpful in getting Pratt & Whitney and Wright to license other companies in the lower horse powers. That's what Brett and Kraus seem to think - what was that design. And what I'm trying to also do, and I've showed this all to the President, very confidentially, is to try to get Chrysler to buy the Continental engines, see. Hello.
- J: That would be fine. That's a step, constructive step on the theory I was advocating there the other day, and somebody with a lot of money getting in behind them.
- H.M.Jr: Right. Now what I'd like to do is to send this over to you. If you say to me you object to my helping along these particular lines, I'll drop it. Hello?
- J: What do you mean if I object?
- H.M.Jr: Well I mean if you feel that you could do it better.
- J: Mr. Secretary, wait a minute. Let's you and I understand each other.
- H.M.Jr: Yes.
- J: By statute, this is my business.
- H.M.Jr: Yes.
- J: By executive direction, the President wants you to come in and help.
- H.M.Jr: Right.

- 3 -

- J: I told the press, one day, I welcomed that help.
- H.M.Jr: Right.
- J: And if you and I haven't been getting along I don't know it.
- H.M.Jr: Well I've been getting along.
- J: And any message you leave with Mr. Woodring, I haven't gotten, he never gives me any messages.
- H.M.Jr: Well, that's - Louis, I'm not a fool and neither are you.
- J: I thought maybe you felt that I wasn't going along with something or something you gave Mr. Woodring. He's given me no messages for five or six months, and I don't know -
- H.M.Jr: Well that's why, I mean if the situation wasn't so tense, the President wouldn't need me on this, and I could be doing my own work. Hello.
- J: Yes, well don't the President know that I'm just loyal to him.
- H.M.Jr: Oh he hasn't - there's been no question, but I've got to call up you and then I've got to call up Woodring you see.
- J: Well it isn't his business but I'm glad for you to call him too up, I've taken no offense at anything. I don't know just quite what's worrying you Mr. Secretary. I've been trying to play ball with you.
- H.M.Jr: I'm not worried about you and me, but I never know - anyway I know where I stand with the President.
- J: At least I haven't - and I know where you stand with him too. I only wish I stood half as good.
- H.M.Jr: Well -
- J: But I haven't done anything that you thought wasn't playing ball, I'm trying to get
- H.M.Jr: I've no complaints. Hello.

- 4 -

J: Yes.

H.M.Jr: I have no complaints, the only complaint I have is what it takes out of me physically to do this.

J: Yeah.

H.M.Jr: Well now -

J: Well now this meeting, Tuesday or Monday morning, I told - Arnold phoned me about holding it, I told him to call it. I told you about it, I know I was talking to Sullivan early this morning and I told him about it.

H.M.Jr: Good.

J: You didn't feel that you were -

H.M.Jr: No, no.

J: Why don't you send Young over. I'd rather not have Collins there because -

H.M.Jr: What I'd like to do -

J: What I'd like for them to feel is that this is War Department business in which the Treasury is coming along and cooperating, we're bringing together. I realize that the club we've got to use over them. Eventually I've got to ask you to use it so I'd like for you to have somebody like Young and I like that fellow, sitting in and let you know how this thing goes on the Monday meeting. How would that work?

H.M.Jr: Well, that would work all right, but I'd like to do part of it a little bit different, you see?

J: Yes, what's that?

H.M.Jr: The part of getting Pratt & Whitney and Wright to give licenses, I'd like to handle it myself in my own office with you with me, see, just the licensing part. When it gets to giving the orders, that's up to the War Department, you see?

J: Yes.

H.M.Jr: Because they fooled the War Department.

J: You mean in this Monday conference, the license of the people, you'd rather that would be just held, - you and myself to talk with them.

H.M.Jr: That's right.

J: Grand.

H.M.Jr: Just that part and in the afternoon -

J: Well Mr. Secretary, that don't mean I'm going to let you out on helping force a club on - there are only two people that won't let you and myself write the ticket. One of those is Fleet of Consolidated.

H.M.Jr: Yes.

J: I can make him behave and the other one is Martin - both of us will have trouble making him behave. So, I'm not going to let you out and maybe sitting on him if it gets in trouble.

H.M.Jr: Louis could I call you back in a minute? The White House is calling me.

J: Yes.

H.M.Jr: Can I call you back in a minute?

J: Fine.

H.M.Jr: Right.

H.M.Jr: Hello

Operator: Louis Johnson.

H.M.Jr: Hello.

Louis Johnson: Yes sir.

H.M.Jr: Louis, what I'd like to do is this. I'd like to - at ten o'clock, in my office, see ^{Mr.} Vaughn and Wilson. Hello - hello.

J: Yes, I heard. Ten o'clock, when?

- 6 -

H.M.Jr: Monday.

J: Mr. Secretary, don't make it then. That's the same hour we've called this other conference.

H.M.Jr: Oh, well. I don't have to have it the same hour. Well how about in the afternoon then.

J: That'll be fine. I'll - we'll have a preliminary meeting at nine or eight-thirty if you want.

H.M.Jr: No, the licensing thing will take - they'll take couple - I can - all right, nine o'clock.

J: That's grand. I think that's better to put them on the spot on that before we go into the other conference.

H.M.Jr: At nine o'clock.

J: Nine o'clock Monday.

H.M.Jr: Well, I'm going to call them direct and tell them what it's for, what I'm going to ask of them. Hello?

J: Yes.

H.M.Jr: See, so they'll be prepared.

J: Well, let them know it's both of us so you don't weaken our influence with them.

H.M.Jr: I'll tell them it's both of us and I'll also tell them that you're going to be here - hello.

J: Yes.

H.M.Jr: And Woodring said he may want to come to, so there you are.

J: (laughs), Well - that's all right, if he wants to.

H.M.Jr: Well Louis, he is Secretary of War.

J: Sure. That's all right if he wants to.

H.M.Jr: But will you put it down at nine o'clock.

J: Fine. I've noted it.

- 7 -

H.M.Jr: And I'm going to confine myself, we're not weakening you, we're giving you everything we've got plus all the purchasing power of the Allies besides.

J: Yes.

H.M.Jr: And I'll tell them I talked it over with the War Department and I'm going to put it this way that the President and the War Department would like me to do this part of it.

J: That's fine.

H.M.Jr: See?

J: That's fine.

H.M.Jr: See. And all I want is the license to discuss with them to get to break this licensing thing. Hello?

J: Yes.

H.M.Jr: And then in the afternoon I'm going to try to get the President of Chrysler to come in.

J: That's good.

H.M.Jr: O.K.

J: That's fine.

H.M.Jr: See? Now, - and I'll give you everything I've got.

J: Fine.

H.M.Jr: Cheero.

J: Thank you very much Mr. Secretary.

H.M.Jr: Goodbye.

J: Goodbye.

May 17, 1940
10:58 a.m.

Curtiss-Wright

H.M.Jr: Hello.

Operator: Mr. Guy Vaughn.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

Guy Vaughn: Hello.

H.M.Jr: Mr. Vaughn.....

V: Yes, Mr. Morgenthau.

H.M.Jr:how are you?

V: Fine, how are you?

H.M.Jr: I'm very well. Mr. Vaughn, I'm calling you after having had a talk with the President and also with the Army and Navy.

V: Yes.

H.M.Jr: And I would like to have a chance to talk with you and I want to let you know what it is before you come down, you see?

V: Yes, sir.

H.M.Jr: We down here feel in order to get this engine production going as a part of the program, we would like to have Curtiss Wright and Pratt and Whitney each license another company to manufacture your engines between the 400 and 500 horsepower class.

V: In the 400 and 500 horsepower class.

H.M.Jr: Yes.

V: Yes.

- 2 -

H.M.Jr: Now, we've worked out a program and what we would like to do is to ask Curtiss Wright and to say -- I haven't got the -- what the -- they gave me between the 400 and 600 horsepower. They're going to specify the particular engine this afternoon. Hello?

V: Yes, sir.

H.M.Jr: And I wondered if you could be thinking about that. What you think would be fair from your standpoint and also from the Government's standpoint.

V: Well, I'd be very glad to come down any time you want and I can tell you now I will cooperate with you in every possible way.

H.M.Jr: Wonderful! Now, let me ask you this. Would it be embarrassing for you to see me with Pratt and Whitney present or would you rather see me alone?

V: It wouldn't make any difference, Mr. Morgenthau. Whatever you would like to arrange yourself. I -- my story is open to the world at any time and all we want is just whatever is fair.

H.M.Jr: Well, the way I feel is this. They want the kind of -- a big meeting Monday morning at nine o'clock at which the Secretary of War and Navy will most likely be present. Hello?

V: Monday morning at nine o'clock. Yes, sir.....

H.M.Jr: But I wanted to have a little dress rehearsal with you first.

V: All right.

H.M.Jr: And what I had in mind was having you come to my house for supper say Sunday night.

V: Yes, sir.

H.M.Jr: Say at 7:30.

V: At 7:30 at your house.

H.M.Jr: Eastern Standard Time.

- 3 -

V: That's -- yes, that's Washington time.

H.M.Jr: Yeah. And we live at 2211 - 30th.

V: 22.....

H.M.Jr:11.....

V:11.....

H.M.Jr:30th Street.

V:30th Street.

H.M.Jr: Yes, and we live off -- we're just off Massachusetts Avenue.

V: Yes, sir.

H.M.Jr: See? And then.....

V: I'll be there Sunday evening at that time.

H.M.Jr: Yes, and then we'd -- there'd be a meeting -- another meeting at my office at nine o'clock Monday morning at which the Secretary of the War and Navy would be present.

V: Yes.

H.M.Jr: But I didn't -- I thought we might work out some of the details first.

V: All right. Well, I -- you can work that out in any number of ways.

H.M.Jr: Right.

V: And it's only a question of negotiating with whoever it may be or telling you our story and having your suggestions on it.

H.M.Jr: Well, I'd like to hear your story first, and -- but it's in that -- that's the group that we'd like to get you to license one other manufacturer. And we'd like to do it on a basis that is fair to you.

V: Yes, sir. Well, I don't -- I don't know why something can't be worked out along those lines, and

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as I say, we're just delighted to cooperate in any program that you have in mind.

H.M.Jr: And I'll look forward to seeing you at 7:30 Sunday night at my house and we'll give you some supper.

V: Yes, sir.

H.M.Jr: Here in Washington.

V: All right, Mr. Morgenthau.

H.M.Jr: Thank you.

V: Thank you very much.

May 17, 1940
11:08 a.m.

H.M.Jr: Hello. Hello. Hello.
Operator: Yes, sir.
H.M.Jr: Have you got Mr. Wilson.
O: He's coming right on.
H.M.Jr: Well, call me when you get him.
O: All right.

Wanted Aircraft Log

11:09 a.m.

H.M.Jr: Hello.
O: Go ahead.
H.M.Jr: Hello.
Eugene E. Wilson: Yes, sir.
H.M.Jr: Mr. Wilson.
W: Yes, sir.
H.M.Jr: How are you?
W: Fine, and you, Mr. Secretary.
H.M.Jr: Very well.
W: Good.
H.M.Jr: Mr. Wilson, last evening I had a long talk with the President on this engine program.
W: Yes, sir.
H.M.Jr: And we feel that that is the place where we should start first. Now, I've also had a long conference with the Army and Navy and I wanted to tell you along the lines that we were thinking about. We have a program and I'd like to explain to you.

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Part of the program would be to ask your company to license one other company to manufacture an engine -- one of your engines in the 400 to 500 horsepower class.

W: Yes.

H.M.Jr: -And I wanted you to be thinking about that. Hello?

W: Yes.

H.M.Jr: And on what basis it -- your company would be prepared to go along with the Government.

W: Yes, sir.

H.M.Jr: Now, this is what we had in mind. There's to be a sort of a formal meeting at my office Monday at nine o'clock where the -- all the brass hats will be present, but I'd like to have an informal meeting with you Sunday night before that.

W: Right.

H.M.Jr: Hello?

W: Yes, sir.

H.M.Jr: Now, let me ask you a question. Would you feel free to talk perfectly frankly on the same things -- because I'm asking the same thing of Guy Vaughn -- if he was there also?

W: Oh, yes.

H.M.Jr: You would?

W: Yes, sir.

H.M.Jr: Well then, if that is so, if you'd come to my house for supper Sunday night at seven-thirty.

W: Right.

H.M.Jr: Eastern Standard time, I live at 2211 - 30th Street.

W: Right.

H.M.Jr: Just off Massachusetts Avenue.

W: Right.

H.M.Jr: And I'd like to talk -- Mr. Vaughn said that -- has told me after -- I got him first -- he feels that he's ready to go along on any basis that's fair.

W: Right.

H.M.Jr: And I'm sure you'll do the same, won't you?

W: Right.

H.M.Jr: And I'll explain the whole program, just what we have in mind, but as I say, part of it is -- a piece of it is asking each of you companies -- two companies to license one other company to make an engine in the 400 to 500 horsepower class.

W: Right.

H.M.Jr: Now -- and if you'd be prepared to tell me what you think is fair so that we can listen and then -- then I can count on your cooperation?

W: Yes, sir, and I'll be there.

H.M.Jr: Fine, and then in the -- Monday morning at nine o'clock the Army and Navy brass hats will be here and we'll -- I'd like to be prepared at that time.

W: Yes, sir. All right, sir. I'll be very happy to be at supper and I'll be all prepared to talk with you at that time.

H.M.Jr: Thank you so much.

W: Thank you, sir.

May 17, 1940
11:25 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Louis
Compton: Good morning, Mr. Secretary. I'm sorry I wasn't at my desk when you called first. This is Louis Compton.

H.M.Jr: Yes. Compton, let me tell you what I've been doing and I wish you'd keep Mr. Edison informed. Hello?

C: I will, yes, sir.

H.M.Jr: Yesterday your office was kind enough to send Captain Kraus over.

C: Yes, I know that.

H.M.Jr: And he and Brett worked out a memorandum, a copy of which is on the way over to you now by hand.

C: Fine.

H.M.Jr: In that program the suggestion was that we ask Pratt and Whitney and Curtiss, each to license one other company to manufacture an engine in the 400 to 600 horsepower class.

C: Yes.

H.M.Jr: I have already talked to Vaughn and to Wilson, and they say they will be glad to cooperate.

C: Fine.

H.M.Jr: The thing that they tell me, the Army tells me they've tried for five months to get it but been unable to get it.

C: Fine.

H.M.Jr: Now, Louis Johnson called a meeting at ten o'clock of the whole industry.

C: I - this morning?

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H.M.Jr: For Monday.

C: For Monday.

H.M.Jr: Yes.

C: Yes.

H.M.Jr: And I have talked with both Mr. Woodring and Mr. Johnson.

C: Yes.

H.M.Jr: And they, I think, will both come to my office at nine o'clock on Monday. Hello.

C: Nine A.M. Monday, yes sir.

H.M.Jr: To discuss this matter with these two representatives. And -

C: That's Pratt-Whitney and Curtiss.

H.M.Jr: Just those two, just on the licensing end. And I'd like - be very glad if Mr. Edison or you, or both of you, care to come. Hello.

C: Yes. Well now, Mr. Edison, they've got a Primary day in Jersey, and he's got to register.

H.M.Jr: Well -

C: So, and I'll cover it myself.

H.M.Jr: Would you?

C: Shall I bring Kraus with me?

H.M.Jr: I think if you'd bring Kraus, would be swell, I don't know whether you want Towers or not.

C: Well, I'll call up Admiral Towers and tell him about it, and ask him to get Kraus for me, and then if wants to come it'll be all right to bring him.

H.M.Jr: Yes, -

C: All right, fine.

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H.M.Jr: And in the meantime - hello.

C: Yes sir.

H.M.Jr: They didn't tell me, they said four to six hundred horsepower, but they didn't say which one.

C: Yes.

H.M.Jr: Maybe Kraus and Brett could get together.

C: Yes.

H.M.Jr: And decide which Curtiss engine and which Pratt-Whitney they wanted, so they get right down to brass tacks you see.

C: Well now, Brett is the Army man isn't he?

H.M.Jr: Yes.

C: I see. All right sir, well I'll be there at nine o'clock and then the meeting is in Mr. Johnson's office at ten, but he'll let me know if he wants me there I suppose.

H.M.Jr: Well, I'm not running the staff. I had a long talk with the President and on the question of the licensing, I'm going to handle that for him.

C: I see.

H.M.Jr: This other thing, I don't know what Johnson has in mind. Now one other thing which I want to tell you. We're - very confidentially - we're going to try and get Chrysler to buy the Continental Engine Company.

C: Yes.

H.M.Jr: You see?

C: Yes sir.

H.M.Jr: Because the Army says it's a great engine.

C: It is a good engine, yes sir. I know it -

H.M.Jr: And the Continental is busted.

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- C: I know they are.
- H.M.Jr: And then if we could get Chrysler to do that, you see?
- C: Yes, that would be a good move.
- H.M.Jr: And then put their things - but we want to keep that quiet.
- C: Oh yes, it's got to be quiet, sure, yes, sir.
- H.M.Jr: So -- then I'll look forward to seeing you at nine o'clock.
- C: Yes, sir. And at Cabinet meeting, if you're there a few minutes early I want to give you a couple of report - one on powder and one on this.....
- H.M.Jr: Well, I can't get there much earlier because Harry Hopkins has already asked me to come fifteen minutes earlier, but I'd like to get it.
- C: Well, I'll have this in such shape that I can just hand it to you and you can read it at your leisure on powder and on these machine tools.
- H.M.Jr: Yes, but.....
- C: Including that big lathe.
- H.M.Jr: I don't -- Louis Johnson as I say, is seeing the industry, but I don't know -- but this question of licensing, which everybody has fallen down on so far, the President asked me to handle that particular end.
- C: Well, that's fine, and I'm glad you're going to do that, and I'll be glad to work with you on it.
- H.M.Jr: And as I say, when it gets down to the action of purchasing why that's something else.
- C: All right, sir. Thank you very much, Mr. Secretary. Goodbye.

May 17, 1940.
11:25 a.m.

H.M.Jr: Hello. Hello.

Operator: Go ahead.

K.E.

Keller: Good morning Mr. Secretary.

H.M.Jr: How are you?

K: I'm fine thank you. I've been working quite steadily on this thing. Let me ask you Mr. Secretary, is it the thousand horsepower engine that you're -

H.M.Jr: That's it, it's known as the flat engine.

K: Yes.

H.M.Jr: It's a thousand horse, but I understand they either have or can build a fifteen hundred horse -

K: Yes.

H.M.Jr: And that's what the Army is interested in.

K: I see. Well now, this is what I find on this thing. That they have this work up there, six million dollars in round figures. They've got a market probably between ten and twelve million dollars.

H.M.Jr: Yes.

K: They've got three million shares of stock outstanding and about twenty-two thousand holders.

H.M.Jr: Yes.

K: That's stock. The largest owner of stock has seventy-one thousand shares, fellow by the name of J. H. Feering, who is on the Board of Directors, he's an original stockholder from the beginning of the company.

H.M.Jr: Yes.

K: A fellow by the name of Reese, President, fellow by the name of Vivien who was put on there by the -
of New York and a fellow by the name of Togan who was a son of the former President.

H.M.Jr: Can you talk a little bit louder please.

- K: Fellow by the name of Togan who was the son of the former President, fellow by the name of Cobb who is Vice President in charge of engineering.
- H.M.Jr: Yes.
- K: They've lost a number of good men recently. They're in -- they've got a million and a quarter of RFC loans, and they're in the process now of working with the SEC to float a subsidiary company to take over this aircraft division.
- H.M.Jr: I see.
- K: And such projects.
- H.M.Jr: Yeah.
- K: In which they propose to sell seven hundred and fifty thousand dollars in new money on the basis that the parent company of Continental will own 51% and they'll sell forty-nine per cent interest.
- H.M.Jr: Yeah.
- K: And for their 51% they're throwing in their Taft development work on the aircraft engine plus fifty thousand dollars' worth of tools and the use of some space in the Detroit plants.
- H.M.Jr: Yes.
- K: All of our space. Now, I also find that all of their airplane engine work was done in their tools room.
- H.M.Jr: Yes.
- K: I find also that they have sold quite a lot of machinery to raise money over the last three or four years.
- H.M.Jr: Yes.
- K: They're practically unequipped.
- H.M.Jr: I see.

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- K: Now, stock seems to have quite a high speculative value.
- H.M.Jr: Yes.
- K: It looks like a terrific amount of money to spend to get a of an engine that they've built one or two of and now want to expand into life sizes.
- H.M.Jr: Yes.
- K: With no equipment and few men, none of which seem to be of -- remarkably outstanding, although I understand they have a man by the name of Cubek that's a pretty good man.
- H.M.Jr: Yes.
- K: The man who was President of the Company, Reese, was former purchasing agent for the Durant Motors and came into the Continental in the purchasing department and was made assistant to the President, and he worked out the deal that retired Angel and took the job over. Now, so much for that.
- H.M.Jr: Yes.
- K: Now, I sighted another outfit right after I talked to you last night to explore things from the standpoint of what can be done in getting an option on the company, see?
- H.M.Jr: Yes.
- K: And a very trustworthy man that I know personally here in Detroit.
- H.M.Jr: Yes.
- K: And he had a man working all night on getting the data together for him.
- H.M.Jr: Right.
- K: And he hasn't made much progress this morning. So we have the same auditors that they have, so we were able to get from them a published statement -- it's being published this morning, and then through some friends that I had been in close contact with have

- 4 -

been able to pick up this other information from the organization and so forth.

H.M.Jr: Now -

K: Well, it's quite a knotty job, see. I was wondering - we - I've gone about as far as I can go with it here outside of hearing of getting an option on the thing, I was wondering whether you'd want the

H.M.Jr: Well, here's the point. How about Monday?

K: Monday?

H.M.Jr: Yes.

K: It would be O.K.

H.M.Jr: Well I tell you I have a meeting from nine to ten on Monday.

K: Yes.

H.M.Jr: I could be ready about ten-thirty.

K: Ten-thirty Monday.

H.M.Jr: Yes.

K: All right.

H.M.Jr: My office.

K: All right.

H.M.Jr: You know we're on Eastern Standard Time.

K: Yes, you're the same as we are.

H.M.Jr: Oh!

K: Yes, it's now about half past eleven.

H.M.Jr: That's right.

K: Yes.

H.M.Jr: That's right. Well then I'll see you ten-thirty Monday.

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K: O.K. And I'd like to bring Mr. Hutchinson, the Chairman of the Finance Committee.

H.M.Jr: I -- I met him once before.

K: Yes, you have. That's right.

H.M.Jr: That'll be fine.

K: All right.

H.M.Jr: And then by that time maybe you'll have some other ideas.

K: Yes.

H.M.Jr: But the Army tells me that this Continental Motor is in the liquid cool field, is the best bet that they know of.

K: Yes.

H.M.Jr: And that's what they're interested, you see, in developing.

K: Yes.

H.M.Jr: Because in the liquid cool field now, the only thing is Allison.

K: Yes.

H.M.Jr: Now, what they're anxious is to get somebody else in the field in the liquid cool game.

K: Of course, the thing that we've got to appraise on this thing is how much of a start you get and how much you're paid for by getting results you see?

H.M.Jr: Well, I think that's a very practical thing and when you get new machinery, see?

K: Yes.

H.M.Jr: And you get an engineer and you get a history and an engine that's just two-thirds of the size that you want to build, our experience is try to push the power up you've got to start all over again because you get

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into entirely different proportions and different figures for a complete new engineering job.

- H.M.Jr: Well, I'm going to ask the Army and Navy people in the meantime, in case this one doesn't seem feasible if there isn't some other engine.
- K: That's right.
- H.M.Jr: See?
- K: I think that would be better.
- H.M.Jr: And I'll have that by Monday.
- K: Our engineers have an idea that the future of this thing is going to revolve pretty much around two engines geared together on one propeller.
- H.M.Jr: Well -
- K: I don't know whether that's worth anything or not.
- H.M.Jr: I - there is - I think the Manasco, if I'm not mistaken, has that - I'm not sure.
- K: That's right.
- H.M.Jr: I think that's the Manasco.
- K: Yes.
- H.M.Jr: Isn't that right.
- K: Yes. That's right, that's who it is.
- H.M.Jr: What?
- K: That's who it is.
- H.M.Jr: Yes.
- K: Yes. And our research department know this Manasco crowd pretty well, see?
- H.M.Jr: Well, -
- K: influenced by that

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H.M.Jr: You come down here and by that time if it's Manasco or Fairchild or one of these others, I've got to take the word of the Army and Navy.

K: Yes that's right. I understand that.

H.M.Jr: O.K.

K: Thank you very much sir. See you Monday.

May 17, 1940
1:44 p.m.

H.M.Jr: Hello.

General
Marshall: Mr. Secretary, General Marshall.

H.M.Jr: General, I have got together Monday morning at nine o'clock Mr. Woodring and Mr. Johnson and Arnold and Brett, and people from the Navy -- everybody seemed to want to come. It has to do with -- talking with Pratt and Whitney.

M: Yes, sir.

H.M.Jr: And with Wright in connection with getting them to license other manufacturers.

M: Yes, sir.

H.M.Jr: If you'd care to come I'd be delighted.

M: Well, I'll be there then, sir. Monday morning at nine o'clock.

H.M.Jr: Yeah. And you might be interested to know that I've talked to both Guy Vaughn, President of Wright, and the President of Pratt and Whitney.

M: I see.

H.M.Jr: And they both said that they'd be delighted to do what I'm asking.

M: Oh, that's fine.

H.M.Jr: So that's the first step.

M: Fine.

H.M.Jr: They said they'd be delighted. Just tell us what you want.

M: Now, may I ask you a question?

H.M.Jr: If you please.

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- M: I'm called before the Budget at 3:30, and I understand what they want to talk about is to prepare their presentation or defense, whatever they call it, for that hundred million cash and a hundred million contract authorization for the President.
- H.M.Jr: Yeah.
- M: What do I say to them in relation to that? What is your understanding of that at the moment?
- H.M.Jr: Well, my understanding is two things, General. One, I overheard. I was in the President's room when he spoke to Senator Burns and this is just what I overheard him say, that -- he said, "Jimmie, we'll divide it -- I'll give you a rule of thumbs two-thirds for the Army and a third for the Navy."
- M: I see.
- H.M.Jr: And then he went on to list the various things that he needed that might come up. He said, "I can't tell two months, three months from now I may need this or that or the other thing."
- M: I see. What I was trying to get at is, how much of that is assumed to be involved in the 50,000 plane affair.
- H.M.Jr: Gosh, I don't think anybody can answer that.
- M: Well, do you think that a sizable amount of it is?
- H.M.Jr: Yes, definitely! And I think that that's where -- well, I think a goodly share ought to go there.
- M: I see.
- H.M.Jr: But you've got so many other -- I wouldn't want -- I -- I -- without wanting to sit down and spending several hours with you and your staff I wouldn't want to answer it.
- M: I know certain things that we think we want, that we've talked about before, but those are the things the President said he was going to create a deficit for. Speaking about personnel, so I was wondering what I would say when I got over there. I'm just --

I'm a little bit in the dark and I thought maybe.....

H.M.Jr: Well, are you asking me? I'd tell them what you a think you need.

M: I see.

H.M.Jr: That's what I'd do.

M: But don't -- do you think that I'm cutting into the President there when I talk about personnel? Well, that's what I'm trying to get at.

H.M.Jr: I don't think you will.

M: I see -- so that otherwise it will be just things that we had forgotten that we hadn't put in this thing. Because here's the logic of it.

H.M.Jr: I don't think you'll get any of that money for personnel, General.

M: Well, that's what I want to get straight in my mind. Well, I think you very much. Nine o'clock Monday morning.

H.M.Jr: Now, would you do something for me.

M: Yes, sir.

H.M.Jr: Brett's out of town.

M: Yes.

H.M.Jr: Brett told me in this memorandum, that he wanted -- that they wanted him to license an engine between 400 and 600 horsepower.

M: They wanted to what -- to the engine, between 400 and 600 what?

H.M.Jr: He wanted Wright to license the engine.

M: I see.

H.M.Jr: Somewhere between 400 and 600 horsepower.

M: Yes.

H.M.Jr: The same from Pratt and Whitney.

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M: Yes.

H.M.Jr: But what I'd like to get is the specific engine that they want from Wright and the specific engine that they want from Pratt & Whitney.

M: Specific action or engine.

H.M.Jr: What the number of the engine is, the model, you see? Hello.

M: Yes, I'm just writing that down. specific engine from Wright -

H.M.Jr: What model Wright do they want, and what model number Pratt & Whitney.

M: All right sir. I'll get that and have it. Where will they reach you?

H.M.Jr: If you'd send it over and say, send it to Mrs. Klotz's office, she'll see that I get it.

M: Mrs. -

H.M.Jr: Klotz. K-l-o-t-z.

M: K-l-o-t-z. That's over at your office, isn't it?

H.M.Jr: Yes, she has the room next to mine.

M: All right.

H.M.Jr: And send it to her office.

M: All right sir, I'll get that as quickly as I can.

H.M.Jr: Just - well if you send it to the office of the Secretary, attention of Mrs. Klotz, K-l-o-t-z.

M: Yes, I've got that.

H.M.Jr: And if they'll actually put it in her hand why I'll get it.

M: All right sir. That is you want to know the specific engine number and the model, the three to six hundred engine plane that we want from the Wright company

and the Pratt & Whitney company license to be
manufactured elsewhere.

H.M. Jr: That's it.

M: All right sir, I get that.

H.M. Jr: Thank you.

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CONFIDENTIAL

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Number of Airplanes Delivered to the British and
French Governments from May 1 to May 15, 1940,
classified by manufacturer and by type of plane

Glenn L. Martin Co.	
167F 2-engine bomber	<u>14</u>
Curtiss-Wright Corp.	
Hawk 75A5 pursuit	<u>27</u>
North American Aviation	
NA54 basic trainer	<u>10</u>
Douglas Aircraft	
DB7 2-engine bomber	<u>13</u>
Lockheed Aircraft Corp.	
B14 2-engine reconnaissance bomber	<u>13</u>
Total	<u>77</u>

Treasury Department, Division of Research and Statistics,
May 17, 1940.

Source: Anglo-French Purchasing Board.

CONFIDENTIAL

Number of Airplane Engines Delivered to the British
and French Governments from May 1 to May 15, 1940,
classified by manufacturer and by type of engine

Pratt & Whitney

SB4G	(825 h.p.)	39
SC3G	(1050 h.p.)	31
S3C4G	(1200 h.p.)	<u>2</u>
Total Pratt & Whitney		<u>72</u>

Wright Aeronautical Corp.

R1820-G205A	(1200 h.p.)	23
GR1820-G102A	(1200 h.p.)	26
GR2600	(1700 h.p.)	28
GR2600-A5B	(1700 h.p.)	<u>8</u>
Total Wright Aero- nautical Corp.		<u>85</u>

Total All Companies	<u>157</u>
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Treasury Department, Division of Research and Statistics,
May 17, 1940.

Source: Anglo-French Purchasing Board.

CONFIDENTIAL

Scheduled Deliveries, by Months, of Airplane Orders of British and French Governments
Classified by Manufacturer and by Type of Plane

Manufacturer and type of plane	Total unfilled orders as of April 30	Adjustments from prior months		Scheduled deliveries for future months																						
		Behind schedule as of April 30 (to be added to future scheduled deliveries)	Ahead of schedule as of April 30 (to be deducted from future scheduled deliveries)	1940						1941																
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.			
Glenn L. Martin Co. 167F 2-engine bomber	113	53		40																						
Curtiss-Wright Corp. Naval 754A pursuit Naval 754S pursuit Naval 81A pursuit Naval 81A pursuit	20 237 790 360		28	30	20 19	54 34	44 37	33 55	15 81	4 82	16 58		88 88	64 64	43 18	50 54	53 71	72 72	73 73	24						
Total Curtiss-Wright Corp.	1,317		28	30	59	68	81	68	96	85	114		88	88	62	61	94	53	71	72	73	24				
North American Aviation NA54 basic trainer NA55 basic trainer	351 590		49	40	40	40	50	37	95	55	55	55	65	66	66	66	66	66	72	30						
Total North American Aviation	941		49	41	41	47	77	95	85	95	95	66	66	66	66	66	66	66	72	30						
Douglas Aircraft D37 2-engine bomber D37A 2-engine bomber D37B 2-engine bomber	165 100 250	25		30	40	1	5	30	15	20	24	25		9	17	22	27	33	39	44	44	44	48			
Total Douglas Aircraft	515	25		30	41	45	40	35	25	28	28	25		9	17	22	27	33	39	44	44	44	48			
Foited Aircraft Corp. F155 Chacoa freight bomber	50									1	7	11	12	12	5											
Consolidated Aircraft C3-SM 2-engine navy bomber C3-SM 2-engine navy bomber	60 40									1	2	1	4	3	5	5	4	4	4	6	5	5	5	5	5	5
Total Consolidated Aircraft	100									2	4	4	8	6	10	10	8	8	9	11	10	10	10	10	10	10
Drummond Aircraft D300 navy fighter	81					50	20	11																		
Brewster Aeronautical Corp. Pursuit	158							12	17	26	24	24	31	36												
Bell Aircraft Corp. P39 Airacobra pursuit	200									1	2	6	10	11	15	32	27	28	35	28	17					
Lockheed Aircraft Corp. 52 2-engine reconnaissance bomber 514 2-engine reconnaissance bomber 514 102A 2-engine reconnaissance bomber 514 205A 2-engine reconnaissance bomber	240 37 24 36		3	26	32	24	6	10				1	9	13	22	34	49	46	44	20						
Total Lockheed Aircraft Corp.	441		3	26	32	24	17	10	17	14	25	25	32	34	49	46	44	44	20							
Total All Companies	3,246	31	77	177	145	164	229	200	251	254	358	217	252	252	229	270	244	252	190	180	180	5	5			

Treasury Department, Division of Research and Statistics.

Source: Anglo-French Purchasing Board.

Mar 17, 1940.

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Regraded Unclassified

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Scheduled Deliveries, by Months, of Airplane Engine Orders of British and French Governments
Classified by Manufacturer and by Type of Engine

Manufacturer and type of engine	Total unfilled orders as of April 30	Adjustments from prior months		Scheduled deliveries for future months																							
		Behind schedule : as of April 30 (to be added to future scheduled deliveries)	Ahead of schedule : as of April 30 (to be subtracted from future scheduled deliveries)	1941												1942											
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.				
Pratt & Whitney																											
W140-W201 (500 h.p.)	662																										
W201 (805 h.p.)	420	1																									
W205-W202 (825 h.p.)	2	0																									
W206 (1050 h.p.)	4																										
W209 (1160 h.p.)	68		14																								
W204 (1200 h.p.)	3,019	150																									
W1816 (1200 h.p.)	9																										
W1234 (1200 h.p.)	90																										
W1250-W1010 (1200 h.p.)	2	2																									
W1270-W1070 (1200 h.p.)	144																										
W1246 (1200 h.p.)	508																										
Total Pratt & Whitney	6,316	151	14																								
Wright Aeronautical Corp.																											
W1210-W2054 (1200 h.p.)	600	3																									
W1270-W2054 (1200 h.p.)	180		9																								
W2060-W2054 (1200 h.p.)	192																										
W2100-W2054 (1200 h.p.)	281	14																									
W2060 (1700 h.p.)	1,346	15																									
W2060-W20 (1700 h.p.)	521	7																									
Total Wright Aeronautical Corp.	3,533	42	9																								
Illinois																											
W1710-W15 (840 h.p.)	215																										
Total All Companies	10,871	201	23																								

Treasury Department, Division of Research and Statistics.

Source: Anglo-French Purchasing Board.

May 17, 1942.

CONFIDENTIAL

Regraded Unclassified

RE PRODUCTION OF PLANES AND ENGINES

May 17, 1940
9:15 a.m.

Present: General Marshall
General Arnold
Mrs. Klotz

Marshall: At the present moment we have 150 P-36's. At the present moment we have 225 training planes. We are getting in pilots at the rate of 220 in six weeks. We get our first P-40's this month. We would have accumulated - we would have accumulated by September an equivalent number of pursuit ships, but we then will have 400 and some pilots of whom only 100 will have had any training to amount to anything on the pursuit type. A British carrier of the normal Yorktown type would take about 100 of these planes. We could ship 100. Of course, they haven't armor and they have two guns, but the British can use whatever they can get.

H.M. Jr: As of last night, Jacquin is the only fellow who knows about it. This was his estimate last night, they tell me. I didn't see him, but Phil Young said his nerves are all gone, but this is what they want and if they don't get it now, two weeks from now, maybe they don't want anything.

Marshall: Well, I am just giving you all the facts. We feel that they would use any type of plane they can get, leakproof tanks or otherwise. We could put a hundred on. That would leave us 60 in this country. What we do if we do this thing is that we would not have pursuit squadrons in this country, that is, have trained pilots in any equivalent number to next - what we would have next September until about next March or April.

Arnold: It would throw away everything we have.

Marshall: We are right at that moment of all these things being synchronized - we keep on receiving the pilots but we have lost the training ships. We would throw as many of those as we could, of course, into bomber training but we wouldn't have the pursuit fellows. We can train pilots -

- 2 -

and this is one consideration I hadn't thought of in this very instance - we could possibly train more pilots by sending them to foreign possessions for the training, down at Panama and in Hawaii, but they have got the same congestion of training considerations there and Arnold was just back from Panama and confidentially we are reprimanding the Commander for not having trained crews as he should have there. He is so busy building up this thing that he has not driven on the crews. It is just a matter of measuring necessity. Later on this morning, by the time I get back to the Senate Committee, I can have this thing down on a slip of paper that is a little more understandable, but the main issue is this, in Continental use, we now have 160 training ships for pursuit flight or fighting ships, either way you want to call them. We can turn over 100 to the British and that would leave us 60. We have 220 pilots training to learn the pursuit right now. We have our people coming in at the rate of 220 every six weeks, of whom a considerable portion go to pursuit. By next September we would have received the equivalent number of ships out of the P-40's and we would have to have more P-40's because we were selling some of those that were coming in. We would then have about 400 pilots of whom roughly 275, we will say, haven't the training at all because there were no ships in which to train them, or the whole 400 or 300 would have very little training. We would set ourselves back about six months in our own development.

As I told you the other day, of course they were trying to have me stop all of our general program in order to concentrate on a small group. That is the situation regarding these planes. Now, there is a further consideration that I think you will have to have in your mind. This is exactly the same thing that will be coming up over bombers, undoubtedly. They are having very heavy losses in bombers. Exactly the situation is coming up over bombers. Again it is the question, do we feed it in and take the

- 3 -

hazard here or not.

- H.M.Jr: Well, if I was the President of the United States, I would make you make the decision.
- Marshall: Well, I guess that is all right.
- H.M.Jr: That is what I would do.
- Marshall: I think this. When you weigh this thing right now --
- H.M.Jr: As far as I am concerned, on a matter like this I would be entirely influenced by what you would advise me, personally.
- Marshall: Let me go a little further in this matter. There are two other things I haven't mentioned.
- H.M.Jr: I spoke to Secretary Woodring and told him what I had in mind and he said to tell you and Arnold --
- Marshall: Well, I have seen him.
- H.M.Jr: Since I talked to him?
- Marshall: Yes, sir.
- H.M.Jr: Then he told you.
- Marshall: Yes. He is very anxious that we do something.
- H.M.Jr: May I interrupt you one second? He said that is no good either. He said to the French, "You make your choice. If we give you a hundred P-36's today, will you release back to us the hundred P-40's we promised you?"
- Marshall: Would you repeat that again?
- H.M.Jr: He said to the Allies, "All right, you can have a hundred P-36's, but you have got to release the first hundred P-40's that the Curtiss Company manufactures to the Allies. You have got to give those to us."

- 4 -

Marshall: Do you know what that is?

H.H.Jr: This thing was just finished at 2:00 o'clock this morning and I --

Marshall: I haven't had an opportunity of assimilating all the data in this thing.

H.H.Jr: This was just finished during the night. What is the P-40? Is it called the 81? Well, it isn't - it must be the 81-A. Now, they begin to get 30 in May and 60 in June and 54 in July.

Marshall: In other words, by the end of July we would have it.

H.H.Jr: By the first of July you would have it.

Marshall: And you told - who is that you spoke to about that?

Morgenthau: I haven't said a word to anybody. No, I just said it to General Arnold.

Marshall: That we take the Allied deliveries, and give them these other things immediately?

H.H.Jr: And they have got to give us back the first hundred P-40's that come out of the factory. The deal would be with Curtiss. If we say, "You can have a hundred P-36's today, then you in turn are going to give us the first hundred P-40's. Now, you have got to decide which is more important." From our standpoint - I mean at the rate that they are coming, you would have them built by the first of July.

Marshall: Which is the P-36 equivalent here, the P-40?

Arnold: The 81-A.

Marshall: All right, now look at the Allied contract here on the 81-A, the pursuit. What do they have here --

Arnold: That is the 75.

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Marshall: The P-36? To use for the Allies?

Arnold: To the Allies.

H.M.Jr: You have got 237 together.

Marshall: What I am trying to get is - suppose we took out our deliveries right now. What would we have as of July first?

Arnold: We could take these groups right along there.

Marshall: Well now, certainly they will take the May group themselves.

Arnold: And they wouldn't want to take the June group.

Marshall: If we took the - in other words, the May group is their own. If we took half of June, if that is 30, and we took the full delivery here, that is both the P-40 and the other, isn't it, in other words, about 68 planes. By the end of July we would have that, wouldn't we? Are these P-36's better than our current P-36's?

Arnold: They are modified to a certain extent, but I don't know whether they have all of their gadgets for guns, and so forth, and if so, they probably wouldn't fit ours.

H.M.Jr: They don't start getting P-40's until July, do they?

Arnold: No. The chances are they would have to have some modifications before we could use them.

Marshall: Your material doesn't work in them?

Arnold: No, sir, because they put their own accessories in there. The throttle is on the left-hand side for the French.

Marshall: Do the British have that, too?

Arnold: No, the French.

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Marshall: What we are trying to work out is, is there any basis for our taking the immediate Allied deliveries?

Arnold: If we could get those, it would probably throw us back just long enough to make those changes in the airplane.

Marshall: Neither the British nor the French airplanes are adapted for our immediate use?

Arnold: No, sir.

Marshall: Do they equip them over there?

Arnold: They equip them over there.

Marshall: So we don't even have the equipment?

Arnold: We don't even have their equipment.

Marshall: If we had their equipment, could we use it?

Arnold: It would complicate us terribly. There is no way I see around this except to make a decision, are we going to delay us or not?

Marshall: We were trying to hunt for a substitute here.

Arnold: The delay will be there just the same as the other way, delay long enough to make a complete change. For instance, everything inside of those planes is in French, all the dials in French and everything else.

Marshall: The British use French planes?

Arnold: These are all French planes.

Marshall: The British are getting no pursuits from us?

Arnold: No P-36's.

Marshall: Pursuits, I said.

Arnold: I am talking about this particular item, that is what we are talking about, is the P-36.

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Marshall: I am talking about pursuit, in general.

Arnold: They haven't even got any deliveries yet.

Marshall: In other words, there are no pursuit deliveries of any kind other than these P-36's that are now on the table?

Arnold: As far as I know, that is correct. The British are going in for the bombers.

Marshall: Nothing less than a hundred planes would do them any good.

H.M.Jr: Do you think so?

Marshall: It would be a futile gesture, short of that.

H.M.Jr: Three days' supply.

Marshall: If we give them a hundred planes, that, as you say, is about a three-day supply. It sets us back on the pilot end how long?

Arnold: About six months.

Marshall: We will say at least four months. Then it is our great weakness, of course, at the present time. That isn't correct. The lack of modern bombers of medium type is our great weakness at the present time.

Arnold: They are both weaknesses, because without one you can't do anything with the other.

Marshall: We have got to consider the psychological effect on both sides of the water. Of course, on this side, that is a political consideration and not a military consideration. On the other side, it is a military consideration. To us --

Arnold: It is a military consideration on this side, too.

Marshall: Well, you are talking about something else. It is a military consideration to us that the Allies succeed in stopping this flood. Over here,

- 8 -

it is a political consideration is what the effect is, that is, a Presidential decision there. To me, the most serious phase in the long run is that there is bound to be right after this the big bomber - the big bomber request and --

Arnold: More pursuit.

Marshall: Wait just a second, let me talk. And this whole thing is a tragic similarity to the pressure for American men in 1917. They wanted men in their outfits and they didn't want us in the divisions. Their purpose at first was purely business. Later it was something else. We have got to weigh the hazards in this hemisphere of one thing and another. I have taken the risk of not concentrating our talent in the immediately operating squadrons, excepting the more desirable, the symmetrical development of the whole program to avoid setting it back. If I do this, that accentuates the ineffectiveness of the air force. It is a drop in the bucket on the other side and it is a very vital necessity on this side and that is that. Tragic as it is, that is it.

Now, if between now and noon or 1:00 or 2:00 o'clock when I get back from the two Committees on the Hill, I can find any basis of substitution - and I will consider training outside of this country and what effect that has on those garrisons - I will come in here with it. At the moment, I don't see how we can do it, but we may find that. I have got to get this analyzed and I want to find out about that.

H.M.Jr: Well, you don't know me very well, but there will be no pressure from me.

Marshall: I would like you to tell me this, though. I was reasoning out loud. What is your reaction to that?

H.M.Jr: I have come to the same decision that you have, that - let's take the figure four to six months. We have got 150 ships to train the pilots and

- 9 -

you are training how many pilots already, 220?

- Marshall: We have over 200 right now.
- Arnold: And every six weeks there are 200 more coming up.
- Marshall: Part of those can go to bombers. But we will have 400 in September.
- H.M.Jr: Who is ahead? Are the pilots waiting on the ships?
- Marshall: Right now they are waiting on the ships and this sets it back about six months. They have caught us right in the middle of something.
- H.M.Jr: What we give them is three days' supply and what we are talking about - I don't think we can do it.
- Marshall: I don't. But give me until 1:00 or 2:00 o'clock on this thing.
- H.M.Jr: I went over our own thing, to take one minute more, and - you see, May, June and July we get 125 Curtiss P-40's and that is all and then this - I am going to give you that copy. That gives you up to the minute. This is their deliveries for the first to the fifteenth of May on planes and engines, engines on the next page. You see, this is what they took between the first and the fifteenth and then this is the rest and then you see here, it shows that they are behind the schedule, a total of - they have got orders on hand for planes, 3946 altogether. Have you ever seen anything as good as that?

Arnold: That is fine.

Marshall: Take this over and you give this data to me.

(Discussion off the record)

(Mr. Marshall left the conference)

(Before General Marshall left, HM,Jr whispered in his ear: "I told him that I had written to the President that he, General Marshall, handle the bill on the Hill; that if he had any trouble with Woodring or Johnson and wanted to let me know, that I would let the President know. He said 'is the President worried?' and I said he is worried as to how the bill is going to be handled on the Hill, because he spoke to me about it last night.")

- 10 -

H.M.Jr: Look, General, I don't know - sit down. I don't know whether Brett told you about the conversation we had here yesterday.

Arnold: Yes, sir, he told me about it.

H.M.Jr: Have you seen this?

Arnold: Yes, that is the one he showed me.

H.M.Jr: How do you feel about it?

Arnold: I think that is grand. Now, I told Brett and I asked him whether he told you this. All the airplane and engine manufacturers will be in here on Monday. I am going to put this proposition up to them, just what this latest message means and this is going to be a part of my talk, with your permission, and I am going to see whether there isn't some way then to get them to realize the serious condition of the whole industry in so far as the production is concerned, that they have got to step it up and they have got to economize and they have got to find short-cuts that they haven't even heard of yet.

H.M.Jr: What I would like to do - and I think the President wants me to do it - this question of getting the companies to license these other people, I think that I could do it, do you see. But if you fellows think that you could do it, why okay also.

Arnold: My suggestion to Brett is that we take this up with them in this meeting Monday. Then if we find out the first time and we have to yell for help, then you come in with your big guns and shove the thing over.

H.M.Jr: If they turn you down, it is awfully hard.

Arnold: I don't think they will turn us down. Do you think you had better get in first?

H.M.Jr: Well now, did he tell you about my idea about Chrysler?

- 11 -

Arnold: Yes, sir.

H.M.Jr: Do you want to handle that?

Arnold: I want to go one step further. I want to call in Mr. Ford and ask him the same question about airplanes, can't we increase this production. Have Ford put in quantity production methods which our present aircraft industry doesn't quite understand.

H.M.Jr: I mean about my wanting Chrysler to try to buy Continental.

Arnold: He told me about that and I think it is a grand idea. Chrysler would put some pep into it that it hasn't got now.

H.M.Jr: Are these the two engines that you would want - would that program as it is there --

Arnold: I think this is all right.

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

Arnold: I think you ought to take it up with Chrysler.

H.M.Jr: Yes, because --

Arnold: It means more than just a mere --

H.M.Jr: I would like to - you see, here is the thing on getting these fellows to do the license. I think that we have a few more tools than you have, because we have the taxing power. I think the President wants me to do it - at least, he did, as of yesterday. You think this over, see. We here could try to get Chrysler interested in buying Continental and then you people, once you get that - what will he get out of it? Well, he will get an order, he will get a license for either Pratt-Whitney or the small group. He would get a license on that, wouldn't he, also?

Arnold: He should have orders for the bigger engines and license for the smaller.

- 12 -

- H.M.Jr: And then you were also going to give Lycoming a license on the 450-horsepower.
- Arnold: They should have that, too.
- H.M.Jr: The thing that was going through my mind, getting these Pratt & Whitney and Wright to agree to do the licensing, because I have got not only the Treasury but also I have got the Allied orders. I think I might get it from them. I may fall down. If you fellows want to try it first, it is all right, but I think if we once fall down it wouldn't be good.
- Arnold: Why don't we do it the other way then, let you go ahead and put it across?
- H.M.Jr: Because Brett told me you fellows had been talking about this for four or five months and had been unable to do it.
- Arnold: That is the reason I say, "Why don't we go ahead then?"
- H.M.Jr: What is it, "Children are fools in ventures"? I think I could do it, because if they didn't behave themselves, I would just walk them across the street.
- Arnold: Here is another reason I think it might be well for you to go ahead with it. I was talking to Kindelberger yesterday. Could you give Kindelberger a few men some day? He has got a big outfit and he has ideas. But Kindelberger told me that Wright Company is going to say that there isn't any necessity for this license.
- H.M.Jr: Well, I am not going to ask the Wright Company. I am going to tell them.
- Arnold: As I say, you would be in a better position to do that.
- H.M.Jr: I had my people working all last night to give me an answer on how to do it. I wanted two six-shooters and I wanted them loaded for bear,

- 13 -

I didn't want blanks, so when I went into this thing I was going to ask them pretty-pretty first, but if they couldn't do it the way I wanted, I had the authority to do it, see. Think it over. Just the two things that I would do, and the President is ready to have me do it. One is to get Chrysler interested in buying the Continental Motor Company. Two, the Army and Navy would give Continental an order for this big engine and then we would license them for either Wright or Pratt & Whitney and then my sitting down with Pratt & Whitney and Wright and getting them to agree to license those two. When it gets to placing the orders, that is your job. To get this first - to break this first round - what do you think?

Arnold: The more I think of it, the more I think you are right, because we have been trying to break the ice and we haven't made a dent.

H.M.Jr: Look, General, let's you and I talk. You fellows were out on the end of a limb in getting these fellows to give you new engines and new designs, and so forth, until I gave you the purchasing power of the Allies. Just as soon as you had it - now the hundred-million dollar fund that the President has got, unless he changes his mind - last night he said he and I would run that hundred million dollars. Now, that is - we need that and that was my suggestion to the President, to get that hundred million so that he would have that as a big stick.

Arnold: You may have to use some of that in here.

H.M.Jr: This isn't easy. I think you are going to have to use everything that you have got.

Now, what I will have to do is, I will talk to Secretary Woodring and tell him of this conversation and let him talk with Johnson so there is no cross-up between us.

Arnold: I think that is correct.

- 14 -

H.M.Jr: Let me talk to Mr. Woodring while you are here now and I will see there is no mix-up on this thing.

Arnold: I think it would be well.

H.M.Jr: But I want you perfectly happy about it.

Arnold: We have been looking for something like this all the time.

H.M.Jr: The fact that - what is his name - said that four or five months he had been trying to do this thing and couldn't - in my anxiety to get this thing started - I think that the Treasury, with the President of the United States back of us, going into this thing just to crack the thing, then when it lets down to buying the damn things, that is Procurement and the Army, Procurement and the Navy, but to get the licensing, I think we would be --

Arnold: The more I think of it, the more I think that is a better way to handle it.

H.M.Jr: Now, would you people be ready to tell me which one of these Wrights and which one of these Pratt & Whitneys you want and the license - it would be just taking one engine or two engines.

Arnold: I can give you that. I would have to go back and talk to my people.

H.M.Jr: Yes, but could I have it by Monday?

Arnold: I can give it to you this afternoon.

H.M.Jr: But you are having these people in Monday?

Arnold: We are having them in Monday.

(Telephone conversation with Secretary Woodring follows:)

- 15 -

- H.M.Jr: He says that at the first meeting he would like to sit in himself and he would like General Brett, and he said go ahead and do it this way.
- Arnold: Now, what are you going to do about Mr. Johnson? Shall I tell him or will you tell him?
- H.M.Jr: Which is easier for you?
- Arnold: It would be a little bit easier for me if you would tell him.
- H.M.Jr: I will tell him. I know. That is why I am in here. That is why the President has got me in this thing. It is a dirty job.
- Arnold: Well, I think it is working out fine, sir, and I want to thank you for what you have done to help us.
- H.M.Jr: I will call up Louie Johnson and tell him what I am doing and most likely they will both come over.
- Arnold: Now, you will be ready to talk this over when these fellows come in on Monday or before?
- H.M.Jr: Are you sending for them?
- Arnold: We are sending for them.
- H.M.Jr: Who will be here in town?
- Arnold: I asked for the presence of the highest-ranking representative they can get from all the major companies.
- H.M.Jr: Well, why don't I do this, make - make a note, Mrs. Klotz - that in case of Wright, we will have Vaughn and in the case of Pratt & Whitney, Wilson. Now, I think what I will do is to call them up --
- Arnold: I think they will have to bring Gordon down.
- H.M.Jr: I think I will call up the president of the company. Now, Guy Vaughn is the president of the

- 16 -

company, and who is the president of Pratt & Whitney?

Arnold: Wilson.

H.M.Jr: I am going to call them up on the telephone now and tell them what I have and tell them when they come down to bring their lawyers down and be ready to sign.

Arnold: Okay. If you do that, that is fine.

H.M.Jr: I might as well warn them, because they will come down and they will say they are not ready.

Arnold: I think that is all right.

H.M.Jr: So I will tell them what is coming.

Arnold: All right, sir.

H.M.Jr: And I am going to tell them they might just as well do it with a smile.

Arnold: Are you going to have Continental and Lycoming in at the same time or are you going to bring them in later?

H.M.Jr: I will have these two. First we have got to get the license. The president of Chrysler will be here Monday. We will have him maybe in the afternoon and have these people in the morning. Supposing I try to get these two people in here at 10:00 in the morning, see. This won't interfere with you, will it?

Arnold: No.

H.M.Jr: Then I will ask the Chrysler man to come in later, because I don't want to talk to him until I have got something.

Arnold: Then you will have --

H.M.Jr: We will have Vaughn and Wilson in here and Mr. Woodring will be here, that is the way.

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Arnold: Okay for 10:00 o'clock, then? I will work along that line, then.

H.M.Jr: I will call Louie Johnson and break the news to him.

You are perfectly happy now?

Arnold: I am perfectly happy now.

H.M.Jr: Will you tell this to General Marshall? He may want to be here. If you are not happy, say so.

Arnold: I am perfectly satisfied, because I think it is one of the best things we have done.

H.M.Jr: And you are going to let me know which one of these engines --

Arnold: I will give you that information this afternoon.

H.M.Jr: Right.

May 17, 1940

The Honorable
The Secretary of the Navy.

(Attention: Admiral Towers)

My dear Mr. Secretary:

I am inclosing herewith, for your confidential information, charts showing deliveries of airplanes to the British and French Governments for the period of May 1 to May 15, 1940, and scheduled deliveries for future months.

Yours sincerely,

May 17, 1940

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Scheduled Deliveries, by Months, of Airplane Engine Orders of British and French Governments
Classified by Manufacturer and by Type of Engine

CONFIDENTIAL

Manufacturer and type of engine	Total unfilled orders as of April 30	Adjustments from prior months		Scheduled deliveries for future months																						
		Behind schedule as of April 30 (to be added to future scheduled deliveries)	Ahead of schedule as of April 30 (to be deducted from future scheduled deliveries)	1940						1941																
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.			
Pratt & Whitney																										
R1340-R381 (600 h.p.)	262				1	7	7	27	55	55	55	55	70	76	77	78	77	83	82	77						
1940 (825 h.p.)	920	7			10	125	129	120	128	131	137	115	15	7												
R125-R20 (825 h.p.)	2	2																								
R20 (1050 h.p.)	4						4																			
R234 (1050 h.p.)	68		14		25	25	12																			
R3040 (1200 h.p.)	3,014	150			256	258	261	299	261	215	207	275	220	237	290	137										
R1215 (1200 h.p.)	2							1																		
R1035 (1200 h.p.)	40						4	6	2	8	20	20	20	2												
R1230-R1015 (1200 h.p.)	2	2																								
R1230-R1030 (1200 h.p.)	144									2	4	4	6	6	10	12	11	11	11	12	12	14	12	13		
R1A40 (1250 h.p.)	208																									
Total Pratt & Whitney	6,216	151	14		292	418	429	411	446	410	421	469	155	138	137	102	254	260	238	179	14	17	13			
Wright Aeronautical Corp.																										
R1120-R205A (1200 h.p.)	600	2				10	20	30	70	80	80	88	100	100												
R120-R205A (1200 h.p.)	499		5		60	88	68	67	50	37	30	59														
R1120-R105A (1200 h.p.)	192								12	17	24	24	24	39	50											
R1120-R102A (1200 h.p.)	261	14			64	53	59	55	36																	
R20600 (1700 h.p.)	1,420	16			60	164	180	190	200	200	200	200														
R20600-400 (1700 h.p.)	521	8					22	30	50	80	101	140	150													
Total Wright Aeronautical Corp.	3,523	40	5		194	315	327	365	328	369	414	472	275	280	52											
Allison																										
V1710-R15 (450 h.p.)	215					2	3	11	18	28	40	60	70	70	70	70	70	70	70	70	70	70	70	70	70	70
North American Aviation																										
R795-R3 (450 h.p.)	57	2			20	5	5	10	5	5	5															
Total All Companies	10,581	203	21		514	747	792	824	907	908	922	1,011	673	667	493	372	324	32	290	236	179	14	17	13		

Treasury Department, Division of Research and Statistics.

Source: Anglo-French Purchasing Board.

May 17, 1940.

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Regraded Unclassified

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Number of Airplane Engines Delivered to the British
and French Governments from May 1 to May 15, 1940,
classified by manufacturer and by type of engine

Pratt & Whitney

SB4G	(825 h.p.)	39
SC3G	(1050 h.p.)	31
S3C4G	(1200 h.p.)	<u>2</u>
Total Pratt & Whitney		<u>72</u>

Wright Aeronautical Corp.

R1S20-G205A	(1200 h.p.)	23
GR1S20-G102A	(1200 h.p.)	26
GR2600	(1700 h.p.)	28
GR2600-A5B	(1700 h.p.)	<u>8</u>
Total Wright Aero- nautical Corp.		<u>85</u>

Total All Companies	<u>157</u>
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Treasury Department, Division of Research and Statistics,
May 17, 1940.

Source: Anglo-French Purchasing Board.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

May 17, 1940

MEMORANDUM FOR Mr. Morgenthau

CONFIDENTIAL

1. Pursuant to your request in conference of this date, the following data are submitted on engines that are considered suitable for building under license other than originator of design:

a. Models and Types to be Licensed:

- (1) Pratt-Whitney "Wasp" R-1340 - 600 N.P.
- (2) Pratt-Whitney "Wasp Jr." R-985 - 450 N.P.
- (3) Curtiss-Wright "Whirlwind" R-975 - 400 N.P.

b. Immediate Requirements:

(1) A total of approximately 1500 "Wasp" R-1340 engines are required for immediate production, in addition to those now on order.

- (2) Pratt-Whitney R-985
or - - 2500
Wright R-975

c. Number to be Licensed:

(1) It is estimated that 50 R-1340's a month can be produced without robbing foreign orders for the first nine months, which leaves a balance of approximately 1000 engines that should be built under license. Likewise, the Wright Aeronautical Corporation can produce approximately 500 engines without retooling, which leaves a balance of 2000 R-975 or R-985 engines to be produced by license.

d. Business Involved - 1000 H.P. or Above Engines:

(1) The amount of future business that could be given is predicated upon the successful development of experimental engines now on order, and its application to fighter and pursuit

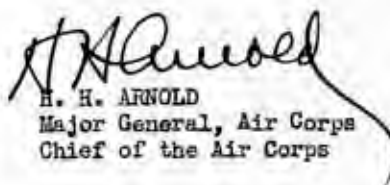
Memorandum for Mr. Morgenthau
May 17, 1940

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types of aircraft. In normal times, based upon maintenance of 5500 airplanes for the Army, 3000 for the Navy, and a commercial requirement of 50% of the combined Army and Navy business, it is estimated that the total annual purchases would be approximately \$50,000,000 or equivalent to the production of approximately 5000 1000 horsepower engines, or their equivalent. It is estimated that the division of business for the type of engine under development by the Allison Company would have a gross sale for military purposes of approximately \$10,000,000 per year, based upon present indices, or a production of 1000 engines per annum.

(2) There is a potential requirement for approximately 500 engines of the Continental class for installation in pursuit fighters required for procurement by the year 1942. This type of engine would also be applicable to single engine pursuit as a direct competitor to the Allison, of which there is a requirement for substantial numbers in programs under discussion.


H. H. ARNOLD
Major General, Air Corps
Chief of the Air Corps

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May 17, 1940

MEMORANDUM FOR - Mr. Morgenthau.

1. Pursuant to your request in conference of this date, the following data are submitted on engines that are considered suitable for building under license other than originator of design:

a. Models and Types to be Licensed:

- (1) Pratt-Whitney "Wasp" R-1340
- (2) Pratt-Whitney "Wasp Jr." R-985
- (3) Curtiss-Wright "Whirlwind" R-975

b. Immediate Requirements:

(1) A total of approximately 1500 "Wasp" R-1340 engines are required for immediate production, in addition to those now on order.

- (2) Pratt-Whitney R-985
or
Wright R-975 - 2500

c. Number to be Licensed:

(1) It is estimated that 50 R-1340's a month can be produced without robbing foreign orders for the first nine months, which leaves a balance of approximately 1000 engines that should be built under license. Likewise, the Wright Aeronautical Corporation can produce approximately 500 engines without retooling, which leaves a balance of 2000 R-975 or R-985 engines to be produced by license.

d. Business Involved - 1000 H.P. or Above Engines:

(1) The amount of future business that could be given is predicated upon the successful development of experimental engines now on order, and its application to fighter and pursuit types of aircraft. In normal times, based upon maintenance of 5500 airplanes for the Army, 3000 for the Navy, and a commercial requirement of 50% of the combined Army and Navy business, it is estimated that the total annual purchases would be approximately \$50,000,000 or equivalent to the production of approximately 5000 1000 horsepower

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Memorandum for Mr. Morgenthau
May 17, 1940

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(2) There is a potential requirement for approximately 500 engines of the Continental class for installation in pursuit fighters required for procurement by the year 1942. This type of engine would also be applicable to single engine pursuit as a direct competitor to the Allison, of which there is a requirement for substantial numbers in programs under discussion.

H. H. ARNOLD
Major General, Air Corps
Chief of the Air Corps.

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STATISTICAL DATA PERTAINING TO AIRCRAFT FACILITIES
(Currently Submitting Aeronautical Monthly Progress Reports)

Manufacturer (1)	Productive Floor Space on April 30, 1940 (Sq. Ft.) (2)	Productive Floor Space (Maximum) (Sq. Ft.) (3)	Productive Man-Hours During April 1940 (4)	Productive Man-Hours (Maximum) (5)	Obligated Capacity			Customers A-N-F-C (9)	A. G. Models With Man-hour Equivalents (10)
					Per Cent of Plants' 1 Shift Capacity				
					June 10, 1940 (6)	Dec. 31, 1940 (7)	June 30, 1941 (8)		
DUROFAC									
Boeing	125,000	125,000	103,286	311,940	32	--	--	A-N-F-C	F-2 (20,000); B-45 (20,000)
Dell	180,000	600,000	124,429	1,039,800	24	8	21	A-N	FW-1 (8,400); XP-39 (2,025)
Delmonica	66,500	66,500	19,930	285,000	10	--	--	A-C	YO-50 (26,500)
Douglas	601,565	1,801,565	583,046	1,732,960	40	26	10	A-C	B-17C (92,500)
Drewster	375,000*		205,771	1,039,800	44	52	22	A-N-F-C	339 (14,000)
Consolidated	580,750	871,459	720,408	1,386,400	15	73	70	A-N-F	B-24A (114,500)
Curtiss	555,000	555,000	849,170	1,039,800	65	73	20	A-N-F	YF-10 (150,000) ; B-40 (7,000); F-46A (37,056)
Douglas--El Segundo	715,136	430,372	463,577	927,154	98	28	--	A-C-F	A-17A (8,766) (BA-5 to Norway)
Douglas--Santa Monica	1,136,796	2,274,000	1,551,208	3,466,000	84	51	25 (Ext)	A-N-F-C	B-23 (50,000); A-20 (21,000)
Fairchild	76,000		97,888	287,700	45	--	--	A-F-C**	PT-19 (1,550)
Fisher	100,000	200,000	43,270	779,850	6	--	--	A-N-F***	XP-50 (150,000)
Glenn	100,000		125,642	346,600	42	42	6	A-N-F	XP-50 (150,000)
Lockheed	363,200		584,714	1,325,745	55	35	60	A-F-C	XP-49 (125,000); P-3H (10,850)
Martin	1,188,830		1,313,787	2,772,000	45	30	30	A-N-F	B-26 (35,000)
North American	541,000	541,000	607,416	1,109,100	65	73	5	A-N-F	NR-6 (7,000); BT-14 (4,700); B-25 (28,100); XB-28A (250,000)
Republic	149,355		245,246	294,000	68	29	60	A-F	F-44 (15,000); XP-47 (50,000); YE-43 (21,900)
Yves	87,500	87,500	65,507	207,960	14	--	--	A-F	PT-20 (1,500); XO-51 (10,500)
St. Louis	46,700	82,215	1,000	173,300	5	--	--	A	YPT-15 (3,000)
Boisjourn	126,000	126,000	78,258	168,000	38	61	--	A-F	PT-13B-PT-17 # 18 (2,160)
Minson (Yves)	120,000	130,400	51,990	173,300	91	77	--	A-C	B-49 (5,015)
Minson (MAG)	86,400	86,400	19,756	123,310	--	--	--	A-C	O-49 (5,015)
Yves	167,000		97,915	433,250	22	--	--	A-F-C****	
Saunders-Rotorsky	265,000		277,000	693,200	25	70	--	N-F	V-156 (13,230) (Future)
Fulton	250,000	600,000	165,328	996,475	70	30	3	A-F	BT-13 (4,000)
Reco	97,160		19,065	129,075	6	--	--	D-F	YPT-14 (1,050)
Total	7,602,060	8,585,411	6,495,107	21,241,439					
UNITED STATES									
Allison	350,000	350,000	220,958	363,430	80	65	17	A-N-F	V-1710-41 (5,500)
Consolidated	71,037	370,000	58,060	135,700	75	--	--	A-F-C	N-670 (305)
Jaeger	30,000	30,000	20,276	38,993	60	35	--	A-F-C	R-755-7 (575)
Lycoming	30,000	30,000	21,663	34,660	40	33	--	A-F-C	R-680-9 (477); R-680-11 (393)
Wagner	19,300		18,630	36,393	30	--	--	A-N-F	L-440-1 (363); XV-770 (3,500)
Walter - P & W	885,773	965,332	1,215,680	1,424,800	23	78	21	A-N-F-C	R-985-19 (849); R-1340-49 (915); R-2800-5 (2,463); R-1830-33 (1,553)
Total	1,123,300	1,246,000	916,450	1,400,000	98	90	3	A-N-F-C	R-3350-5 (2,120); R-2600-11 (1,700); R-1620-53 (1,300); R-975 (820)
Total	2,524,410	3,001,332	2,456,917	3,424,476					

* Includes hangar space leased at Newark Airport used for manufacturing.

** Subcontracting for Martin on French order.

*** Subcontracting for Martin, Republic & Brewster.

**** Subcontracting for N. American, Boeing, Consolidated, Douglas and Lockheed.

Mat. Plan. Sec., Mat. Div.,
Office, Chief of Air Corps,
May 18, 1940 (SMA:llk)

Question of licensing.

R-1370 - P+W. Requirement 1500 Engrs. 600HP.

P+W to continue in Production for 9 months @ 45 Engrs per m

Lycoming - to start tooling up at once - production in 9 months.
To produce 1000 Engrs.

Total 1500 Engrs.

R-985 - P+W Requirement 500 Engrs 400HP

P+W to continue production until taken over.

Lycoming to start tooling and take over production
as soon as possible.

Total 500 -

This will give Lycoming probably get about
1200 Engines out of both of
these deals.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON
May 17, 1940

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: Pratt & Whitney and Wright Engines to
be licensed to other manufacturers.

1. In reply to your telephone inquiry of this date, the following are the series of Pratt & Whitney and Wright Engine Co. engines recommended for license to other manufacturers in order to obtain them in the quantities required.

a. Pratt & Whitney

Model Nos. 985 and 1340

1st Priority 1340

b. Wright Engine Co.

Model No. 975

Yes

H. H. Arnold
H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.

#985 = 400 H.P.
1340 = 600 H.P.
975 = 400 H.P.

TREASURY DEPARTMENT

270

INTER-OFFICE COMMUNICATION

DATE May 17, 1940

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

Sterling exhibited a steady tendency during the morning session, but in the afternoon, it declined on reports that the Germans were making further advances in Belgium and Northern France. After opening at 3.24, sterling rose to a high of 3.26-1/2, and then returned to a noontime rate of 3.24. It moved off rapidly to a low of 3.20 in the mid-afternoon. The closing quotation was 3.21.

Sales of spot sterling by the six reporting banks totaled £406,000, from the following sources:

By commercial concerns.....	£ 190,000
By foreign banks (Europe and South America).....	£ 216,000
Total.....	£ 406,000

Purchases of spot sterling amounted to £342,000, as indicated below:

By commercial concerns.....	£ 118,000
By foreign banks (Far East and Europe).....	£ 224,000
Total.....	£ 342,000

The following reporting banks sold cotton bills totaling £7,000 to the British Control on the basis of the official rate of 4.02-1/2:

£5,000 by the National City Bank
2,000 by the Irving Trust Company
<u>£7,000 Total</u>

Developments in the other important currencies were as follows:

The French franc moved with sterling on the basis of a cross rate of 176.40 francs per pound. It closed at .0182.

The Swiss franc touched a new low of .2125 at the opening, but during the afternoon it strengthened considerably to reach a high of .2210 at the close.

The Canadian dollar continued to weaken today, closing at a discount of 19-7/8%.

The reichsmark closed at .4000.

An Associated Press dispatch received from Paris this afternoon stated that, after a triple financial accord between France, Great Britain and Belgium, exchange rates were fixed today at 68 Belgian francs for 100 French francs and 120 Belgian francs for the British pound. (The belga is equal to five Belgian francs.) On the basis of the official sterling-dollar rate quoted by the Bank of England, the belga works out to the equivalent of .1679. This rate closely approximates the last official belga quotation made by the Bank of England prior to the invasion.

The yuan again moved upward in Shanghai today, being quoted at 4-1/32d, up 3/32d, and 5-1/2¢, up 3/16¢.

The Federal Reserve Bank of New York sold 50,000 Swiss francs for account of the Bank of Latvia.

We sold \$500,000 in gold to the Central Bank of the Uruguayan Republic, to be added to its earmarked account.

We purchased \$35,000,000 in gold from the earmarked account of the Bank of France.

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

\$3,500,000 from Japan, shipped by the Yokohama Specie Bank, Kobe, to its agency in San Francisco, for sale to the U. S. Mint.
1,649,000 from Switzerland, shipped by the B.I.S. to the Federal Reserve Bank, to be earmarked for account of the B.I.S.
\$5,149,000 Total

The Bombay metal markets were reported to have been reopened today, and a gold price equivalent to \$36.75 was reported to a New York bank by one of its Indian correspondents.

The Bombay spot silver quotation worked out to the equivalent of 45.07¢, up 1/8¢ from Wednesday's price. A trader in one of the leading New York banks stated that he believed that two large American refineries had made sales totaling perhaps 1,500,000 ounces of silver to Indian operators. He added that this silver had been sold in San Francisco.

Spot silver in London was unchanged at 23-1/2d. The forward quotation, however, moved off 5/16d to 23d. The U. S. equivalents were 34.37¢ and 33.28¢ respectively. Continental concerns were reported to have been buyers of spot silver in London today, and speculative interests were cited as resellers for forward delivery.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

Although no purchases of silver were made by us in the New York market today, we bought 40,000 ounces from the Bank of Canada under our regular monthly agreement. So far this month, we have purchased 910,000 ounces of silver from that source, as compared with the agreed monthly limit of 1,200,000 ounces.

J. W. P.
CONFIDENTIAL

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

272

INTER-OFFICE COMMUNICATION

DATE May 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

By telephone this morning Mr. Knoke brought me to date on Italian banking transactions on the New York market. The Federal Reserve Bank has today credited the Bank of Italy with \$2,600,000, representing the proceeds of gold which arrived on the Roma.

On May 15, the Federal paid \$5,200,000 from the Bank of Italy account to the market for the account of the Italian Exchange Institute. This sum also represented proceeds of gold reported from Italy.

Yesterday the Guaranty Trust opened three credits to cover exports to Italy of steel and asbestos, totaling \$120,000.

The Banco Commerciale Italiano had drawn a check on the Chase Bank in favor of the Copper Export Association for \$492,000.

The Banco Commerciale Italiano has transferred \$1,000,000 from its account with the Chase to the Banque Francaise Italiennne. The Banco Commerciale Italiano has also transferred \$1,250,000 from its account with the Chase to the account of the Italian Exchange Institute with the Chase.

The Federal Reserve Bank has received \$1,000,000 from the Chase Bank by order of the Banco Commerciale Italiano, to be credited to the National Bank of Bulgaria.

The Banco Commerciale Italiano has drawn a check for \$2,600,000 on the Chase in favor of the Swiss Bank Corporation.

The Banco Commerciale Italiano has shifted \$426,000 from its account with the National City to its account with the City Bank Farmers Trust.

The Banco Commerciale Italiano has also transferred \$500,000 from its account with the National City Bank to the account of the Italian Exchange Institute with the Chase Bank.



TREASURY DEPARTMENT

273

INTER-OFFICE COMMUNICATION

DATE May 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Irigoyen, formerly Financial Counselor of the Argentine Embassy in the United States, telephoned me at 4 p.m. today from Buenos Aires wanting the latest news in regard to the war situation and to the American market. I gave him the facts as reported on the tickers, but hazarded no opinion on the outlook for commodities on our market. This was the subject which interested him most.



GROUP MEETING

May 17, 1940
11:30 a.m.

Present: Mr. Gaston
Mr. Haas
Mr. Young
Mr. Harris
Mr. Foley
Mr. Cotton
Mr. Schwarz
Mr. Sullivan
Mr. Cochran
Mr. McReynolds
Mr. Bell
Mrs Klotz

H.M.Jr: Well, Basil, did they get you last night?

Harris: Yes.

H.M.Jr: You say that is incorrect information?

Harris: Yes, it is incorrect.

H.M.Jr: Was there any way that we could find out if there is any more insurance being transferred?

Harris: Yes.

H.M.Jr: Have you got some insurance broker friend up there?

Harris: Yes. I talked with the two biggest underwriters in this country and one of them had in his own office a representative of the largest Italian - signal Italian fleet out of Trieste and he said there wasn't anything in it at all. Furthermore, he said that the American market doesn't like insurance on Italian ships anyhow and they have always been very leery of them and they would certainly be at this moment.

H.M.Jr: O. K.

Herbert?

Gaston: I haven't got anything this morning. Did you take a look at your ship?

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H.M.Jr: Oh my God, no. It is over - somewhere, isn't it?

Gaston: Over at Bowling.

H.M.Jr: Ed?

Foley: Here is a memorandum on that proposition you gave to John and me last night.

H.M.Jr: All right. I will take that with me wherever I go tonight, Mrs. Klotz, when I go to the country, see, and you (Foley) and John and Phil Young be at my house Sunday night at 7:00 o'clock. I have already talked to these two companies and they both said they will do anything that I ask them to do.

Foley: You have got a six-shooter in it.

H.M.Jr: Well, Louie Johnson called a meeting for 10:00 o'clock Monday.

Sullivan: That is right.

H.M.Jr: Well, we are going to have one here at 9:00 and I am going to handle the licensing.

Sullivan: I have had a conversation with Johnson.

H.M.Jr: I am going to handle the licensing and I told him so.

Foley: I think that is wise.

Sullivan: This morning?

H.M.Jr: After you talked to me. I told him I am going to handle the licensing. So then he advised, well, statutory, it is his right, but by direction of the President - he realizes the President wants me to do it.

Foley: His, my eye! I don't think it is in the first place, and in the second place there isn't any doubt about what we can do, and the peculiar thing, Mr. Secretary, is that the President himself, when he was Assistant Secretary of the Navy, back in

- 3 -

1918, created the machinery so that you can do now what you had in mind last night without having the Government incur liability. The Court held back in '18 - and probably that is where the President incurred his first distrust of Supreme Court decisions - that the holder of a patent could bring action against an assignee with a contract for the United States. He asked for legislation from Congress to grant immunity to such an assignee where the assignee was producing for the United States and Congress gave him the authority and that has been sustained by the Supreme Court. We couldn't have a better situation than we have, both from the point of statute and the point of decisions and precedents than what you have in mind.

H.M.Jr: Phil, would you get word to Brett and Captain Kraus to be available Sunday night in case I want them? I might want them sometime after 8:00 o'clock.

Young: Yes, sir.

H.M.Jr: General Brett and Captain Kraus and Major Lyons.

Well, I will get a chance to read this. I have got plenty of help. I am not going to need it. Both of them said, "Anything that you want." Brett told me they had worked for five months to try to get this.

Foley: John and I hadn't been able to find out that there was a possibility that we - there may have been motors or parts of motors that have been entered into competition and the statute provides that where that is done the United States owns the patent and if that is so, it is ours anyway and we can do anything we want with it.

Sullivan: I talked with Colonel Burns last night and he was vague and referred me to General Brett, whom I couldn't get last night and he left early this morning for Hartford. That is how I happened to call Louie Johnson and he didn't grasp the problem at all as to whether or not they had title or what measure of control they had.

H.M.Jr: Well, I didn't know that you had called him, but I wear myself out calling Woodring and Johnson and they

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don't talk to each other.

O. K., you fellows do it.

Sullivan: I was merely calling to find out whether or not Pratt & Whitney and the other engines they used were competition designs and they didn't quite understand that. The statute vests the title in the War Department when the design is submitted and the ship is finished. I still don't know the answer. Do you want me to pursue it?

H.M.Jr: Answer to what?

Sullivan: Whether or not the War Department owns those engines.

H.M.Jr: Sure, pursue it.

Sullivan: All right.

Foley: It really doesn't make a great deal of difference. You have still got the power to make them do what you want to do, anyway.

Sullivan: The only difference is whether or not you have to pay a royalty on the patents.

H.M.Jr: Brett knows more about it.

Sullivan: He is in Hartford today.

H.M.Jr: Then get Captain Kraus in the Navy. He is a swell guy. He would know the same thing.

Foley: The other thing, Mr. Secretary, that I would like to get some advice on is the part that you want us to play in connection with the legislation for the Inter-American Bank. The State Department has called up now and says that we ought to get the legislation up. We have the legislation drafted. We haven't told them yet.

H.M.Jr: Well, I understood that the President wanted Jesse Jones to have it. Where is Bell? Bell knows about this thing.

- 5 -

Foley: We drafted it up and we can --

(Mr. Bell entered the conference)

H.M.Jr: Well, I will take it up in Cabinet. I will ask in Cabinet.

Cotton: As I remember, you said at one time that Jones was going to handle it. I don't know what the basis was, but I remember your saying it.

H.M.Jr: I think that Bell can answer that. I think he was here and I wasn't here.

Foley: Well, if we draft the legislation, the Treasury will have control. If the State Department drafts it, the State Department will have control and if Jesse Jones drafts it, he will have control, so I think it is important to know who should draft it and who should handle it on the Hill.

H.M.Jr: Am I not right that somebody told you (Bell) that the President wanted Jesse Jones to handle legislation on the Bank of North and South America?

Bell: My faint recollection is that somebody in the State Department said that.

H.M.Jr: Well, I will ask in Cabinet.

Foley: Collado called Bernie today and said that they had gotten to the point now where we ought to get together on the draft of the legislation.

H.M.Jr: That is getting it right from the horse's mouth, isn't it? O. K. Anything else?

Foley: No.

Cochran: I gave you the cablegram on France this morning. That is all I had. We are getting another 120 million dollars of their gold down through Canada. Half of it arrived today. Then a friend of mine was in yesterday and volunteered some statistics on shipments of tungsten from Argentina. They produce some there. Some of the shipments recently have gone to Sweden and Japan. I will give this to Phil Young.

- 6 -

H.M.Jr: Joe?

Cotton: Nothing.

H.M.Jr: Phil?

Young: We had a very nice chat with Secretary Hull this morning.

H.M.Jr: Talk louder.

Young: We had a very nice visit with Secretary Hull and Mr. Welles and Mr. Berle this morning.

H.M.Jr: Had all of them in?

Young: All of them. They had the whole team out for us.

H.M.Jr: That is more than they have ever done for me.

Young: I gave them a little of the background and they are very willing to cooperate to the fullest extent.

H.M.Jr: What?

Young: On coordinating information and working up analyses on purchasing.

H.M.Jr: How will it go from now on?

Young: We are sending them copies of the analyses which we make up to Secretary Hull.

H.M.Jr: Yes.

Young: One copy. Possibly two copies, if they ask for a second one. If they want any additional information, they will call me. If they don't get me, they will call George.

H.M.Jr: Swell. All right. They call Ballantyne Secretary-General. We will call you Secretary-General of statistics.

Young: Mr. Ballantyne sent over to me this morning a page and a half which they wish to release to the press,

- 7 -

which has been approved by Mr. Purvis, giving just a general idea of what they have been doing in the amount of money as far as purchasing goes in this country since the beginning. Would you like to see it?

H.M.Jr: How long is it?

Young: A page and three-quarters.

H.M.Jr: Let me skim it. Who is going to release it?

Young: The Purchasing Board for the information of the press. That has been approved by Purvis.

H.M.Jr: O. K. What else?

Young: That is all. I have not yet received an answer on duPont or Colt.

Schwarz: If you haven't seen all you wish from the ticker on the President's press conference, I have just returned from there.

H.M.Jr: I think I had better take it on the ticker. Did he say anything about the debt limit?

Schwarz: Not a thing. Nobody asked him. It was all defense and relief.

H.M.Jr: I mean, to save my time, I think I will get it on the ticker.

George?

Haas: I have nothing.

H.M.Jr: Do you want to go to bed? Why don't you go home at lunch time?

Haas: I feel all right.

H.M.Jr: I would go home anyway. You don't have to go home only when you don't feel all right. You can surprise your wife.

George's crowd was up until 6:00 this morning and did a beautiful job on this statistics.

- 8 -

Young: We left a copy of that table with Mr. Hull this morning.

H.M.Jr: You did give Mr. Hull a copy of this?

Young: Yes. He was very much impressed with it and very discouraged at the picture.

H.M.Jr: You ought to see our own production figures for ourselves. That is what he wanted, was it?

Young: Yes, sir.

H.M.Jr: All right.
You (Haas) are going home at noon.

Haas: Thank you.

H.M.Jr: Basil?
Dan?

Bell: The only thing I have is we revoked the other license for the Dutch last night.

H.M.Jr: Are you going to have that memo for me?

Bell: It is being written up now.

H.M.Jr: Who is not going to be here tomorrow?

Harris: I can be.

H.M.Jr: It is a bad time, Basil.

Harris: I will be here.

H.M.Jr: O. K. Thank you all.

May 17, 1940
8:35 a.m.

H.M.Jr: Hello.

Operator: Senator Harrison is taking a message now. It'll be done in about an hour. He wanted to know may he call you back or.....

H.M.Jr: Who is at the phone?

O: Mrs. Harrison.

H.M.Jr: May I talk to her, please?

O: Yes, sir.

H.M.Jr: Thank you. Hello. Hello.

Mrs.
Harrison: Hello, Mr. Secretary.

H.M.Jr: How are you, Mrs. Harrison?

H: Just fine, thank you.

H.M.Jr: Mrs.....

H: Why, Mr. Harrison is taking a message right now and I think they'll be through with him in about forty minutes.

H.M.Jr: Well, what I wanted to ask him. I wondered if -- maybe you can call in or something. I'd like very much to talk to him about how -- what we're going to do about the debt limit this morning, you see?

H: Uh-huh.

H.M.Jr: And I wondered if -- and if he could tell me, if it's convenient for him to stop by my office then I could get shold of Mr. Doughton and tell him what time Mr. Harrison was coming, you see?

H: Yes, all right. Well, you wait and just let me ask him the question.

H.M.Jr: I'll hold on the wire, see?

- 2 -

H: All right, that'll be fine.

(Pause)

Mr. Morgenthau.....

H.M.Jr: Yes.

H: He says that he's -- would be glad to come by there any time after ten, but he has an appointment at eleven at the White House and that he understands that Mr. -- that Mr. Doughton is out of town.

H.M.Jr: Oh.

H: But he didn't know for sure about that.

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

H: But he could come by.....

H.M.Jr: He's going to the White House at eleven?

H: Yes, sir.

H.M.Jr: Well, supposing we said ten -- ten fifteen. That would give him plenty of time.

H: Yes, I think so.

H.M.Jr: What?

H: Yes.

H.M.Jr: A quarter past ten.

H: Yes.

H.M.Jr: At my office.

H: Yes, that'll be all right.

H.M.Jr: A quarter past ten.

H: Yes.

H.M.Jr: And then I'll see if I can get Mr. Doughton.

- 3 -

H: Yes, all right. He'll do that.

H.M.Jr: Thank you.

May 17, 1940
8:40 a.m.

H.M.Jr: Hello.

Operator: Congressman Doughton's secretary.

H.M.Jr: Hello.

Doughton's
Sec: Hello.

H.M.Jr: Is Mr. Doughton available?

Sec: No, Mr. Secretary, he is in North Carolina at the State Democratic Convention today and he will return in the morning.

H.M.Jr: Well, is -- I suppose the second man on the committee is Mr. Cooper.

Sec: The second man on the committee is Mr. Curran, of N.Y.

H.M.Jr: Who?

Sec: Curran of New York.

H.M.Jr: Yeah, but the sub-committee.....

Sec: Oh, the sub-committee -- the chairman of tax committee is Mr. Jere Cooper.

H.M.Jr: Right. Well, I'll try to get ahold of him then.

Sec: All right, sir. And Mr. Milton Cooper, the clerk of the Ways and Means Committee, if you'd like to talk with him.

H.M.Jr: No, I think I'd rather -- I think Jere Cooper. He's chairman of the sub-committee, isn't he?

Sec: Yes, that's correct.

H.M.Jr: Thank you.

Sec: You're quite welcome indeed.

May 17, 1940.
8:54 a.m.

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H.M. Jr: Hello.
Jeré
Cooper: Hello.
H.M. Jr: Jere Cooper?
C: Yes.
H.M. Jr: How are you?
C: All right Henry?
H.M. Jr: You bet.
C: Fine. How are you Henry?
H.M. Jr: When is that girl coming with those strawberries?
C: (laughs) I don't know, I'll have to check up on that for you.
H.M. Jr: O.K. Jere?
C: Yes.
H.M. Jr: Pat Harrison is coming in at ten-fifteen to see me.
C: This morning?
H.M. Jr: Yeah.
C: All right.
H.M. Jr: And I'd like you here.
C: All right.
H.M. Jr: And Bob's out of town they tell me.
C: Yes, he told me yesterday he was leaving last night.
H.M. Jr: And so I want to talk about the debts.
C: Oh, all right.
H.M. Jr: See.
C: Fine.
H.M. Jr: O.K.

- 2 -

C: And nothing to be said about it.

H.M.Jr: Pardon?

C: You don't want anything said about the meeting of course.

H.M.Jr: I don't think so.

C: Well, all right.

H.M.Jr: I don't think so.

C: Ten-fifteen.

H.M.Jr: Yes.

C: All right Henry, thank you so much.

H.M.Jr: Right.

May 17, 1940.
9:05 a.m.

H.M.Jr: Hello

Operator: Mr. Hopkins.

H.M.Jr: Hello.

O: Go ahead.

Harry Hopkins: Good morning Henry.

H.M.Jr: Hello Harry.

H: Henry, can I lunch with you today?

H.M.Jr: Any other day, but I can't because my daughter is coming in.

H: What time are you lunching?

H.M.Jr: Joan. -

H: No, what time are you lunching?

H.M.Jr: One o'clock.

H: Can I see you at twelve-thirty, or twelve.

H.M.Jr: You want to see me before Cabinet.

H: Yes.

H.M.Jr: Well let me do it this way Harry. How about quarter of two.

H: Are you leaving them -

H.M.Jr: I'll come to Cabinet early.

H: All right, I'll meet you at quarter of two over at Missy's office.

H.M.Jr: Sure, that save you - I mean running to my office.

H: All right Henry.

H.M.Jr: How's that?

H: Fine.

- 2 -

H.M.Jr: What.

H: That's all right.

H.M.Jr: And I'll have - if it was anything else but Joan, because -

H: That's important in life.

H.M.Jr: Well I mean she's coming from out of town.

H: Why of course Henry.

H.M.Jr: That's the only time all day.

H: That's - we can do it in ten minutes.

H.M.Jr: Well I'll come over to Missy's office quarter of an hour ahead of time. All right with you.

H: Yes.

H.M.Jr: Harry?

H: Yes.

H.M.Jr: While I have you on your phone.

H: Huhhuh.

H.M.Jr: What is your estimate of this fellow McConnell that you have over there.

H: Oh he's all right. He's all right for certain things.

H.M.Jr: Well -

H: But -

H.M.Jr: How would he be with bargaining with business, driving a hard bargain.

H: Oh I doubt if he's up, well it depends on, if you're talking about an overall scheme I don't think so, but if you're talking about some special things then maybe he could do it.

H.M.Jr: Well I mean for instance I'm continuing this airplane thing, sitting down and telling one of these companies

- 3 -

where to head in and not charging too God dam much and so forth.

H: Shall I tell you that at a quarter of two.

H.M.Jr: Sure.

H: Fine.

H.M.Jr: What.

H: All right.

H.M.Jr: Because the suggestion was made. I don't know the fellow and I don't know how busy he is over there with you.

H: Well I - hell, I mean he's busy, but that's a very important job.

H.M.Jr: I just wanted, I mean if you can -

H: - borrow him.

H.M.Jr: What?

H: You can borrow him.

H.M.Jr: Well that was - well he's a tough guy.

H: Well I'm not sure about that. I'd like to check that up a little bit.

H.M.Jr: And when you sit down say, listen you so and so.

H: Yeah.

H.M.Jr: What?

H: That's right. Let me check that a little bit.

H.M.Jr: All right.

H: Fine. Fine.

May 17, 1940.
12:50 p.m.

H.M.Jr: Hello.
Sen. Pat
Harrison: Henry?

H.M.Jr: Yes, Pat.

H: I dropped by your office on the way back, but you were taking your rest.

H.M.Jr: That's right.

H: I had a very fine talk with the President, and he's going to have a talk - he said he had not been able - been so busy on this other stuff, hadn't been able to give any consideration to this proposition, and I told him what I told you, this morning, with reference to the situation, these people behind me and so forth.

H.M.Jr: Yes.

H: And I wanted to lay my plans.

H.M.Jr: Yes.

H: And I think he wants to, if it's possible, of course he's got to go over to you, he said he was going to try to get you all together right away, you and Danny I believe.

H.M.Jr: Yes.

H: Of course I think at that time - Sullivan struck me, first time I had met him.

H.M.Jr: Oh I didn't know that.

H: Well I think probably I had met him before but I don't know - remember, but anyway he struck me as a very nice fellow.

H.M.Jr: He is a nice fellow. He's an able fellow too.

H: Yes.

H.M.Jr: Well anyway the President will get in touch with you and so on and get a report on this stuff to see if we could possibly go through January on this proposition.

H.M.Jr: Yes.

H: And try to work it out in that way.

H.M.Jr: I see.

H: He's got the political aspect on this other thing the same as I have.

H.M.Jr: Right.

H: So I hope that you all can try to work that thing out so that we can meet here together in December. he said he's call them

H.M.Jr: Right.

H: If he couldn't go, but it'd be better -- it would be bad to call the extra session.

H.M.Jr: Right.

H: You see?

H.M.Jr: I see.

H: But if we could go until February 1st, about financing, on this thing, take care of it because I assured him that we'd have the money.

H.M.Jr: Yes.

H: And I told the newspaper boys when I went out that I'd gone over this situation with them. I said nothing to them about this meeting we had this morning.

H.M.Jr: Well, that's all right.

H: Well, I was afraid to in view of what you said.

H.M.Jr: Well, I told Pa Watson that you people were here.

H: Well, I know, but I didn't -- you said nothing to come out of this.

H.M.Jr: That's right.

H: So I didn't say anything to the newspaper fellows when I came out.

- 3 -

H.M.Jr: Oh!

H: I told the President what I was going to tell them.

H.M.Jr: Oh!

H: That we had discussed this thing and that he was going to have you there right away, go into it and that we'd have to evolve our plans from a study, and the condition of the thing, but that we provide the money where we could do it, whether the debt limit would prevent us from doing it in January when we first met here or not would depend upon that study.

H.M.Jr: Oh when you said - I thought you said you didn't tell the President that you'd been to see me.

H: Oh yes, I told him I had had a talk with ^{you} - and he told me that he'd been unable to talk with you because he'd been so on this other stuff.

H.M.Jr: I know.

H: Said he'd been working up and so forth on the situation.

H.M.Jr: Well it's very nice.

H: So he said, I thought he said he was going to try to get you - you and Danny - well I don't know when, I know some - very early.

H.M.Jr: Well, that's all right.

H: Go into it.

H.M.Jr: And -

H: But if you possibly can Henry, to work out those figures, why we can do this thing by January, in January would be a whole lot better.

H.M.Jr: Well, -

H: I'm discussing it from the political angle of course, that's one of the things, because it's going to prolong things here a great deal.

H.M.Jr: Yes.

- 4 -

H: And of course I know that you don't want to get on the feather edge about you'd like to have five hundred million in the Treasury rather than a hundred million.

H.M.Jr: Yes.

H:

H.M.Jr: Right.

H: But either way, try to work it out if you can on that lines before you talk to him.

H.M.Jr: I'll do the best I can.

H: Yes.

H.M.Jr: Thank you.

H: Well that's about all that happened.

H.M.Jr: Thank you.

H: All right. Much obliged.

May 17, 1940.
5:00 p.m.

H.M.Jr: Hello.

Operator: Jerome Frank.

H.M.Jr: Hello.

Jerome
Frank: Hello Henry.

H.M.Jr: Hello.

F: I just wanted to get your views on what you think we ought to do about the market. We're trying to make up our minds, want to watch it from minute to minute, I just wondered what your notions were.

H.M.Jr: Well my notion is the way it's running now I wouldn't do anything. I think it's all right.

F: Supposing we get word before the opening that there's very heavy selling, buying - selling orders standing by and we've got bad war news over night. Would you change your views?

H.M.Jr: Not the way it's behaved the last couple of days.

F: You wouldn't.

H.M.Jr: No I wouldn't. I think that - yesterday it went up, today it went down.

F: Went pretty bad today. Your views, I may say, happen to be mine.

H.M.Jr: Well I didn't know.

F: But I just wanted to get your reaction.

H.M.Jr: Now Jerome, you can reach me, this is confidential, I'm not telling anybody, but I will be at Beacon 211. Beacon, New York.

F: Beacon, New York, 211.

H.M.Jr: And I've got an airplane standing by, come back in two hours, you can get me on the phone any time as fast there as you can in Washington.

F: Thank you very much.

H.M.Jr: And your views, you say, are the same.

F: Yes.

H.M.Jr: I'm - unless they were dropping - or no order, to drop in one or two points at a time.

F: Right.

H.M.Jr: I think the market is taking good care of itself.

F: Yes it has I think.

H.M.Jr: What?

F: I think it has.

H.M.Jr: And - so that's the way I feel Jerry.

F: All right, I'll phone you then tomorrow perhaps.

H.M.Jr: Any time you phone me day or night I'm available if you want to talk to me.

F: Swell, thanks very much.

MEMORANDUM

May 17, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference with Undersecretary Bell, Senator Harrison and Congressman Cooper, — the latter two having been requested by the Secretary to meet with him this morning.

At the Secretary's request, Undersecretary Bell presented figures showing our estimated borrowing power as of December 31, 1940, March 1, 1941, and June 30, 1941. He also presented figures showing the rate of expenditure under the proposed defense program and the relief program. Senator Harrison immediately started discussing the bill to recapture \$700,000,000 from R.F.C. and Surplus Commodities and other Federal lending agencies. He spoke with some feeling of bitterness about the hypocrisy of the situation and expressed the preference that this be postponed until after election. He then added that a great deal of trouble would await any tax program and that he had hoped it would be possible to postpone raising the debt limit until February or March, 1941.

Congressman Cooper said he felt that it would be unwise for Congress to adjourn and leave the Secretary with such a narrow margin as would confront him on December 31, 1940. After a further discussion of Undersecretary Bell's figures, Senator Harrison inquired about the Stabilization Fund and expressed the feeling that many of the Senate felt that this Fund should now be used to avoid either new taxes or an increase in the debt limit. The Secretary replied that both the President and he had told the public and the Congress that this fund would not be used except in the face of a national emergency which does not now confront us or for purposes of retiring our indebtedness, — which obviously could not be done until the Budget was balanced. He then stated that before the Stabilization Fund was used for any such purpose as suggested by Senator Harrison, he would have to insist upon a new tax program.

Senator Harrison in conclusion stated that he was willing to work for either a new tax program or an increase in the debt limit providing the President shared responsibility for such a move, but that he felt it imperative that we have a concerted plan of action.

- 2 -

Cooper again stressed the difficulty of passing a tax bill at the present session. He spoke specifically of the LaFollette amendment, the repeal of security exemptions, and the Josh Lee bill.

It was agreed by all that the discussion and the figures presented should be kept confidential. Senator Harrison left for the White House, agreeing to call the Secretary after the White House conference.

JLS

dwB



TREASURY DEPARTMENT
WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

May 17, 1940.

REPORT FOR SECRETARY MORGENTHAU:

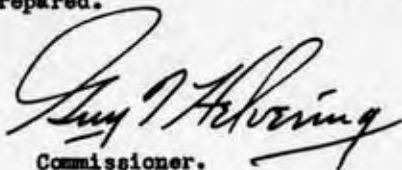
In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company, Incorporated:

A draft of a closing agreement has been written and is under consideration by reviewing officers.

Rockbestos Products Corporation:

A first draft of a closing agreement has been found to require revision and such revision is being prepared.


Commissioner.

IT:P:CA
CAA

May 17, 1940.

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(Signed) Guy T. Helvering

Commissioner.

CAA/MRA



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TREASURY DEPARTMENT
WASHINGTON

May 17, 1940.

MEMORANDUM FOR THE SECRETARY:

The American Steamship TAMPA, which sailed from New York April 25th for Shanghai, had on board 4,480 aluminum ingots.

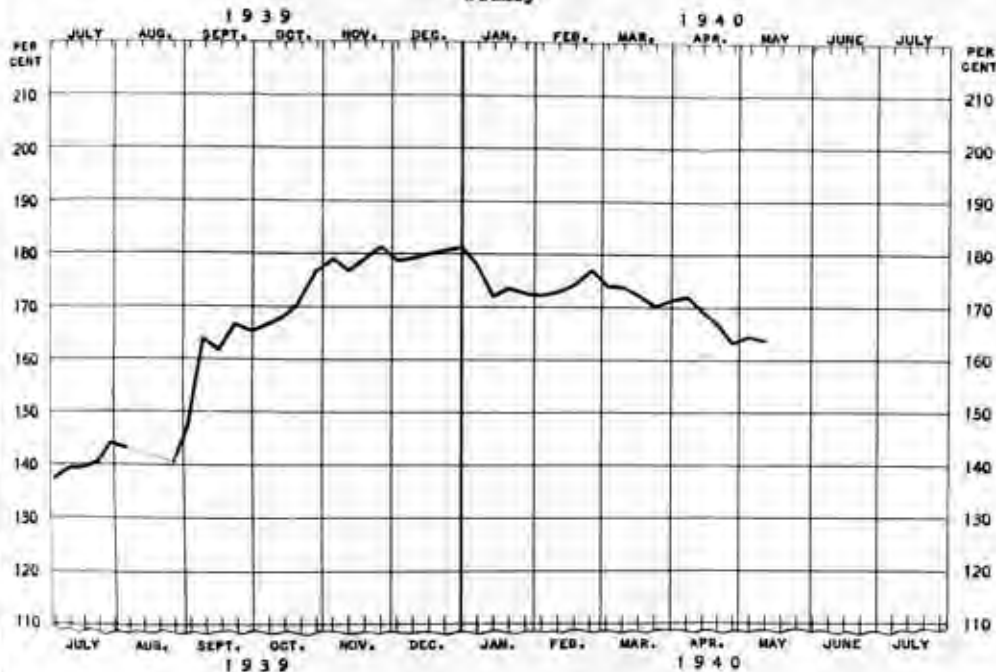
The Steamship NICOLINA-MATKOVIC, which sailed on April 23rd for Marseilles, France, had on board 808 barrels of molybdenite concentrates.

Basil Harris -

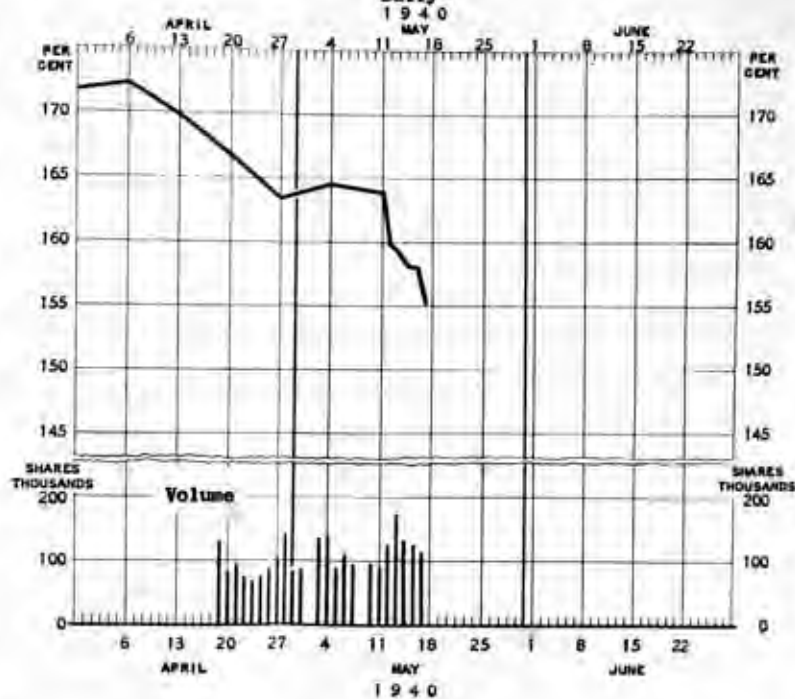
ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily*



*DAILY FOR LATEST WEEK ONLY

JR

PLAIN

London

Dated May 17, 1940

Rec'd 12:53 p.m.

Secretary of State,
Washington.

1251, May 17.

FOR TREASURY FROM BUTTERWORTH.

1. There is still unconsciousness and gloom, as defined in paragraph 2 of my 1218, May 15, but very few in the City seem to realize fully what is before.

2. The British Treasury states in confidence that the Dutch were slow and apparently unwilling to burn valuable securities so that most of the bearer securities can probably be obtained by Germany.

I asked what Reynaud meant by his statement that the Dutch Government had promised their allies "All the resources of the Dutch Empire to the very end", the answer was that it doubtless meant that Reynaud did not know his Dutch.

3. With reference to my No. 616 of March 11, the Bank of England today notified banks that the New Zealand authorities have added to the conditions to export licenses specified methods of payment as follows:

New Zealand

-2- 1251, May 17, from London.

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New Zealand exports to the sterling area may be paid for in sterling. Sterling payment is also allowed for New Zealand exports to Canada, Newfoundland, Argentine and the French Empire if the sterling is purchased from the respective controls; to Sweden if paid from a special account (see my No. 644 of March 14); and to Turkey, Italy, Rumania or Spain if paid through the respective clearings. New Zealand exports to all other countries must be paid for in (a) United States dollars, to be surrendered to the bank of New Zealand or (b) sterling letters of credit registered with the Bank of England calling for reimbursement in United States dollars, Swiss francs or Netherlands East Indies guilders.

KENNEDY

MoL

RDS

GRAY

Milan

Dated May 17, 1940

Rec'd 2:15 p.m.

Secretary of State,
Washington.

32, May 17, 5 p.m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 191; 329; 500; not listed;
968; 194; 1600; 59; 212. Volume 112,600.

Heavy selling offers due political pessimism drove
prices steadily downward throughout active session.

SHOLES

CSB

1 + 9

CONFIDENTIAL

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Tr.

JT

SHANGHAI VIA N.R.

Dated May 17, 1940

Rec'd 3:05 p.m.

Secretary of State,
Washington.

May 17, 3 p.m.

Reference Embassy's May 13, 9 a.m.

It appears certain that the American Information Committee in sending message to Secretary of State was motivated only by a desire to aid in a situation represented to its members as serious. It appears equally **certain that no one in the committee had for an objective the destroying of the exchange market for his own benefit.** Members of the committee state that the publicity given the subject in papers here on May 1 was unintended and that they do not know how the matter reached the local press. Because of the wording of its message to the Secretary of State the committee is reluctant to mention any names, as it desires to avoid any possible retaliation by Japanese or Japanese-sponsored regimes on individuals. While the publicity is believed by some to have been a factor in encouraging buying activity in the exchange market May 1, later information indicates that it can by no means be regarded as the

CONFIDENTIAL

-2- #- May 17, 3 p.m., from Shanghai via NR

the sole or principal factor.

The basis for uneasiness was well laid over a period of time in circumstances well known to the market, namely; firstly, heavy excess of imports over previous three or four months causing drain on stabilization fund; secondly, rumors prevalent first of April that the control in Hong Kong was about to alter the stabilization rate; thirdly, receipt of news on May 1 that the Mediterranean was closed by British authorities to their merchant shipping, thus inviting further flight from fapi into United States dollars for safety; fourthly, publicity surrounding and heightened nervousness over believed imminence of launching of a new fiat currency by the Nanking regime.

It is pointed out that local periodicals several times during April had commented on the stabilization fund as sharp, while Finance and Commerce Weekly appeared the morning of May 1 with the following opening remarks on its page reviewing exchange and financial markets for the week ended April 27:

"The report that a meeting of financiers was being held in Hong Kong kept the speculators on the Shanghai exchange market in a state of uncertainty last week. The object of the meeting, again according to report, is recalled to discuss the future of the stabilization fund which, it was said,

43- #, May 17, 3 p.m., from Shanghai via NR

said, need not be "rehabilitated". How these matters are known is a mystery, and it would be merely a waste of time to endeavor to trace the reports to their source. Nor would it be of importance if it could be stated on the highest official authority that there is not the slightest foundation for them; that they were guesses entirely devoid of truth. The important point is the effect which the rumors, true or false, have upon the market. The speculators last week were entirely satisfied that the fate of the stabilization fund, one way or another, was being decided in the Crown Colony, with the help of the Vice Minister of Finance or possible high official from Chungking".

Doctor Paul Monroe was quoted in the China press on April 27, four days previous to the appearance of the publicity on the American Committee's activity as revealing that he was en route to the United States to urge Washington to make a loan to Chungking, exact wording of his statement as published being: "Chinese leaders seem confident that they can force Japan to sue for peace but admit that without a loan to stabilize their currency the work will be much more difficult".

It should be noted that none of the regular local news commentators on financial matters appear to have reached any conclusion that the publicity surrounding the American Committee's

Committee's

CONFIDENTIAL

309

~~-4-~~ # May 17, 3 p.m., from Shanghai via NR

Committee's message had any financial effect on the situation, but Finance and Commerce in its issue of May 8 commented rather caustically on the heavy buying orders placed from Hong Kong May 1 (see this Consulate General's telegram number 402, May 9, 11 a.m. to the Department, repeated to Chungking and Peiping today for their information).

It should be noted that Dr. Montor's comments during his visit here together with the recurrent reports on plans for possible early implementing of a new Nanking currency, and on local gold bar purchases to back it, accounted for the concern felt by the members of the American Information Committee which is composed mainly of missionaries whereas the message to the Secretary of State was incorrectly ascribed in the press as emanating from representative American business interests.

Sent to Chungking repeated to Peiping.

BUTRICK

CSB

MJD

GRAY

PARIS

Dated May 17, 1940.

Rec'd. 3:45 p. m.

Secretary of State,
Washington.

725, May 17, 6 p. m.

FOR THE TREASURY.

A member of my staff has just called on Pearce of the National City Bank. The latter said that the "run" on deposits mentioned in yesterday's telegram has largely subsided. Withdrawals still continue to be heavier than normal however owing to demands of persons leaving Paris for the south (the pressure on the Guaranty has also abated today and from observation it would seem that the French banks are having the same experience).

As an indication of the seriousness of the military situation yesterday Pearce said that the heads of the American banks who were attending a meeting at Morgans were telephoned by the Bank of France at 5:30 in the afternoon and instructed to keep their staffs at the banks so as to be ready to remove cash and records. The order was countermanded shortly after 7 and the staffs were permitted to go home. (END SECTION ONE)

BULLITT

CSB

MJD

GRAY

PARIS

Dated May 17, 1940.

Rec'd. 4:17 p. m.

Secretary of State,
Washington.

725, May 17, 6 p. m. (SECTION TWO)

Pearce said that his bank was continuing to exchange Belgian bank notes for francs at a rate rather better than that in effect before the invasion. No limit has been placed by the Bank of France on the amount of Belgian bank notes which may be exchanged by individuals. However, conversions of Luxembourg banknotes are restricted to 2000 Luxembourg francs per person per week with maximum limit of 5000 per family. The Antwerp branch of the National City Bank has been closed and the staff of the Brussels office has been reduced by mobilization to 15 persons. He understood that the National Bank of Belgium has moved to Ostend.

BULLITT

CSB

REB

312

GRAY

Paris

Dated May 17, 1940

Rec'd 5:16 p. m.

Secretary of State,
Washington.

725, May 17, 6 p. m. (SECTION THREE)

The market was somewhat more cheerful today. Rentes showed fractional gains and losses except for the 1937 dollar exchange rente which gained about 2 francs. Certain bank, chemical and electric shares gained an average of 5%. Internationals were stronger, Suez gaining 4.75 and Royal Dutch 3.35.

Deposits in ordinary (private) savings banks during the period April 1-15 totaled 135,000,000 francs and withdrawals 19,000,000. Since June 1 deposits have exceeded withdrawals by 1,223,000,000 francs.

A decree published in today's JOURNAL OFFICIEL abrogates the provisions of the decree of November 30 which restricted the right of requisition to the Military and grants all departments having the power of requisition to effect payments over and above authorized credits.

Another decree directs the Minister of Supplies to purchase 750,000 quintals of the 1939 wheat crop and authorizes the Minister of Finance to advance 150,000,000 francs for this purpose. (END OF MESSAGE)

BULLITT

JRL

TREASURY DEPARTMENT

313

INTER-OFFICE COMMUNICATION

DATE May 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Baron Herve de Gruben, Counselor of the Belgian Embassy, telephoned me at 4 p.m. He stated that he had been wanting to talk with me for two or three days in regard to the subject of safeguarding American securities held in Belgium, which topic he understood we had talked over with his Netherlands colleagues.

I confirmed that at the Secretary's residence on Sunday night we had suggested to the Minister of the Netherlands that he let his Belgian colleague know the services which our diplomatic and consular officers abroad were willing to perform if our friends deemed it advisable to call upon them.

Baron de Gruben told me that he did not think there was the need for destruction of securities and certification thereof in Belgium, certainly not to the extent that the need might arise in the Netherlands. He was sure there were no important holding companies such as those organizations at Amsterdam. He thought that those Belgians who do own American securities are already holding them outside of Belgium, principally in New York.

In answer to his inquiry, I told him that we had received no word to the effect that the Netherlands authorities had burned American securities. I told him that if his Embassy decided that our services might be useful, he should let either Mr. Berle or me know, and an appropriate cablegram would be sent to our representatives in Belgium, if communication could be established.



PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: May 17, 1940, 5 p.m.

NO.: 1385.

My No. 1345, May 16, noon.

FOR TREASURY FROM HEATH AND ALSO FOR THE INFORMATION OF THE DEPARTMENT.

The Reich's short-term debt (including tax certificates outstanding) increased during February by 1,685 million marks to a total of 22,059 million marks. The February increase is a larger amount than borrowed on short term in any of the preceding three months in which the increases averaged 1,460 million marks a month. In September and October the increases in short-term debt were 1,763 and 1,911 million marks, respectively. Figures for the increase in long-term debits are still not available but assuming that approximately the same amount as in the preceding three months was borrowed, the increase in total debt during February amounted to at least 2 billion marks which is well in excess of the amounts borrowed in December and January.

The entire increase in short-term debt during February was in the form of Treasury bills and certificates of which 2,102 million marks more were outstanding on February 29 than on January 31. This, incidentally, is the record in sales of such short-term paper, the previous high having been 1,791 million marks in November. During
the

the first months of the war when the government borrowed even larger sums on short term than at present a considerable portion was in the form of tax certificates. All other items in the short-term debt statement for February show net decreases. The extent to which the Government drew on its operating credit at the Reichsbank decreased by 239 million marks to 404 million marks. Two very small items in the statement "short-term loans" and "treasury certificates for the purpose of guarantees" decreased by .5 and .4 million marks respectively the amount of new fluctuating plan tax certificates outstanding again decreased by 178 million marks as compared with 1,361 million marks in December and 173 million marks in January. The decreases in tax certificates outstanding have been exclusively in the "type one" classification since the others will not become eligible for payment of taxes for two years.

The failure of at least this part of the new finance plan which was inaugurated a year ago is indicated clearly by the great amount of type 1 certificates used for paying taxes every month, which is almost half the amount eligible. Refer to Embassy's no. 202 of March 25, 1940, 1 p.m., in connection with the foregoing sentence. Type 1 tax certificates were characterized at the time by State Secretary Reinhardt as paper which would be outstanding for decades, in as much as their holders were granted attractive write-off privileges.

KIRK

EA:MSG

JT

PLAIN

STOCKHOLM

Dated May 17, 1940

Rec'd 8:40 p.m.

Secretary of State,
Washington. .

523, seventeenth.


FROM COMMERCIAL ATTACHE.

Commercial banks April transactions millions crowns deposits declined by 138 point 5 to 4252 point 4 while loans declined 17 compared increase 50 April last year leaving outstanding 4949. Estonia notified Sweden cancellation June 15 clearing agreement of 1935. Riksbank foreign exchange reserve May 10 in millions crowns 429 point 3 metallic reserve 764 point 3 domestic loans 994 point 4 government deposits 189 commercial banks deposits in Riksbank 59 point 5. Protested bills April 4476 value 2 point 5 million compared 2315 value one point 25 million year ago. Swedish army authorities request government adopt immediately effective measures increase domestic production motor alcohol. In million crowns April imports 238 exports 104 point 4.

INFORM COMMERCE.

STERLING

PEG



TREASURY DEPARTMENT
WASHINGTON

May 17, 1940.

MEMORANDUM FOR THE SECRETARY:

There has been no effort made to cancel insurance on Italian merchant ships, placed in London, and replace this insurance in an American market.

Not over five per cent of Italian merchant shipping insurance is carried in the American market.

Policies presently in force must run to maturity.

Basil Harris

318
CONFIDENTIAL

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

May 18, 1940.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Subject: Release of P-36 type Airplanes, now
in service, to the British Government.

The following is the present situation regarding this particular plane, and similar types, in our Air Service:

On Hand in Continental United States:

There are 160 pursuit planes out of a total of 400 of this general type required for the equipment of 18 squadrons, leaving a shortage of 240 planes.

There are 260 pilots on duty with these 160 planes, or approximately two pilots for each airplane now available for their training. These 18 squadrons are short 140 pilots, who will report during the next two months.

The tactical training of these pursuit squadrons is therefore already seriously hampered by the lack of planes.

Effect of releasing 100 P-36 Pursuit Planes to the
British Government:

Approximately 100 of these planes could be transported on the average British aircraft carrier. If that number were released today, we would have the situation of only 60 planes available for the tactical organization and training of 260 pilots, soon to be increased to 400. This situation would, in effect, be cumulative since the 100 planes released could not be replaced before September, while the pilots under our Air Corps augmentation will be steadily increasing.

In Brief:

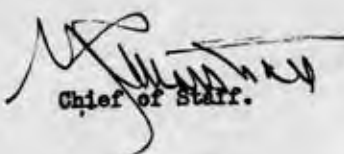
The number of planes to be released would provide replacements for two or three days of the current type of action, according to reports we are now receiving. It would set back our development of pursuit squadrons for this type of plane in the Continental United States from four to six months.

CONFIDENTIAL

The crux of the problem is whether or not we can afford to accept a delay of four to six months for our continental pursuit squadrons in order to provide two or three days' requirements of planes for the British Government.

I have considered the possibility of our accepting planes now under manufacture for England and France, which could be delivered to us in July and August, and I find that these planes are set up for British and French armament, with electrical installations differing from ours, reversed throttle controls, and instrument board lettering on most of them in French. In other words, it would probably require two or three months to modify these planes for our use, and this would mean a further aggravation of the dilemma to which I have already referred.

Considering the uncertainties of the situation in the various Republics of the Western Hemisphere and the intimate relation of all of these countries to the defense of the Panama Canal, I regret to tell you that I do not think we can afford to submit ourselves to the delay and consequences involved in accommodating the British Government in this particular manner.



Chief of Staff.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 18, 1940

TO Mr. White

FROM Mr. Schmidt

Subject: Information readily available relating to the United States Steel Products Company and the men making the report on the Brazilian iron project

1. The United States Steel Products Company. This company is a subsidiary of the United States Steel Corporation and acts as distributor for export of all products of the manufacturing subsidiaries of the United States Steel Corporation. It maintains branch offices, representatives and correspondents in many foreign countries.

The officers and directors of the company are:

President:	George W. Wolf	30 Church Street, N. Y. C.
V. P. (Finance):	Thomas J. Digan	" "
V. P. (Sales):	W. S. Morrison	" "
V. P. (Operators):	Arthur C. Mundle	" "
Sec. and Treas.:	R. F. Bray	" "

Directors:

George W. Wolf
 Thomas J. Digan
 Arthur C. Mundle
 R. M. Field
 Nicholas T. Roche

665 West 246th Street, N. Y. C.
 Granview Place, North Caldwell, N.J.

2. The seven men who signed the report made to the United States Steel Products Company concerning the Brazilian project are:

Heman Greenwood
 G. E. Diehl
 J. Fischler
 R. I. Hassler
 A. B. Haswell
 C. D. King
 H. E. Parker

Mr. Heman Greenwood apparently is or has been the Brazilian representative of the United States Steel Products Company.

Mr. C. D. King is the only one of these men who is a member of the American Institute of Mining and Metallurgical Engineering. In the directory of this society he is listed as a metallurgist for the United States Steel Corporation and his address is given as 436 - Seventh Avenue, Pittsburgh.

The 1937 edition of Who's Who in Engineering (the latest edition released) lists a Mr. Guy E. Diehl who may be the G. E. Diehl in question. This Mr. Guy E. Diehl is Vice President and General Mining Engineer for the Oliver Iron Company, Duluth, Minnesota. His address is 608 Woobin Building, Duluth, and he has been with the Oliver Mining Company from 1902 through 1937 -- the year of the publication of the Who's Who in Engineering. No other one of these seven men was listed in this publication.

It is possible that some of these seven are geologists or transportation experts instead of engineers as such.

This is the gist of a telephone conversation
which I transcribed for Mr. Morgenthau when I was 320
on the farm on Saturday.

May 20, 1940.

File 5/18/40 P.W.

Lucas

Telephone conversation from farm, Saturday, May 18th, between Secretary Morgenthau and General Marshall:

Secretary: Is this General Marshall? The reason I am calling you is this. Yesterday at Cabinet the President instructed Mr. Woodring that he did not want three or four meetings going on on Monday in the Aviation Industry and he wanted the meetings to take place in the Treasury. Are you familiar with that? Last night, this is for you, and off the record, Assistant Secretary Johnson called me and protested. Two minutes later General Arnold called and started to argue with me. I am very much annoyed. I cannot argue with General Arnold and the War Department. Who is General Arnold to protest an order of the President? Frankly, he double-crossed the President and me. I want to explain that I want to get airplanes and engines for the Army damn quick. This is what I have already been able to do. I have gotten Wright and..... to agree to patent anything we want. As you know, I have asked Captain Brett to meet me tomorrow and fly back with me to Washington. You have confidence in General Brett when it comes to the end of procurement? I like Brett and Lyons who works with him. You are coming to my office on Monday? At that time can you bring with you the list of the people General Arnold has invited and we can go over it. I don't know who he has invited. Couldn't General Brett bring it up with him on Sunday? You will take care of Arnold? Thank you so much.

P.W.

CONFIDENTIAL

May 19, 1940

To: The Secretary
From: Mr. Young

Mr. Hinckley called me Saturday morning concerning a list of privately owned planes to be made up for Mr. Purvis. From my conversation with Mr. Hinckley, I gathered that he was not very clear as to exactly what Mr. Purvis wished. He suggested that he send Mr. Kernan, his Director of Statistics, to my office with a copy of the list of civil aircraft compiled by the Aeronautical Chamber of Commerce in order that I might look it over before communicating with Mr. Purvis. I also asked Mr. Ballantyne to be present at the same time.

After a discussion with Messrs. Ballantyne and Kernan, I called Mr. Purvis on the telephone to tell him what was already available and that the Civil Aeronautics Authority would cooperate in any way they could.

It was arranged that Mr. Ballantyne send Mr. Purvis that afternoon the list compiled by the Aeronautical Chamber of Commerce. Whereupon, Mr. Purvis and Colonel Jacquin would look over this material and decide exactly what sort of a detailed list they wished to have compiled. At my suggestion, Mr. Purvis agreed to send a man down the first of the week to work directly with Civil Aeronautics on this matter.

I called Mr. Hinckley back and explained the program. He was very pleased at the arrangements which had been made. Both Messrs. Hinckley and Kernan could not have been more cooperative or more anxious to help.

P.Y.

HSM

GRAY

Rome

Dated May 18, 1940

Rec'd 6:03 a. m.

~~336~~
323

Secretary of State,
Washington.

375, May 18, 9 a. m.

The magnitude of exceptional expenditures by the Italian Government incurred predominantly for military preparedness is reflected in yesterday's statement before the Italian Senate by the Finance Minister in connection with the 1939-40 budget that expenditures including ordinary and exceptional will reach an amount now estimated at 56,140 million lire against ordinary revenues estimated at 29,740 million. The original budget called for expenditures of 29,316 million. Thus while the 1939-40 budget when prepared involved a deficit initially estimated at 4,755 million lire the deficit now envisaged is over 26 billion lire compared with a deficit of 12,228 million for 1938-39.

The Minister declared that present banknote circulation represented a 38% increase from 1935 which he said was not a cause for preoccupation especially in view of devaluation in 1936 and of the fact that national income had increased from 80 billion lire in 1935 to about 115 billion at present, an increase of almost 44%.

RR

PHILLIPS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 13, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

337
324
STRICTLY CONFIDENTIAL

At 9 o'clock this morning Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me from New York.

He stated that Fleven had communicated to France the decision which had been taken by us with respect to assisting the Netherlands Government through consular authentication of certificates of destruction of American securities. Leroy-Beaulieu has now received a cablegram from his Government, a paraphrased translation of which is as follows:

"Extension of German occupation to areas where securities are held makes it urgent to take measures to prevent selling on the United States market of stocks that might get into the hands of the enemy. Examine with competent authorities possibility of exercising control of entry and supervision of sale by professional intermediaries of the stocks which could come on the American market in spite of the blockade."

In explaining to Leroy-Beaulieu, since he did not have a completely accurate knowledge of what we had done, I read to him Cablegram #86, addressed by the State Department under date of 1 a.m. May 13 to The Hague. Leroy-Beaulieu asked officially that we send a similar telegram at once to the American Embassy in Paris. He will inform his Government that such a message is being transmitted and will advise that the French Government get in touch with the Embassy.

I asked Leroy-Beaulieu if we were to interpret his request as requiring this action alone on our part. I reminded him that we have a freezing system in operation with respect to Belgium and the Netherlands. He stated that he was not requesting any imposition by us of the freezing system.

When the Secretary spoke with me by telephone at 9:10 a.m., just after I had finished my conversation with Leroy-Beaulieu, I mentioned this subject, and told the Secretary I would take the matter up at once with Mr. Bell.

I discussed this matter with Under Secretary Bell at 9:40. He agreed that the State Department should be asked to send a cablegram to Paris similar to that dispatched to our Legation at The Hague.

J. M. S.

~~388~~
325

RDS

GRAY

Milan

Dated May 18, 1940

Rec'd 10:33 a.m.

Secretary of State,
Washington.

34, May 18, 3 p.m.

FOLLOWING FOR TREASURY. Today's prices as follows: 190; 330.75; 504.50; not listed; 975; 195; 1605; 59.50; 219. Volume 136,425.

Market firmer and active. Prices irregular.

SHOLES

PEG

JT

GRAY

885
326

PARIS

Dated May 18, 1940

Rec'd 11 a.m.

Secretary of State,
Washington.

738, May 18, 2 p.m.

FOR THE TREASURY

The banks continued to be quite active this morning as a consequence of the considerable volume of Belgian banknotes being converted by refugees and the demands of depositors leaving Paris. Barrett of the Guaranty Trust informed a member of my staff that the "run" on deposits although substantial was not nearly as heavy as on Thursday (Carter of Morgan and Company expressed the same view).

Barrett said that the Bank of France has instructed all banks to stay open this afternoon and to hold their staffs in readiness for any "emergency". They are to be advised this afternoon whether they will be required to be open tomorrow.

(END SECTION ONE)

BULLITT

CSB

848
327

RDS

GRAY

Paris

Dated May 18, 1940

Rec'd 10:53 a.m.

Secretary of State,
Washington.

738, May 18, 2 p.m.

(SECTION TWO) Rueff, who gave the instruction to Barrett, said that the situation was slightly more favorable than earlier in the morning.

By the terms of a decree published in today's Journal Official the Government is authorized to effect until June 10 disbursements for the assistance of refugees in excess of the sums allotted for this purpose in the 1940 budget "3,700,000,000 francs."

Another decree provides for the creation of a territorial guard somewhat similar to that now being set up in Great Britain. The guard will be recruited from reservists and other males not subject to mobilization or not yet mobilized who are at least 16 years of age. The force will be armed and is intended to guard the countryside against parachute troops. (END OF MESSAGE)

BULLITT

CSE

TELEGRAM SENT

328
~~341~~

VRE

GRAY

May 18, 1940

3 p.m.

AMERICAN EMBASSY

PARIS

RUSH. 404

The Financial Attache to the French Embassy has informed the Treasury that his Government is considering advising its nationals to destroy American securities in their possession where there is danger that such securities might be lost or captured. In such cases the French Government will probably advise the owners to accomplish the destruction in the presence of an appropriate notary or judicial officer and also a responsible official of a bank, preferably one whose signature is on file with the Federal Reserve Bank of New York. It is further intended to have the owner and these witnesses certify to the securities so destroyed, identifying them appropriately, and to request authentication of the signature of the Government officer by a consul of the United States, after which such certificates of destruction would be left with the consul to be forwarded to the United States by pouch.

consuls

2- # 404, May 18, 1940, 3 p.m., to Paris

329
~~342~~

Consuls are authorized to receive such certificates and to authenticate the signatures of appropriate Government officials who have witnessed such destruction. In cases of importance and if circumstances permit they may, if requested witness such destruction and state that fact in the document. They may also transmit such certificates by pouch. If requested execute in triplicate retaining one copy, giving one copy to interested party and forwarding original to Department. They should point out that authentication and transmission of such a document does not constitute an assurance that the destroyed securities will be replaced, but only creates documentary evidence which might be of assistance in case replacement is later sought. They should also make it clear that while every care will be taken to ensure the safe transmission and custody of such certificates the United States Government and its officers accept no responsibility in that connection.

Repeat foregoing to Consuls.

American freezing system would not be effective to block transfer or sale of bearer obligations or certificates, as such securities might appear in other markets.

HULL

(AMB)

CA:PL:MSG

329
~~373~~

RDS

GRAY

Paris

Dated May 10, 1940

Rec'd 6:23 p.m.

Secretary of State,
Washington.

746, May 10, 6 p.m.

FOR THE TREASURY

The Bank of France has just authorized the banks to close for the day and let their staffs go home. Pearce of the National City Bank who telephoned this information said that the banks have been instructed to remain open tomorrow in order that refugees may convert their Belgian banknotes into francs and so that persons having safe deposit boxes may have access to them. No other banking operations will be transacted. Pearce mentioned that few withdrawals had taken place this afternoon. He felt that the absence of any instructions regarding a possible removal of banking records indicated that the military situation may have improved slightly.

BULLITT

RR

330
~~344~~

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

With Messrs. Foley and Bernstein in my office I telephoned the State Department, after discussing with Mr. Bell the memorandum of my conversation with Leroy-Beaulieu. I was unable to reach Assistant Secretary Berle since he had an Ambassador, a Minister, and a Counselor of Embassy with him.

Consequently, I spoke with Mr. Livesey. I read him my memorandum and it was agreed that he would draw up an urgent instruction to our Embassy at Paris along the lines of the State Department Cablegram #86 of May 13 to The Hague. We also suggested the adding of a final paragraph, which would give the main point in the second cablegram to The Hague, #97 of May 14. The wording we suggested was as follows:

"American freezing system would not be effective to block transfer or sale of bearer obligations or certificates, as such securities may appear in other markets."

After our conversation ended, I sent by special messenger to Mr. Livesey a copy of my memorandum.

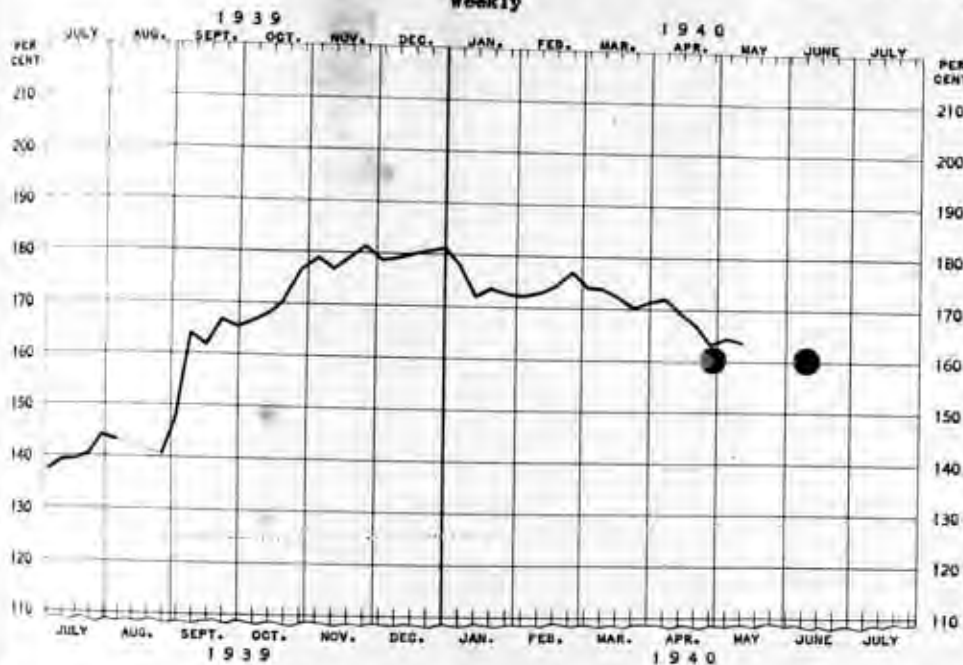


331
~~345~~

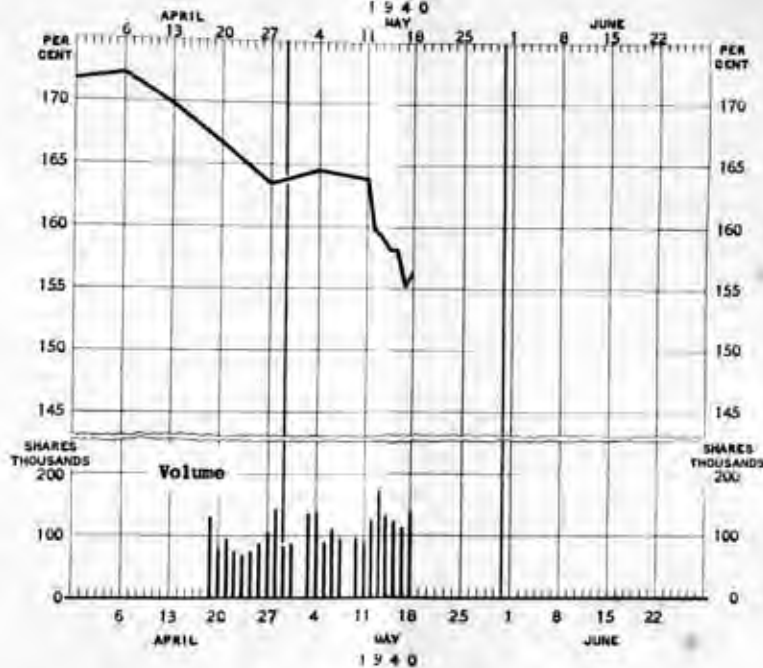
ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily*



*DAILY FOR LATEST WEEK ONLY

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

THE WHITE HOUSE
WASHINGTON

May 18, 1940

MEMORANDUM FOR

SECRETARY MORGENTHAU

For preparation of reply.

F. D. R.

Enclosure

DEPARTMENT OF AGRICULTURE

WASHINGTON

Mar 15, 1940.



In view of the 17 cent decline
in wheat in the past two days and
in view of the pressing need for

The President

The White House

Dear Mr. President:

adequate supplies of strategic
war materials, I urge that
you consider this in connection
with your war message after
you go to Congress.

This is a recommendation that the Congress be requested at this session to authorize the President to enter into agreements with foreign countries for the exchange of not more than 3 1/2 percent of our present stocks of gold, to be taken from the Stabilization Fund, for an emergency reserve supply of imported strategic and critical materials, under the terms of which foreign countries would not be permitted to obtain title to the gold in advance of their delivery of the strategic and critical materials unless the gold is used exclusively for the purchase of raw or manufactured agricultural products to be exported from the United States. The advantages of this proposed program may be summarized as follows:

- (1) It would provide a fund of approximately \$665,000,000 for the acquisition of a really adequate emergency reserve supply of imported strategic and critical materials to strengthen our national defense and serve as another bulwark for our peace.
- (2) It would be a great contribution toward the support of agricultural income and the restoration of the foreign outlets for our surplus foreign products, which are declining rapidly as a consequence of the war. During this fiscal year, agricultural exports are running at the rate of about \$750,000,000, of which \$530,000,000 represents exports to the present belligerents. It is estimated that, unless some help is given, our agricultural exports for the coming fiscal year will dwindle to only about \$500,000,000.
- (3) It would neither burden the budget nor increase the public debt, since the gold to be exchanged would be taken from the free reserve in the Stabilization Fund. It seems most doubtful that a fully adequate emergency reserve supply of imported strategic and critical materials could be obtained through ordinary appropriations.

- (4) It would avoid the circumvention of normal channels of trade that is almost necessarily involved in a direct governmental exchange of commodities, such as corn for tin, under an ordinary so-called barter agreement. Moreover, it would relieve the administration of necessarily having to determine which American agricultural products are to be disposed of through an exchange agreement, a task that obviously cannot be performed to the full satisfaction of all producer groups.
- (5) It would go far toward avoiding the accumulation this fall of excessively large government loan stocks of surplus farm products from the 1940 crops.

It is believed that this program would command a widespread popular support which should readily overwhelm any opposition that political partisans might undertake to trump up. We could expect the political cry to be raised that the program could involve something which in a sense would be similar to an extension of credit to foreign countries and especially to the Allies. It is true that normally the great majority of our supplies of strategic and critical materials are obtained from the British, French, and Dutch Empires; and it is also true that the Allies would be benefited by a large increase in the American market for the surplus raw materials produced by themselves and their possessions. The answers are clear: In the first place, the program would be applicable to all foreign countries; and in the second place, there are very significant differences between the extension of credit to a foreign country, which must be repaid in gold or its equivalent in foreign exchange, and the acceptance of a short term obligation of a foreign country to deliver the consumable raw materials that it produces. It is believed that the proposed agreements with foreign countries would not be contrary to the provisions of either the Johnson Act or the Neutrality Act.

There is enclosed a draft of suggested materials for inclusion in a Message to the Congress, and also a recommended draft of legislation.

Respectfully submitted,

J. A. Wallace

Secretary

Enclosures This has been discussed informally at State, Treasury, and Army & Navy Munitions Board.

SUGGESTED MATERIALS FOR INCLUSION IN A MESSAGE TO THE CONGRESS

For the purpose of increasing our national defense and providing a firmer bulwark for the security of our peace, I recommend that the Congress enter into agreements with foreign countries under which not more than 3 1/2 percent of the present stocks of gold of the United States would be exchanged for an emergency reserve supply of imported strategic and critical materials.

In view of the uncertainties of ocean shipping under present world conditions, ordinary prudence would seem to require that we take the precaution of acquiring an emergency reserve supply of those strategic and critical materials, such as rubber and tin, which must be obtained exclusively or largely from foreign sources. In the absence of an adequate reserve supply of such products, an interruption of ocean shipping would create a critical condition not only for industry and labor, which would be denied their necessary raw materials, but also for the general welfare, including the national defense, which is dependent on the finished products manufactured from such raw materials.

Under this proposed program, it should be possible to support American agricultural income by restoring and increasing the foreign outlets for our surplus farm products which are declining as a result of the war. Arrangements would be made with foreign countries for the delivery to the United States of strategic and critical materials at the earliest possible dates; and in the meantime, after the exchanges had been arranged, the gold would be earmarked for the account of the foreign countries, provided it was used exclusively for the purchase of agricultural products to be exported from the United States. Such an arrangement would not be an extension of credit to a foreign country, which is the acceptance of an obligation of a foreign country to pay in gold or the gold equivalent of exchange, it would constitute merely the acceptance, in order to aid American agriculture, of a temporary obligation of a foreign country to deliver some of its own production of consumable raw materials. The United States now has nearly \$14,000,000,000 of gold, most of which is buried in the vaults at Fort Knox, Kentucky. This represents approximately two-thirds of the total monetary stock of gold in the world and two and one-half times as much as is required to provide even a full 100% gold coverage for all our coinage and currency in circulation. It is manifest, therefore, that we have a large surplus of gold.

In view of the compelling desirability of increasing our national defense, strengthening our bulwarks of peace, protecting American agriculture, and promoting the general welfare, I believe that the Congress will wish to give careful consideration to this recommendation for utilizing 3 1/2 percent of our stocks of gold in the acquisition of an emergency reserve supply of imported strategic and critical materials.

A BILL

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

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

Sec. 2. The President is hereby authorized, on behalf of the United States, to enter into agreements with the governments of foreign countries for the transfer to the United States, in exchange for gold, of strategic and critical materials produced in such foreign countries or their possessions. The Secretary of War, the Secretary of the Navy, and the Secretary of the Interior, acting jointly through the agency of the Army and Navy Munitions Board, shall advise the President regarding the kinds, grades, and quantities of strategic and critical materials to be acquired under such agreements to serve as reserve stocks for meeting national emergencies with respect to such materials. Such agreements with foreign countries shall be negotiated by the Secretary of State with the advice and approval of the Secretary of the Treasury, the Secretary of Agriculture, and the Secretary of Commerce. Under such agreements, no transfers of title to the gold shall be made in advance of the transfer to the United States of the materials for which the gold is exchanged, unless such foreign governments use the gold exclusively for purchases of raw or manufactured agricultural commodities to be exported from the United States, and obligate themselves with respect to the minimum total purchases of agricultural products to be exported from the United States to such foreign countries.

Sec. 3. The Secretary of the Treasury is hereby authorized to transfer title to the governments of foreign countries of such amounts of gold held by the United States in the Exchange Stabilization Fund under the provisions of section 10 of the Gold Reserve Act of 1934, as amended, aggregating not in excess of $3\frac{1}{2}$ per centum of the total amount of gold held by the United States on the date of the enactment of this act, as may be required to meet the obligations of the United States under the agreements authorized in section 2. In order to carry out the provisions of this act, the Secretary of War and the Secretary of the Navy, acting jointly through the agency of the Army and Navy Munitions Board, are authorized, on behalf of the United States, to hold title to, procure, transport, handle, store, maintain, protect, rotate, and perform other necessary operations in connection with, the strategic and critical materials acquired under the agreements authorized in section 2.

Sec. 4. Whenever the President determines that an emergency exists with respect to any strategic or critical material acquired pursuant to this act, he shall direct the release of such material in such amounts, in such manner, and upon such terms and conditions, as he shall determine.

Sec. 5. There are hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to provide for the transportation, maintenance, rotation, and storage within the United States or any of its Territories or possessions of any materials acquired under the provisions of this Act.

Sec. 6. The provisions of this act do not modify the provisions of the Act of April 14, 1939 (49 Stat. 574), or the Act of November 4, 1939 (54 Stat. 4).

THE WHITE HOUSE
WASHINGTON

May 18, 1940

MEMORANDUM FOR

SECRETARY MORGENTHAU

For preparation of reply.

F. D. R.

Enclosure

DEPARTMENT OF AGRICULTURE

WASHINGTON

May 13, 1940.



The President

The White House

Dear Mr. President:

In view of the 17 cent decline
in Wheat in the past two days and
in view of the pressing need for
adequate supplies of strategic
war materials, I urge that
you consider this in connection
with your ~~war~~ message to
Congress.

This is a recommendation that the Congress be requested at this session to authorize the President to enter into agreements with foreign countries for the exchange of not more than 3 1/2 percent of our present stocks of gold, to be taken from the Stabilization Fund, for an emergency reserve supply of imported strategic and critical materials, under the terms of which foreign countries would not be permitted to obtain title to the gold in advance of their delivery of the strategic and critical materials unless the gold is used exclusively for the purchase of raw or manufactured agricultural products to be exported from the United States. The advantages of this proposed program may be summarized as follows:

- (1) It would provide a fund of approximately \$665,000,000 for the acquisition of a really adequate emergency reserve supply of imported strategic and critical materials to strengthen our national defense and serve as another bulwark for our peace.
- (2) It would be a great contribution toward the support of agricultural income and the restoration of the foreign outlets for our surplus foreign products, which are declining rapidly as a consequence of the war. During this fiscal year, agricultural exports are running at the rate of about \$750,000,000, of which \$530,000,000 represents exports to the present belligerents. It is estimated that, unless some help is given, our agricultural exports for the coming fiscal year will dwindle to only about \$500,000,000.
- (3) It would neither burden the budget nor increase the public debt, since the gold to be exchanged would be taken from the free reserve in the Stabilization Fund. It seems most doubtful that a fully adequate emergency reserve supply of imported strategic and critical materials could be obtained through ordinary appropriations.

- (4) It would avoid the circumvention of normal channels of trade that is almost necessarily involved in a direct governmental exchange of commodities, such as corn for tin, under an ordinary so-called barter agreement. Moreover, it would relieve the Administration of necessarily having to determine which American agricultural products are to be disposed of through an exchange agreement, a task that obviously cannot be performed to the full satisfaction of all producer groups.
- (5) It would go far toward avoiding the accumulation this fall of excessively large government loan stocks of surplus farm products from the 1940 crops.

It is believed that this program would command a widespread popular support which should readily overwhelm any opposition that political partisans might undertake to trump up. We could expect the political cry to be raised that the program could involve something which in a sense would be similar to an extension of credit to foreign countries and especially to the Allies. It is true that normally the great majority of our supplies of strategic and critical materials are obtained from the British, French, and Dutch Empires; and it is also true that the Allies would be benefited by a large increase in the American market for the surplus raw materials produced by themselves and their possessions. The answers are clear: In the first place, the program would be applicable to all foreign countries; and in the second place, there are very significant differences between the extension of credit to a foreign country, which must be repaid in gold or its equivalent in foreign exchange, and the acceptance of a short term obligation of a foreign country to deliver the consumable raw materials that it produces. It is believed that the proposed agreements with foreign countries would not be contrary to the provisions of either the Johnson Act or the Neutrality Act.

There is enclosed a draft of suggested materials for inclusion in a Message to the Congress, and also a recommended draft of legislation.

Respectfully submitted,

H A Wallace

SECRETARY

Enclosures

*This has been discussed
personally at State, Treasury, and
Army & Navy Munitions Board.*

SUGGESTED MATERIALS FOR INCLUSION IN A MESSAGE TO THE CONGRESS

For the purpose of increasing our national defense and providing another bulwark for the security of our peace, I recommend that the Congress authorize agreements with foreign countries under which not more than 3% percent of the present stocks of gold of the United States would be exchanged for an emergency reserve supply of imported strategic and critical materials.

In view of the uncertainties of ocean shipping under present world conditions, ordinary prudence would seem to require that we take the precaution of acquiring an emergency reserve supply of those strategic and critical materials, such as rubber and tin, which must be obtained exclusively or largely from foreign sources. In the absence of an adequate reserve supply of such products, an interruption of ocean shipping would create a critical condition not only for industry and labor, which would be denied their necessary raw materials, but also for the general welfare, including the national defense, which is dependent on the finished products manufactured from such raw materials.

Under this proposed program, it would be possible to support American agricultural income by restoring and increasing the foreign outlets for our surplus farm products which are declining as a result of the war. Arrangements would be made with foreign countries for the delivery to the United States of strategic and critical materials at the earliest possible dates; and in the meantime, after the exchanges had been arranged, the gold could be earmarked for the account of the foreign countries, provided it were used exclusively for the purchase of agricultural products to be exported from the United States. Such an arrangement would not be an extension of credit to a foreign country, which is the acceptance of an obligation of a foreign country to pay in gold or the gold equivalent of exchange; it would constitute merely the acceptance, in order to aid American agriculture, of a temporary obligation of a foreign country to deliver some of its own production of consumable raw materials. The United States now has nearly \$19,000,000,000 of gold, most of which is buried in the vaults at Fort Knox, Kentucky. This represents approximately two-thirds of the total monetary stock of gold in the world and two and one-half times as much as is required to provide even a full 100% gold coverage for all our coinage and currency in circulation. It is manifest, therefore, that we have a large surplus of gold.

In view of the compelling desirability of increasing our national defense, strengthening our bulwarks of peace, protecting American agriculture, and promoting the general welfare, I believe that the Congress will wish to give careful consideration to this recommendation for utilizing 3% percent of our stocks of gold in the acquisition of an emergency reserve supply of imported strategic and critical materials.

A BILL

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

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

Sec. 2. The President is hereby authorized, on behalf of the United States, to enter into agreements with the governments of foreign countries for the transfer to the United States, in exchange for gold, of strategic and critical materials produced in such foreign countries or their possessions. The Secretary of War, the Secretary of the Navy, and the Secretary of the Interior, acting jointly through the agency of the Army and Navy Munitions Board, shall advise the President regarding the kinds, grades, and quantities of strategic and critical materials to be acquired under such agreements to serve as reserve stocks for meeting national emergencies with respect to such materials. Such agreements with foreign countries shall be negotiated by the Secretary of State with the advice and approval of the Secretary of the Treasury, the Secretary of Agriculture, and the Secretary of Commerce. Under such agreements, no transfers of title to the gold shall be made in advance of the transfer to the United States of the materials for which the gold is exchanged, unless such foreign governments use the gold exclusively for purchases of raw or manufactured agricultural commodities to be exported from the United States, and obligate themselves with respect to the minimum total purchases of agricultural products to be imported from the United States to such foreign countries.

Sec. 3. The Secretary of the Treasury is hereby authorized to transfer title to the governments of foreign countries of such amounts of gold held by the United States in the Exchange Stabilization Fund under the provisions of section 10 of the Gold Reserve Act of 1934, as amended, aggregating not in excess of 3 1/2 per centum of the total amount of gold held by the United States on the date of the enactment of this act, as may be required to meet the obligations of the United States under the agreements authorized in section 2. In order to carry out the provisions of this act, the Secretary of War and the Secretary of the Navy, acting jointly through the agency of the Army and Navy Munitions Board, are authorized, on behalf of the United States, to hold title to, procure, transport, handle, store, maintain, protect, rotate, and perform other necessary operations in connection with the strategic and critical materials acquired under the agreements authorized in section 2.

Sec. 4. Whenever the President determines that an emergency exists with respect to any strategic or critical material acquired pursuant to this act, he shall direct the release of such material in such manner, and upon such terms and conditions, as he shall determine.

Sec. 5. There are hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to provide for the transportation, maintenance, rotation, and storage within the United States or any of its Territories or possessions of any materials acquired under the provisions of this Act.

Sec. 6. The provisions of this act do not modify the provisions of the Act of April 23, 1934 (48 Stat. 574), or the Act of November 24, 1939 (53 Stat. 21).

STRICTLY CONFIDENTIAL

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STRICTLY CONFIDENTIAL

P A R A P H R A S E

A strictly confidential telegram (no. 222) of May 18, 1940, from the American Ambassador at Chungking, reads substantially as follows:

General Chiang Kai-shek is transmitting to the President a message which refers to an arrangement contained in a communication to the Central Bank of China from the Federal Reserve Bank of New York, dated July 14, 1937, in regard to supplying exchange in U.S. dollars. The message suggests that it might be more convenient for the American authorities, if new funds for exchange can be provided, to consider the amendment of an arrangement expressly providing U.S. dollar exchange (although of course considerable modifications of the arrangement would be required) made prior to the outbreak of war between Japan and China in 1937. Further, it might be preferred that, if part of the U.S. dollars 20,000,000 credit can be employed for exchange, ~~that~~ pledged gold might be freed for exchange support if the funds should be applied in part payment of the indebtedness of the sum still due to the Federal Reserve Bank of New York amounting to U.S. dollars 19,000,000.

May 18, 1940
9:27 a.m.

H.M.Jr: And then you might just as well listen, and then if I -- there are some things that have to be done -- I want you to make notes, you see?

Lieut. McKay: Yes, I see.

H.M.Jr: See what I mean?

M: Yes.

H.M.Jr: I'll be talking to different people and you might just as well listen, then if I say this person do this or that, and if there's some follow-up you'll have it, you see?

M: I see.

H.M.Jr: Hello?

M: Yes.

H.M.Jr: Just stand by and listen while I talk to.....

M: Just a minute, I don't believe they've got their machine turned on out there.

H.M.Jr: They haven't?

(Rest of conversation not recorded)

9:29 a.m.

Operator: Hello.

McKay: Oh, I see.

O: Hello, McKay.

M: Yeah, it's all right now, but it wasn't before.

O: Wasn't it? Well, he's talking to Cochran and then I'll ring you back as soon as he's through on there.

M: Okey-doke.

- 2 -

O: I think he wants these calls put up on the conference
so that it makes a recording, see, in there.

M: Yeah, O.K. That's right.

O: And you just listen in on it.

M: Yeah, all right.

O: I'll give you a ring as soon as he's through.

M: O.K.

9:31 a.m.

Operator: He's on now.

M: All right.

O: Go ahead.

Dan
Bell: Hello.

McKay: Hello.

B: Good morning.

M: Good morning.

B: Who is this?

M: This is McKay.

B: Oh, hello. I've got McKay and the Secretary on.

M: The Secretary is coming on, I believe.

B: Hello.

H.M. Jr: Dan.....

B: Yeah.

H.M. Jr: I just talked to Merle. He had something from France
and I said to give it to you.

B: I see.

H.M.Jr: I have nothing.

B: Well, things are rather quiet here. The bond market is drifting a little lower, but not erratic or anything, it's just gradually going down. There is some buying interest in it on the long ones if -- if they could sell the three-quarters notes. It's quite a large order but nobody wants the three-quarters notes so I guess it won't go through.

H.M.Jr: Three-quarters notes.

B: Yeah.

H.M.Jr: What do you mean?

B: The three-quarter per cent notes, the last were put out.

H.M.Jr: We put out?

B: Yeah, we've got out a three-quarter per cent note for forty-five, and I understood -- and then we also have one out forty-four. I understood that this bank or some institution had quite a large holding of those notes and they offered to sell them and they wanted to buy, with the proceeds, the long bonds, but nobody wanted the notes so they didn't buy the long bonds.

Everything is quiet here. The news doesn't look so good.

H.M.Jr: I'll call up again around -- around 12:30 -- 11:30 your time.

B: All right.

H.M.Jr: I'll be calling between 11:30 and a quarter of twelve.

B: All right.

H.M.Jr:about a quarter of twelve your time.

B: That'll be all right. We did amend general regulation number three, or general license number three last

night on that checks and drafts issued prior to April 10 and May 10 -- April 8 and May 10.

H.M.Jr: I'll just take it for granted then.

B: Well, we were -- had some things yesterday we had to deny.....

H.M.Jr: O. K.

B:and there's a little inconsistence, so we amended the order to make the two consistent.

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

B: All right.

H.M.Jr: Goodbye.

B: Goodbye.

Operator: Mr. White.

H.M.Jr: Right.

O: Go ahead.

Harry
White: Hello.

H.M.Jr: Harry.

W: Good morning, sir.

H.M.Jr: Are you in the office?

W: Yes, sir.

H.M.Jr: Harry, I wish you'd look up and have for me Monday the name of that engineering firm that did the job on a steel plant in Brazil.

W: That did the job on the steel plant in, -- you mean the investigation job or the.....

H.M.Jr:and I gave it back to you. It was done by some -- Mr. Hull wrote me a letter, he wanted me to see

somebody, some engineering firm in New York that made this study on the steel plant in Brazil.

W: Oh, that made the study?

H.M.Jr: Yes.

W: Yes, we have digested the study. There was one.....

H.M.Jr: I just want to know what the name of the engineering firm is.

W: Right. You want it by -- you want that by Monday.

H.M.Jr: Yeah, and I want -- if you had any connections of finding out how they stand or how good they are, I wish you'd do that.

W: I'll find out.

H.M.Jr: I mean, whether they are the outstanding firm or whether there are any that are better. If you have any connections.

W: I'll find out.

H.M.Jr: I should think somehow or other -- see if you can find out.

W: Yeah.

H.M.Jr: To do that kind of work. I have it in mind in connection with the possibility of using them with some of these aeroplane plants, you see?

W: In the United States.

H.M.Jr: What?

W: In the United States or down there?

H.M.Jr: No, in this country.

W: I see.

H.M.Jr: I mean, somebody who are engineers, to do just the kind of work that they did down in Brazil.

W: Yes. Well.....

H.M.Jr: As I understand it, they did the whole reorganization for U.S. Steel.

W: Well, I was down there at the time they were there. They had, I think, about a dozen or fifteen men. They were mostly from the United States Steel.

H.M.Jr: How did they impress you?

W: Well, the men that I met were technical men and they impressed me very much but I wouldn't know.

H.M.Jr: O. K.

W: But the report it seems to be a very comprehensive and competent job, but I'll find out as much as I can about it.

H.M.Jr: Do that, Harry.

W: What's that, sir?

H.M.Jr: I say, please do that.

W: Yes.

H.M.Jr: That's all.

W: One small item, merely thinking around for a possible suggestion that you might think over -- I don't know whether there's anything in it, but if they're still seeking ways and means of keeping Italy out of it, do you think there's any possibility, in order to do it administratively with the consent of the leaders that they might be -- use the Tripartite group to indicate to Italy that they might stabilize her lira and join in a large sum making it available, which would be nothing but a way for her to draw on it.

H.M.Jr: Well, Harry, I can't think of it today. You'll have to talk to me about it Monday. Sorry.

W: All right.

H.M.Jr: I just can't handle it today.

W: Yeah, all right.

H.M.Jr: I'll talk to you about it Monday.

W: Righto.

H.M.Jr: Goodbye.

W: Goodbye.

Operator: Hello.

H.M.Jr: Yes.

O: Mr. Gaston has nothing. Mr. Sullivan hasn't come in yet.

H.M.Jr: Well, never mind.

O: And I'm trying to get Hinkley but he hasn't reached the office yet. They expect him any moment.

H.M.Jr: Well, let me talk to -- I'll just talk to McKay a minute.

O: All right. Go ahead.

McKay: Yes.

H.M.Jr: Mac.....

M: Yes.

H.M.Jr: I want you to call up the office of the Secretary of War and Secretary of Navy.....

M: Yes.

H.M.Jr:and ask them whether they would please request General Brett and Captain Kraus to meet me at the New Hackensack airport Sunday, 3:30 eastern standard time to fly back with me in my plane to Washington.

M: What time was that? 6:30?

H.M.Jr: 3:30.

M: 3:30 eastern standard time. New Hackensack to fly back with you.

H.M.Jr:

M: Yes. 3:30 eastern standard time.

H.M.Jr: 3:30 eastern standard time, Sunday, New Hackensack.

M: Righto.

H.M.Jr: General Brett.....

M:and Captain Kraus.....

H.M.Jr:to fly back with me to Washington in my plane.

M: Righto.

H.M.Jr: And they can check with you at 10 o'clock tomorrow morning to find out if there's any change in my plans.

M: Yes.

H.M.Jr: See?

M: Yes.

H.M.Jr: Got it?

M: Yes.

H.M.Jr: They can check with you at 10:00 tomorrow morning.

M: Yes.

H.M.Jr: That's all.

M: If I don't hear from you by 10 o'clock the plans will be all right.

H.M.Jr: That's right.

M: Right.

H.M.Jr: Thank you.

M: Sir, I have a letter here that has come in confidential to you from the office of the chief of the air corps.

H.M.Jr: Well, open and let's see what's in it.

M: All right, sir. (Brief pause) It's "Pursuant to your request....."

H.M.Jr: I can't hear you, Mac, I don't know what's the matter.

M: "Pursuant to your request in conferences the following data are submitted on engines."

H.M.Jr:I can hear better.

M: It's information on engines.

H.M.Jr: Shut off that light and let's see whether I can hear better.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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STRICTLY CONFIDENTIAL

Mr. Knoke told me by telephone this morning that the National City Bank had reported a check of \$500,000 drawn by the Bank of Naples in favor of the Chase Bank.

The Chase Bank had reported a check drawn by the Credito Italiano in favor of J. P. Morgan for \$1,250,000.

J. M. R.

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~~507~~

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 18, 1940

TO Secretary Morgenthau

STRICTLY CONFIDENTIAL

FROM Mr. Cochran

Mr. Knoke spoke with me at 10:30 this morning. He stated that a cablegram had been received this morning from the B.I.S. to the effect that as of May 20 its business would be carried on from Chateau d' Oex in Switzerland instead of Basle.

B. M. S.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

After opening at 3.25, sterling moved steadily downward to a low of 3.19-3/4 late in the morning. Closing at 3.21-1/2, the rate showed a slight gain over yesterday's final quotation.

Sales of spot sterling by the six reporting banks totaled £154,000, from the following sources:

By commercial concerns.....	£ 24,000
By foreign banks (Europe and South America).....	£130,000
Total.....	£154,000

Purchases of spot sterling amounted to £192,000, as indicated below:

By commercial concerns.....	£ 62,000
By foreign banks (Far East, Europe, and Near East).....	£130,000
Total.....	£192,000

The Irving Trust Company reported that it had sold cotton bills totaling £29,000 to the British Control on the basis of the official rate of 4.02-1/2.

Developments in the other important currencies were as follows:

The French franc moved with sterling on the basis of a cross rate of 176.40 francs per pound and closed at .0182-1/4.

The Swiss franc was firmer today. After reaching a high of .2244, that currency closed at .2230.

Weakening further on some selling by Chicago concerns, the Canadian dollar moved off to close at 21% discount, the lowest rate for that currency on record.

The reichsmark closed at .4000.

The yuan in Shanghai improved against sterling to 4-1/8d, up 3/32d. In terms of dollars it was quoted at 5-7/16¢, off 1/16¢.

The Federal Reserve Bank purchased 200,000 French francs for account of the Bank of Latvia.

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588

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$1,000,000 from the Central Bank of Turkey
315,000 from the Central Bank of Chile
\$1,315,000 Total

The Federal Reserve Bank of New York stated that the Turkish Bank was using the dollars received from the above sale of gold to us to pay off the last of the seasonal loans made to it by the Federal.

We were informed by the Federal Reserve Bank that it was effecting today a transfer of \$35,265,000 in gold from the Bank of France Account 2 to the ordinary gold account of the Swiss National Bank, Bern, on the books of the Federal.

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

\$ 9,105,000 from Canada, representing two shipments by the Bank of Canada to the Federal Reserve Bank of New York, for account of the Bank of Canada for sale to the U. S. Assay Office.
1,300,000 from Japan, shipped by the Yokohama Specie Bank, Kobe, to its San Francisco agency, for sale to the U. S. mint.
\$10,405,000 Total

Today's gold price reported from Bombay was \$36.84, representing a further improvement.

The Bombay spot silver quotation advanced the equivalent of 3/16¢ to 45.26¢.

According to a United Press dispatch received from London this morning, the British Board of Trade has imposed a ban on all exports of silver except under government license. The dispatch added that no explanation was given for the Board of Trade's unexpected action, but it was believed to have been caused by the recent heavy foreign demand for this item. Bullion traders in London were understood to have notified the authorities that the rise in silver prices over the past week was the result of a "mystifying" continental buying movement.

In a report from the Federal Reserve Bank of New York showing deposits for the account of Asia as reported by the New York agencies of Japanese banks of May 15, such deposits totaled \$51,549,000, a decrease of \$1,055,000 since the last report as of May 8. Included in this total were \$29,844,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of \$12,671,000 made by the head office and Japanese branches. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$91,825,000, a decrease of \$7,429,000 since May 8.

CONFIDENTIAL

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Mr. Knoke told me by telephone this morning that Russian balances with the Chase Bank have changed very little from those of May 4, which were as follows: State Bank of Russia cash account \$3,200,000; State Bank of Russia letter of credit account \$6,900,000; Amtorg cash account \$1,800,000; Amtorg letter of credit account \$1,100,000. The account of the State Bank had been debited with one item of \$70,000 to the Bank of Brussels and one of \$71,000 to the Societe Generale of Belgium. There had also been one of \$300,000 from the account of the Russian State Bank to the Amtorg. It should be noted that the Russian accounts are decidedly less active than in the past. This has resulted importantly from the cessation of Russian copper purchases on our market.

H. M. S.

CONFIDENTIAL

TREASURY

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CK

PLAIN

Stockholm

Dated May 18, 1940

Rec'd 8:12p.m.

Secretary of State

Washington

528, Eighteenth.

FROM COMMERCIAL ATTACHE

Our 523 correct.

Riksbank date May 15 foreign exchange reserve 449 point 3. Select committee approved government proposal additional 12 point 3 million crowns defense. Swedish-German trade conversations commence Berlin May 27.

INFORM COMMERCE

STERLING

NPL

No. 89

357
~~112~~

American Foreign Service, Hanoi, Indochina,
May 19, 1940.

Subject: Wood Oil Shipments.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to a communication from the American Consul General at Hongkong, dated May 9, 1940, in which it is stated that the Department, referring to the Consul General's telegram no. 138 of May 2, 1940, has instructed the submission of further reports in regard to alleged Indochina restrictions upon the transit of "free" wood oil.

After a careful investigation, I have ascertained that there appears to be no appreciable change in the situation as reported in my despatch no. 87 of March 26, 1940. According to a responsible official of the Economic Section of the Government General of Indochina, there is at present no actual restriction upon the transit of wood oil of Chinese origin. The one stipulation made by the Government General, which might be considered in the nature of a restriction, relates to foreign exchange. Under this stipulation, "free" wood oil entering Indochina can only be exported legally if a gold dollar equivalent of the value of the wood oil is deposited with the Government General.

As explained by the above-mentioned official, the great bulk of the "free" wood oil enters Indochina in the Caobang region; it is there sold to dealers who undertake its exportation through the port of Haiphong or who resell the wood oil to other dealers and exporters.

That there is no material change in the situation is confirmed by conversations with the Under Director of the Customs and with the Chinese Consul General at Hanoi. The latter stated, however, that he had addressed a communication to the Governor General of Indochina, under date of May 8, 1940, requesting that the Government General study the possibility of suppressing the traffic in "free" wood oil, or, as the Chinese Consul General phrases it, "contraband" wood oil. Up to the present date, the Governor General has not replied, but it has been intimated that his reply will be somewhat unfavorable.

As pointed out in my despatch no. 57, the Government General would be pleased to cooperate with the Chinese Government in this matter if a feasible means of controlling the contraband traffic were evolved. In a recent conversation with the Secretary General of the Government General, Mr. Delsalle said that the authorities would be glad to entertain any suggestion on the part of the Chinese, or on my part, which will be workable.

The chief obstacle to granting the request of the Chinese Consul General, which envisages primarily the barring of "contraband" wood oil from entering Indochina, is the difficulty of establishing an effective control of the frontier between Indochina and China, much of which is mountainous. The mobilization of many Customs officials has increased the difficulty of guarding the frontier, and, as the Under Director of Customs has pointed out, certain of the Chinese military and civil officials in Kwangsi and Yunnan are said to be implicated in this lucrative contraband traffic. This state of affairs would increase the improbability of an effective frontier control. In this connection, the Chinese Consul General has informed me that a number of these officials have been arrested recently and he has expressed the opinion that this action may help to check the not insignificant flow of "contraband" wood oil.

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Accordingly, in so far as I have been able to ascertain, there is as yet no regulation in Indochina that "all wood oil passing through Indochina will have to be supported by Chinese Customs declaration." I believe, however, that some such regulation is only a question of time, provided that the Chinese press for such a restriction.

Respectfully yours,

For the Consul at Saigon,

Charles S. Reed II,
American Consul.

In triplicate to the Department (By air mail)
Copies to the Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunming and Saigon

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CSR:csr

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SEP 11 AM 11 JUL 1954
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WASHINGTON, D.C.

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JR

GRAY

Paris

Dated May 19, 1940

Rec'd 10:40 a.m., 23rd.

Secretary of State,
Washington.

755, May 19, 6 p.m.

FOR THE TREASURY.

The banks have been extremely quiet today the Guaranty Trust for example reporting less than a dozen callers. Their inactivity is undoubtedly largely attributable to the fact that no public announcement was made to the effect that the banks would be open today.

Barrett estimates that withdrawals from the Guaranty on Thursday, Friday and Saturday averaged ten million francs per day. Carter gives approximately the same average for Morgan & Company.

The Bank of France has **instructed** the banks to limit the amount of Belgian banknotes which may be converted into French francs to 5,000 Belgian francs per family per fortnight. Heretofore there was no limit on the amount of Belgian money which could be changed into francs.

Rueff

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-2- #755, May 19, 6 p.m., from Paris.

Rueff who telephoned Carter at noon today is said to have considered the situation to be slightly better. Rueff said nothing in regard to the possibility of the banks "evacuating".

A member of my staff telephoned Cariguel regarding the authentication of security destruction certificates and has an appointment with him at the Bank of France tomorrow to discuss the matter.

BULLITT

DDM

Delay on above message due to non-receipt of original number of which Paris was advised.

DIVISION OF COMMUNICATIONS AND RECORDS