

COPY

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May 30, 1940
Kweiyang, China

Mr. J. L. Keeshin
221 W. Roosevelt Road
Chicago, Illinois

U.S.A.

Dear Mr. Keeshin:

I returned to Kweiyang on the 21st of this month with a definite assignment from Minister Chiang Kia Gnan authorizing me to direct all maintenance activity in this division, and to also assist in solving any other problems that may arise in the China Transport Corporation.

In the past we have acted only in an advisory capacity to both the Ministry and China Transport with the result that many of our recommendations have not been enforced due to personnel politics.

The Minister and Mr. Y. C. Chen, managing director of C.T.C. are very anxious to get speedy action in order that the transportation organizations will receive all the benefits of our past experience. They are also concerned that we establish in the organizations enough basic principles to assure their long existence after we leave China on the 28th of July. We have expressed our willingness to do everything possible in a supervisory capacity that will bring about efficiency and co-ordination throughout the Ministry and C.T.C. transportation system.

The past experience of the Chinese in highway transportation has been very limited and even then to only a very few so, therefore, many problems arise that is beyond their comprehension. However, it should be mentioned that in spite of all the handicaps created by war, inexperience and political reasons within the organizations, that they are doing a fairly good job. I think one of their greatest faults is that they can sit idly by and permit a very minute affair to develop into a serious situation.

With the exception of a few items all of the shop and maintenance equipment that was purchased on the original 7.5.3/4. order has been transported into Kuming, and redistributed to the various shops and garages along the highway system of free China. The second purchase has arrived at Haiphong and Rangoon respectively, but to date we have been unable to transport but a very small portion of it into China, due to the fact that the space on the new trucks that are coming in had to be utilized for gasoline and other materials that are necessary to conduct warfare. However, the parts situation is still very acute and I fear it will be for some time to come. The supply coming into China, in the past has been fifteen to twenty percent less than the demand.

During the past month we have seen a great increase in the bombing activities of the Japanese, particularly in and around the vicinities of Chungking. I talked to Bassi last night before last and he at that time informed me that the Hwa Lung Chia (a suburb of Chungking) B-shop had been bombed during that day, inflicting considerable damage to the buildings and part of the equipment.

Mr. J. L. Keeshin

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Kweiyang, China
May 30, 1940

With the quantity of the gasoline imports increased during the past few weeks the operating problems have become less tense and they were very optimistic at Chungking, in that they would be able to despatch fifteen hundred tons of wood oil from that city during this month. I have not heard whether or not that they attained that quota.

With my very kindest regards to you all, I am

Sincerely yours,

(Signed)

C. W. Van Patter

RECEIVED
MAY 31 1940
SECRETARY OF THE ARMY

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

WASHINGTON 17 June, 1940.

SECRET

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

T. V. Soong is proceeding to Washington as Chiang Kai - Shek's special representative with full power to act in his behalf, leaving Hongkong via the Clipper Wednesday, June 19th. American Ambassador Johnson will be informed by the Chinese Foreign Office after T. V. Soong leaves Hongkong Wednesday. In the meantime, the matter is being kept very quiet, and this is intended for your advance information.

MEMORANDUM TO THE SECRETARY OF MAIL.

June 17, 1940.

During the past two weeks the general mail has indicated that individual citizens conform in their opinion in the trend of newspaper and radio sentiment. In other words, more than 95% of our mail is strongly pro-ally, and the remainder, although some of it is exceedingly nasty in tone, is almost entirely anonymous.

Offers of cooperation of every type come in daily. We receive concrete gifts both in the Treasury and by reference from the White House. These are usually gifts of money, the highest being, I think, a \$500 check. We have also had gifts of jewelry, two wedding rings, etc.

Offers of services either on an unpaid basis or for very low salary are frequent. We keep a card index of such individual offers under both the name of the writers and the type of work for which they volunteer.

There are many suggestions in regard to ways of raising additional taxes, and in almost every case the writer states that he will be glad to pay more taxation money himself. One telegram received this morning from a New York businessman states that he paid about \$75 income tax last year and could triple it for the purpose of national defense, especially if he could pay it in monthly installments. Another small merchant endorses an increase in the cigarette tax and suggests that it be made immediately to prevent storekeepers from stocking their shelves to avoid its payment.

Memorandum to the Secretary on Mail.

June 17, 1940.

There are many suggestions as to defense bonds like the Liberty Loan Bonds of the World War, and a surprising number of writers wish to have a definite distinction between the funds raised by taxation or bond selling for the present emergency and the normal taxation for Government expenses. They seem to feel they would contribute more in the campaign for national defense if they knew how much of their money went to this and was separated from ordinary running expenses of the Government.

There is a definite campaign for the contribution of a week's salary, and men of all ranks are writing in to add their names to the list of those who volunteer this as a gift.

As opposed to those who urge the sending of airplanes and all possible material to help the Allies, there is a small but steady portion of complaints about the nonpayment of loans at the time of the last War, and refers to the President as a "war-monger" who is pushing us into war on the side of the British. It is this group who continue to urge that the British possessions in this hemisphere be turned over to the United States in payment of back debts, and also to keep the Americas "American". These come from substantial citizens who write intelligently, as opposed to the froth of the anonymous and abusive writers mentioned above.

A man who simply signs himself "Your Cornell friend" has been sending in clippings on the Annenberg case, others from Pegler's column, and some on the war situation. He says, "You are doing very valuable work following up racketeers who cheat on income tax"; and in another memorandum, "You continue to prove yourself fearless and honest in your administration of your office".

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Memorandum to the Secretary on Mail.

June 17, 1940.

There were several protests from banks in regard to the calling of the 3 3/8% bonds. The Federal Reserve circular letter was dated June 11th, while the date of the closing of the offer was June 12th. That was protested as being entirely too short notice and unfair to the holders of these bonds.

W. F. Forbush



DEPARTMENT OF STATE
WASHINGTON

June 18, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a paraphrase of strictly confidential telegram No. 264 of June 12 from Bucharest.

RECEIVED
THE DEPARTMENT
OF STATE

JUN 18 1940

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: June 12, 1940, 1 p.m.

Rec'd 9:40 a.m., 13th

NO.: 264

Reference is made to telegram of June 11, 2 p.m., No. 260 from the Legation.

On the authority of a friend close to the Governor of the National Bank, I learn indirectly that Constantinescu himself was responsible for the delay which has resulted in missing the opportunity of sending to the United States the gold reserve of Rumania plus the Polish gold. The same authority states that the Government for some time has been in favor of this shipment, but it was the belief of Constantinescu that Rumania's chances of obtaining the much desired credit in the United States might be prejudiced if such a large quantity of gold should be sent there. It is still hoped here that such a credit may be given to Rumania. There are reports in the press that even "Germany's handmaiden Hungary" was granted a small credit.

According to this same source, it appears surprisingly enough that the National Bank Governor was even somewhat fearful lest the United States Government, once ~~part~~ this gold were actually there, might detain part of it
for

for Rumanian loan and bond service.

GUNTHER

TO USE FOR THE
TECHNICAL AND
OFFICE OF THE
DIRECTOR
OAO 7M 18 AM 7 51
RECORDED

EA:LWV

TREASURY DEPARTMENT

182

INTER-OFFICE COMMUNICATION

DATE June 18, 1940.

TO Secretary Morgenthau

FROM E.H. Foley, Jr.

Re: Townsend Amendment

Larry Bernard just telephoned me from the Hill that the Townsend Amendment to repeal our power to purchase foreign silver was defeated on a roll call vote. The vote was 45-35: 45 against the amendment and 35 for the amendment.

E.H.F. Jr.

copy

ANGLO-FRENCH PURCHASING BOARD

183

Hm heading only copy P.Y.

NEW YORK:
15 BROAD STREET

WASHINGTON:
725 15th ST., N. W.

photostat to Mr. Jones 6/20/40

This letter from

Washington, D. C.,
June 18, 1940.

William S. Knudsen, Esq.,
The Advisory Commission to the
Council of National Defense,
Washington, D. C.

Dear Mr. Knudsen:

With reference to my letter of June 15th in which I stated that the French portion of the Rolls-Royce engine order which you are placing with the Ford Motor Company would be 2,700 engines, developments have since occurred which rule out this possibility.

Word has been received, however, from Lord Beaverbrook authorising advice to you that the British Government will take up the 2,700 portion of the order, making 6,000 engines in all for British account.

Yours very truly,

(Signed)

Arthur B. Purvis

ABP:MAV

RECEIVED

JUN 20 1940

Office of War Relocation Authority
Department of War

June 18, 1940
9:43 a.m.

H.M.Jr: Yes.

Secretary
Woodring: Harry Woodring.

H.M.Jr: Good morning.

W: Good morning. Say, Young is here and Arnold and it's our understanding that in your letter of yesterday that Baker of the Purchasing Board has advised us that there's no objection to releasing these drawings necessary to produce them on 3's and the 10's and the 20's.

H.M.Jr: That's right.

W: Now, I had no -- you see, I'd never dealt and never seen any of this Purchasing Board in any way, I've just dealt through you. I wondered if you should send me over a letter instructing me to -- requesting me to turn them over to Knudsen.

H.M.Jr: I'm perfectly willing to.

W: Well, all I just want to know is that -- just to keep the record straight. I'm -- just say that -- if you want to put it -- I'm not dodging responsibility, all I want -- you can say that according to our agreement or decision or something that way.

H.M.Jr: Well, let me put it this way. In the first place I turned all the plans over to you.

W: Yes.

H.M.Jr: Now, in the second place, as I understand it, they're going to place -- the U. S. Government and the English are going to place a joint order with Ford.

W: Yes.

- H.M.Jr: Now, the plans are in your hands. Now, actually the buying -- isn't the buying done by you? It isn't done by Knudsen, he just does the negotiating.
- W: Yeah, that works all right.
- H.M.Jr: I mean, having turned them over to you isn't it up to you to turn them over to whichever company is going to manufacture it. If it's Ford, then you turn them over to Ford.
- W: Well, I think maybe that's all right -- that suggestion.
- H.M.Jr: I mean, I think that you ought to talk to your lawyer, but thinking outloud I should think it would flow from you to the manufacturer, then you would hold the manufacturer responsible. I mean, Mr. Knudsen is simply in an advisory capacity.
- W: Uh-huh.
- H.M.Jr: I mean, he has no legal responsibility. That's why I turned them over to you.
- W: Uh-huh. Well, now I tell you what you do then. Why don't you send me a letter saying that according to our decision that you're confirming that this should be turned over, that Ford is going to manufacture these and -- I suppose we know that, do we?
- H.M.Jr: I think you're making it a little extra, Harry. I don't think it's really necessary. I mean, my first letter I turned the plans over and you signed for them, so they're yours. I simply asked you to hold them up until I found out what the English Government wanted. Now it's agreeable to them to release those plans to whoever the Army wants, so that the decision is yours -- it's no longer mine.
- W: O. K. Now -- all right. I'll make the decision.

- 3 -

H.M.Jr: Yes.

W: And I'll handle it. Now let me ask you then if you don't think that in each instance, not having dealt with this Board, that you ought to -- and I'll not release any further ones until I get letters from you saying that the Board releases them.

H.M.Jr: That I would like very much.

W: O. K.

H.M.Jr: And I furthermore would like, as I told Young to say, that what you now have in your custody you'd guard just the way you guard your bomb sight.

W: That's right and we've got them out there under guard and everything and nobody, not even our own people only certain ones, are seeing them.

H.M.Jr: Well, I think that the people who are doing your experimental work ought to see them.

W: Well, that's limited to certain people.

H.M.Jr: Surely. Are you satisfied?

W: Yeah. Now one other thing.

H.M.Jr: Please.

W: General Arnold's sitting right here and could you tell him so he would be prepared anything about the 11:30 meeting?

H.M.Jr: Well, I have another cable offering us some additional plans and some additional planes, and I wanted to show it to him and Admiral Towers and ask them if these things which are in the secret cable from Kennedy -- whether they want them.

W: All right.

H.M.Jr: So there's nothing to prepare.

- 4 -

W: Nothing to be prepared.

H.M.Jr: No.

W: O. K. All right, thanks, Henry. Good-bye.

WAR DEPARTMENT
WASHINGTON

CONFIDENTIAL

2 photostats to 188
Mr Young
one for Chancell
& one for Mr Baker

JUN 18 1940

6/20/40

1 photostat to
Mr Young for his
file 6/20/40.

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

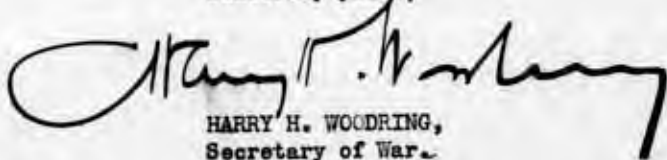
I have indicated my agreement on your letter of June 13th, relating to the Rolls Royce engine.

I have caused the following action to be taken: the shipment of data and parts has been forwarded to Wright Field, Dayton, Ohio. Inventory is being made of the contents of the shipment by two commissioned officers of the Army, under the supervision of a representative of the Treasury Department.

The officer in command at Wright Field has been directed not to disclose the nature of the contents of this shipment to any other persons except those enumerated above.

Upon receipt of the detailed inventory of the contents of this shipment, I shall consult with you as to further action to be taken in this matter.

Sincerely yours,



HARRY H. WOODRING,
Secretary of War.

1 Incl.
Letter, 6/13/40.

CONFIDENTIAL

CONFIDENTIAL

JUN 18 1940

The Honorable,**The Secretary of the Treasury,****Dear Mr. Secretary:**

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Upon receipt of the detailed inventory of the contents of this shipment, I shall consult with you as to further action to be taken in this matter.

Sincerely yours,*(Sgd.) Harry H. Woodring***HARRY H. WOODRING,
Secretary of War.**

1 Incl.
Letter, 6/11/40.

CONFIDENTIAL

THE SECRETARY OF THE TREASURY.....
WASHINGTON



June 13, 1940

Dear Mr. Secretary:

The British Government, through Ambassador Joseph J. Kennedy, has shipped to me, as the representative of the United States Government, certain patents, drawings, operation sheets, manufacturing and assembly specifications and working models covering one or more of the Rolls-Royce airplane engines and parts. The shipment, I am informed, is now at the Railway Express office in Washington.

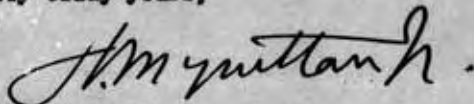
It is my thought, in order not to lose time, that the consignment be turned over to you at once. Since the material has been sent to me, I should appreciate receiving as soon as possible a complete inventory.

There remains to be agreed upon between the British and ourselves the terms upon which the patents are to be made available to this Government. Any licensing arrangements affected by the Army or the Navy will necessarily have a bearing on such settlement. Therefore, prior to the consummation of any negotiations for licensing the manufacture of the engines in this country, I should like to be consulted.

- 2 -

If this arrangement is satisfactory, I should appreciate your indicating your agreement at the end of this letter.

Very truly yours,

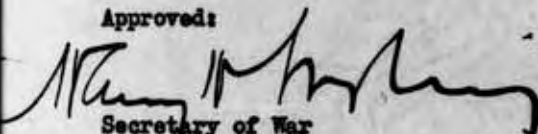


Secretary of the Treasury.

The Honorable

The Secretary of War.

Approved:



Secretary of War
June 13, 1940

June 18, 1940.
10:00 a.m.

RE TRANSFER OF FRENCH GOLD TO BRITISH

Present: Mr. Ballantyne
Mr. Purvis
Mr. Cochran
Mr. White
Mr. Bernstein
Mr. Viner
Mr. Bell
Mr. Nelson
Mr. Foley
Mr. Young
Mr. Bloch-Laine
Mr. Leroy-Beaulieu

H.M.Jr: Well, I thought I would have everybody here to be helpful in this very important discussion.

Purvis: Quite.

H.M.Jr: Would you like to --

Purvis: Well, all that we have to say, I think, is that on Sunday Mr. Bloch-Laine and I got together with a view to seeing what was an appropriate step in connection with the orders that have been carried on more or less on an Anglo-French basis throughout and which we have in many cases had one Government sign something that was used in both our programs. That is right, isn't it, Mr. Bloch-Laine? For instance, an engine contract might serve two contracts for planes and so on. It was very important to us that we should get an assignment of that, we felt, at that time, and we therefore - therefore there were assignment agreements, documents, signed with which - whether they will come into force or not may depend upon the status of the French Government's situation as it

develops. They are there as documents whereby we have bought or have obtained an assignment of French quotas for aircraft, machine tools, munitions in general. Does that about describe it?

- H.M.Jr: The reason I asked these gentlemen in is, I need their technical assistance in handling of the gold and that is why I asked Leroy-Beaulieu to be here, you see.
- Purvis: Well now, Mr. Bloch-Laine, is there any reason why I shouldn't speak of that letter?
- Bloch-Laine: There is no reason, Mr. Purvis. It is an agreement which we will enforce if we can and we will not enforce it if we can't. I don't think that is in my jurisdiction. We simply tried to do something --
- Purvis: If it could be done, yes. That was in the form of a letter addressed by the British Purchasing Commission to the French State setting out that a payment might be made by the French State to the British equivalent to the unpaid balance for orders outstanding in the United States so that the British could make the necessary completion of those contracts with the contractors and that, in turn, the credit would be established in Canada equivalent to the amounts already paid by the French and such further amounts as were paid in such a way. Now that, as Mr. Bloch-Laine says, is a document that lies there. It could have force if it was wise from all viewpoints that it should have force. It need not have force if there is any feeling on the part of the vital parties concerned that it should not have force.
- Bloch-Laine: And we even went as far as seeing that it was enforceable, because I don't know whether anybody has the power to take that money in such amounts and transfer it - our friend Leroy-Beaulieu has seen it and I think he has a say on this subject. It is really in his jurisdiction.
- Purvis: We tried to reach him and we couldn't, as a matter of fact.

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Leroy-Beaulieu: I know.

Purvis: We didn't have many hours to work this out and it was mostly done in the middle of the night, of course.

H.K.Jr: Let me talk in terms of figures. As I understand it, letters have passed between you gentlemen addressed - the part, I take it, of the British --

Purvis: Purchasing Commission to the French State, which is the normal --

H.K.Jr: In which you say, "Well, by --" for round figures we will say, "we will assume your outstanding contracts for munitions for 500 million dollars," just to use a round figure. "We also will pay you or reimburse you for money advanced on these contracts."

Purvis: Perhaps I haven't - in trying to state the steps I haven't perhaps shown the documents. May I reduce the steps to the documents and then - before we get to the comments that Mr. Leroy-Beaulieu will have on the gold side of it.

There are two assignment agreements. First, whereby the French State agrees to assign to the British or the French Purchasing Commission agrees to assign, in that case, to the British Purchasing Commission, Ordnance contracts. One of those agreements was entirely on aircraft because the complications of the new aircraft program indicated that it was wise to have one agreement on aircraft alone.

Then the second assignment, which is very similar in form and only details - only changes in detailed wording which is of no importance to this discussion, covers - we put in aircraft again. Then we mentioned machine tools and munitions generally. That is the second document. Those are two parallel assignment agreements, however, simply covering different lines of orders.

Then the third document is this letter which endeavored to create an obligation on the part of the French State to pay to the British Purchasing Commission a sufficient sum to take care of the balance of payments under the contracts, so that if it was possible for the gold, French gold, to be sold to take care of that obligation, we could give a credit corresponding in Canada if it suited everybody concerned.

H.M.Jr:

That is the part I don't understand. I didn't get this last night and I don't get it now.

Purvis:

Well now, let's - would you (Leroy-Beaulieu) like to put this --

H.M.Jr:

I don't get it now, why the French sell their gold when you are buying something from them. That is the part I can't get.

Bloch-Laine:

Beg your pardon?

H.M.Jr:

What I can't understand, the English are buying something from the French and they have got to pay you, and they are going to pay you "X" hundreds of millions of dollars and give you a credit in Canada for that. That I can understand.

Bloch-Laine:

That would stop there.

H.M.Jr:

But what I can't understand is why, when they are buying something from you (Bloch-Laine), the French Government, Mr. Leroy-Beaulieu, should sell his gold.

Purvis:

Well, he hasn't sold it, of course, but the technicality was really this, that the people who had the power to sign for France in regard to the gold could only sell it to the extent that it was needed for purchases. Therefore, if it was needed for a purchase, because they were going to pay us a sum the next day to enable us to clear up the outstanding balances, theoretically

it was possible for them to sell the gold.

H.M.Jr: But I still - you are buying and they are selling.

Purvis: It is a separate transaction.

H.M.Jr: I mean you are buying something that they have got and you have got to pay them for it, I take it, and you are going to give them a credit in Canada. Now, I can understand that.

Purvis: Well, we didn't put that in the original document. That is merely an assignment document. The agreements are two assignment documents which don't speak of where we pay it.

H.M.Jr: Well, I take it you will pay them somewhere.

Purvis: Oh yes.

Bloch-Laine: You are perfectly right.

Purvis: In the United States.

H.M.Jr: And where does the French gold come in? I mean, if they sell it - why does it enter into it at this time, that is what I can't understand.

Bloch-Laine: Mr. Secretary, it doesn't have to come in. The gold is only in it in that it is used to make payments.

H.M.Jr: But if you have sold all your contracts and you are relieved of your contracts --

Bloch-Laine: Those payments have got to go on. Yesterday I gave checks, but I didn't pay because the assets are frozen, but today there probably are installments due. Those contracts - we can agree together to sell them. That was, as I said Sunday night, but it will take some time. Besides, we are not sure we will put that in force immediately. It depends very much on the trend of events.

H.M.Jr: But if you come to me today or Leroy-Beaulieu comes to me today or comes to Mr. Bell and says, "We have so many payments, we want to get a license to pay for outstanding payments in America," I take it those things would go through the same day, wouldn't they?

Bell: Or shortly thereafter.

Foley: We cleared 7 million dollars worth of airplane payments for the French yesterday.

H.M.Jr: You have got to draw me a picture.

Bell: I think this is a means of getting this gold over. May I ask you if this is the case? I may use figures which are not right. Supposing the French have in this country 500 million dollars in contracts which are 50% complete and on which they have paid 250 million dollars. They owe 250 million dollars on those contracts in theory. Now, I take it what you are doing is trying to draw up a means whereby the French will pay you in gold 250 million dollars of that unpaid part.

Furvis: In effect, yes.

Bell: And you will give them a credit in Canada for the 500 million, is that right?

Furvis: Correct.

Bell: You see he uses it as a means --

Furvis: It provides a structure so that can be done if it is desirable.

Bloch-Laine: And to the extent that it is desirable.

H.M.Jr: I can understand that when you make it that simple. But let me ask you this. Would you (Bell) grant a license of that kind?

Bell: Yes, I think so. I wouldn't see any objection to that.

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Purvis: That is a perfectly legal transaction.

H.M.Jr: Ed?

Foley: Sure.

H.M.Jr: But that sort of thing, if it was going to happen, the sooner the better.

Foley: Right.

H.M.Jr: They oughtn't to fool around with it, ought they?

Foley: No, I shouldn't think so. The longer they delay the more difficulty there may be about accomplishing it.

H.M.Jr: Merle?

Cochran: I think it should be done before there is any formal agreement on the other side.

H.M.Jr: Viner?

Viner: It seems to me that the same authority that they have now can be withdrawn from them almost any day and that you (Leroy-Beaulieu) can't have an assignment that will hold water after some changes are made in the French situation, so it seems to me that the whole virtue of this arrangement would be lost if it isn't carried through.

Leroy-Beaulieu: May I say something, Mr. Secretary?

H.M.Jr: Please. It is your money.

Leroy-Beaulieu: I think Mr. Purvis and Mr. Bloch-Laine were extremely wise in doing this on these contracts, and I appreciate very much what they both did. After having talked over with my Ambassador this morning and yesterday about this situation, I think that we have to separate the question of the contracts and the gold question. I think the Ambassador's idea

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is, as you have just stated, Mr. Secretary, that he doesn't seem to understand very well why if we sell something to the British we shall have to give them the money also. He is quite prepared, and we are also quite prepared, to make an agreement with them by which we send them our stuff and they credit us in Canada for the payments which we have already made, but as far as the gold which we have here in the Bank of France is concerned, we think - we must speak it once more, because we haven't concluded the examination, but I think the first reaction is that this is another question. We understand that what is underneath is to help the British as much as we can.

H.M.Jr: I don't get it that way, but that is --

Leroy-Beaulieu: We think that the question of the gold in the Bank of France, gold here, and the question of the contracts are two different questions. We are quite prepared to make the payments under all contracts until they have been delivered to the British. We are willing to send them to the British but this scheme outlined in the second letter has not yet met the approval of the Ambassador.

Purvis: And they are so drawn, as a matter of fact, so that that is perhaps one reason, Mr. Leroy-Beaulieu, in your absence yesterday, why we had the two assignment agreements on the one hand and a letter on the other because we realized we were moving into a field which invoked a separate and different transaction. I remain more convinced than ever, from our angle as to its importance, but nevertheless I can see completely and absolutely that our angle may be a smaller angle than the French angle in the matter of their gold.

Bloch-Laine: But I must say that personally, all I did was something which would make it feasible,

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if it was thought advisable, because I haven't the power to do it and that was all really clear. Our arrangement is drawn in such a way that if we don't get the British - all the money necessary to pay for all those contracts, it still is just the same.

Purvis: It is just the same as an assignment of goods. But the question of the gold thing has an importance of its own, and I do think that you expressed the view correctly when you said that the sands are running out in which a decision can be made. There is very short time in which the value of this third document can be made good.

H.M.Jr: Well, the point is this: Granted that the two things had nothing to do with each other, but this gives a means of your placing this money in Canada.

Foley: That is the thing.

Purvis: That is the thing.

H.M.Jr: And I hope the Ambassador sees it. Under the method through which we are handling it, here it is frozen and in Canada you can make whatever deal you want to and this is just a formula to get it out of here, which we are saying if you come today and say, "We would like to use this formula," I take it, Bell, and from what the lawyers and everybody say, they will release it, but you have got to move very much faster and it is just the thing that your people here have got - "Where is 250 million dollars more useful to us, in Montreal or in New York?"

White: Or whether you are converting the gold asset into a British credit. The British gold asset might be subject to all sorts of pressure.

Foley: Seizures.

White: Whereas - pressures in any case, whereas if the Canadian British Government holds the money, it is a different story.

H.M.Jr: Well, it is clear to me now.

Purvis: We created the document.

H.M.Jr: It is clear to me and I think it is damned smart from the standpoint of the Allies.

Foley: It is very smart and it is a device that is vague enough to get out of a seizable asset a credit that can't be attached.

White: In a rather legitimate proceeding.

Foley: In a way that is related enough to what we are trying to do so that it is obscured.

Leroy-Beaulieu: May I ask some questions so that nothing remains in the dark? Is there a danger if the gold remains here that the German Government can seize it?

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

Viner: No, the danger would be that the German Government would have the French Government turn it over.

Bernstein: That is right.

White: That is the point.

Leroy-Beaulieu: In that case you think you would have to --

Foley: Well, they would put pressure on you.

Purvis: You have no excuse for not doing it.

Viner: You have got to protect that so that an order can't come from the Bank of France itself turning it over to the Germans.

Leroy-Beaulieu: I think that would give a sequel to this order.

- 11 -

- Foley: Whether we would or wouldn't, we might not be able to do anything about it. We might be tied up in port.
- Viner: You ought to protect yourself against us, as well as against the Germans.
- Leroy-Beaulieu: But I thought the idea of freezing these assets was that Mr. Morgenthau was the trustee of these assets and wanted to prevent them from going to the Germans.
- Foley: That is the theory, but if an order was issued under duress by the Bank of France and an interest was asserted in this gold here, you might not be able to accomplish this because a suit might be started. The whole thing might be tied up in court and it would be too late.
- White: Well, there is that difference. The assumption is that --
- H.M.Jr: May I make a suggestion? This conversation is getting to be full of dynamite. I think that Leroy-Beaulieu ought to go and talk with some of these people in another part of the Treasury.
- Leroy-Beaulieu: Yes.
- H.M.Jr: Because it is, and I may say - well, talk it over with them in some other part of the Treasury, see, than this room.
- Leroy-Beaulieu: Yes, I see.
- H.M.Jr: Because I think that we have gone about as far as we can in pointing out to you. We have gone 100% in pointing out to you that this can be done and if you people don't see it, it is just too bad.
- Leroy-Beaulieu: Yes.
- H.M.Jr: If the Ambassador doesn't see it, it is just too damn bad, but he has got to make up his mind today.

Leroy-Beaulieu: We will have a talk with this new light thrown on the subject.

H.M.Jr: Yes, because all I can say is, you once asked me what I would do if I were the Minister of Finance of France. I told you what I would do in September. I wouldn't hesitate now, either. This is a very nice little way out that these gentlemen have worked, and as of today, it is perfectly legal and proper.

White: How much is involved, Mr. Secretary, approximately?

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

Leroy-Beaulieu: Five hundred million.

White: Half a billion?

Leroy-Beaulieu: Yes.

H.M.Jr: So why don't we - I tell you, why doesn't Leroy-Beaulieu and - where should they meet?

Bell: He can come in my office, if he wants to.

H.M.Jr: That is fine. Why don't they go into your office? Do you (Bloch-Laine) want to go with him?

Bloch-Laine: Do you want me in?

Leroy-Beaulieu: I would love to have you.

H.M.Jr: I can talk a little bit with Mr. Purvis about regular business.

Purvis: Not the Bank of France.

June 18, 1940
10:30 a.m.

RE ALLIED PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Nelson
Mr. Ballantyne
Mr. Young

H.M.Jr: Is there any other business we have?

Purvis: The only other thing that is worrying me at all, I understood that we have under request of all people on the other side, as you know, under this assignment agreement, acquired the right to the machine tools of France, too. Now, we had always presumed in our own minds that we would look through these contracts with a view to seeing where they can be used, but on the other hand we are up against action on the part of - there is a letter which has been handed to me as I entered the room which would indicate that Mr. Vance may have moved.....

H.M.Jr: Who is Vance?

Purvis: Knudsen's machine tool man, isn't he?

Nelson: He is the man from Studebaker. He is handling machine tools for Knudsen.

Purvis: I think they haven't realized, you see - we couldn't publish this yet. We thought that --

Nelson: I told him, "Why didn't you tell me just exactly what you were going to do?"

Purvis: I think it is just a question of getting it to the ports.

H.M.Jr: Well, it is a stupid telegram, damn stupid.

Nelson: Stupid as Hell.

Purvis: It may create - the only thing I am worried about is this, that if France tells those people that the French Government now - that they have got no orders, that atmosphere may be given out to a lot of other contractors for other articles and products in United States. Now, that might cause a breakdown of the Allied situation.

H.M.Jr: I think it is important enough that I had better call up Knudsen myself and ask him to see you, Nelson, and right away.

Nelson: All right.

Purvis: It has a broader field than machine tools.

Nelson: One of the machine tool presidents is in the building now. I had dinner with him last night. He is in Sullivan's office.

H.M.Jr: Who, Vance?

Nelson: No, I say the president of this association, Bill Kelly. I had dinner with him last night.

H.M.Jr: I think it is a stupid telegram.

Nelson: I will take care of it.

H.M.Jr: I just want to impress the importance of the thing.

Purvis: It might also create a general feeling in the minds of the contractors here which might be very dangerous.

Nelson: Knudsen called me this morning, and I told him that until we got official confirmation from you we were to assume that you would take them over.

Purvis: That is the common sense point of view. As you see, the documents have already been made.

- 3 -

Nelson: That is right.

H.M.Jr: He is out for a few minutes. I want to keep this and then I will shoot it in to you. (Nelson). I want to impress on him the broad importance of this.

Purvis: There is one other thing before you speak with Mr. Knudsen. The Ford contract for engines. We have visualized, of course, the question, because of the reports in the newspapers of Ford also making airplane frames. I don't know whether it is a practical matter or not.

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

Purvis: I just wanted to tell you that when the question was raised by the British Government through reading in the papers that this was coming along, they asked us whether we shouldn't approach immediately the Ford Company. I took the stand that we should not, that this was a case of a cooperative thing with the United States. I am not going to move under any circumstances with Ford except under the direction of the United States Administration.

Nelson: That is perfectly right.

Purvis: They have cabled back agreeing to my stand, but nevertheless they asked me whether I wouldn't approach you with a view to your doing anything that you think is wise in regard to this aircraft frame matter with Ford, or, I suppose, anyone else.

Nelson: I will handle that. The aircraft frame matter will be handled. It was necessary to get the engines going first because of the machine tools.

Purvis: And I was glad to be able to tell them last night - I had Lord Beaverbrook send a message saying that we would take the French portion also. That brings it up to six thousand.

I think we have done a good and quick job of work.

- Nelson: You certainly have, splendid. Mr. Knudsen has been notified, I think you said.
- H.M.Jr: I talked to him last night.
- Nelson: Because that was a question he asked me yesterday.
- H.M.Jr: I spoke to him about nine o'clock last night.
- Nelson: Good.
- H.M.Jr: Well, if that is all, I just want to have a minute with Mr. Purvis alone.
- Nelson: All right, sir.
- H.M.Jr: And I will send this to you.

WALLACE CLARK & COMPANY

15 Broad Street, New York.

June 17, 1940.

The French Purchasing Commission,
15 Broad Street,
New York, N. Y.

Attention: Capt. J. Maillet.

Dear Capt. Maillet:

We have information from a reliable machine tool builder that his company received the following telegram from the National Machine Tool Builders' Association:

"VANCE ADVISES FRENCH CAPITULATION WILL UNDOUBTEDLY RESULT CANCELLATION ALL FRENCH ORDERS BUT REQUESTS THAT MACHINE TOOL PRODUCTION CONTINUE FULL SPEED. HE RECOMMENDS THAT IF FRENCH ORDERS NOT YET ON ASSEMBLY FLOOR GIVE PREFERENCE TO DOMESTIC ORDERS IF ON ASSEMBLY OR FINISHED SEND QUOTATION OR COMPLETE DESCRIPTION AIRMAIL H. S. VANCE MACHINE TOOL CO-ORDINATING COMMITTEE FEDERAL RESERVE BUILDING WASHINGTON MENTIONING DELIVERY DATES ALSO SPECIAL FEATURES VANCE WILL SEE IF MACHINES CAN BE USED ON GOVERNMENT PROGRAM WILL SEND FURTHER ADVICES AFTER HIS COMMITTEE MEETS ON WEDNESDAY".

We believe it is safe to assume that if this telegram was sent to one member of the Association, it was sent to all members.

Sincerely yours,

WALLACE CLARK & COMPANY

RAW/m

ONE

Given me by
Major Smith June 19, 1940.
12. Noon.

June 18, 1940.

MEMORANDUM for the Secretary of War:

**Subjects: Transfer to British of 12 Flying
Fortress type planes (B-17)**

On hand today 52
Due for delivery this summer 2

Time required to replace 12 planes - December 1940

Remarks

This is the only efficient bomber we now possess. Our B-18's have a speed under 200 miles, and are poorly armed.

Our secret bombsight is built into the plane. The next most efficient sight, - the Sperry, would require four months for installation. The Estoppey - an inferior sight - would require two months to install.

We have recognized the urgent necessity for locating a few of these planes in Hawaii, but have not done so because of the small number available. They must also be held available for the defense of the Canal Zone and the Caribbean areas.

Recommendation

It is the unanimous opinion of the War Department officers concerned, that it would be seriously prejudicial to our own defensive situation to release any of these ships.

Chief of Staff.

June 18, 1940
11:30 a.m.

Present: General Arnold
Admiral Towers
Mr. Young
Mrs. Klotz

HM, Jr.: I have a confidential cable from Kennedy which reads as follows:

"I talked with Beaverbrook last night if he were able to arrange it would United States be interested in jigs and tools for construction of Baker Dash one three nine, an improved bomber, Albemarle, wood frame fast day bomber, and Tornado, fast fighter x due present conditions we might be able get large supply jigs and tools which would expedite production these units x Before pressing matter should like to make sure of your interest."

Does that mean anything to you?

Gen. Arnold: Yes, I understand it. He is offering us the Albemarle, the Tornado, and jigs and tools. There would have to be an additional source found somewhere. I am afraid it would muddy the water.

HM, Jr.: Knudsen and I agreed that we would not try to put anything into production for the Allies that we ourselves could not use. What harm would there be to ask for the plans?

Gen. Arnold: If there are no strings tied to it, I should think that we could ask for the plans and lock them over. If we try to put these in our existing industry . . .

HM, Jr.: Out at Dayton you have plans for the Merlin and the engines for 1942. I take it that your people are studying them. You also have the Halifax bomber. We may learn something from that.

Gen. Arnold: If there are no strings attached to the Albemarle, I should think we could learn something from it.

HM, Jr.: But not the jigs and tools? Of course, you understand I am not trying to force anything on you.

- 2 -

Gen. Arnold: No, I understand. Our people are learning a great deal already from the Rolls Royce.

HM, Jr.: I will send a cable asking for the plans on the Albemarle bomber, but not the jigs and tools.

"After talking with Gen. Arnold and Admiral Towers we would be glad to receive detailed drawings for both airplanes mentioned your cable June seventeenth. Doubt if we can use jigs and tools in United States, but they might be glad to receive them for use in Canada."

I asked for the Hispano Suiza engine and I received the following cable:

"With regard to Bullitt's earlier telegrams concerning the Hispano Suiza motors, I am now informed that the two complete engines with superchargers were sent by Mat Ford on June 14 on the S.S. Ile de Re addressed to the Ford Company and due in New York about the twenty-ninth of June. The engines are accompanied by two Mat Ford reps. Please have War and Treas. Depts. notified."

We will have to wrangle those out of the Ford Co. These two engines will go out to Dayton.

June 18, 1940

My dear Admiral Noyes:

I would appreciate it if you would send, in secret Navy code, the following message to Ambassador Kennedy:

QUOTE After talking with General Arnold and Admiral Towers we would be glad to receive detailed drawings for both airplanes mentioned your cable June seventeenth. Doubt if we can use jigs and tools in United States, but they might be glad to receive them for use in Canada UNQUOTE

Yours sincerely,

Rear Admiral Leigh Noyes, U.S.N.,
Director of Naval Communications,
Room 2622 Navy Building,
18th and Constitution Avenue.

June 18, 1940

My dear Admiral Noyes:

I would appreciate it if you would send, in secret Navy code, the following message to Ambassador Kennedy:

QUOTE After talking with General Arnold and Admiral Towers we would be glad to receive detailed drawings for both airplanes mentioned your cable June seventeenth. Doubt if we can use jigs and tools in United States, but they might be glad to receive them for use in Canada UNQUOTE

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Yours sincerely,

Rear Admiral Leigh Noyes, U.S.N.,
Director of Naval Communications,
Room 2622 Navy Building,
18th and Constitution Avenue.

SECRET

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WASHINGTON D.C.

17 JUNE 1940.

FOR THE HONORABLE SECRETARY OF TREASURY

FROM MR KENNEDY

I TALKED WITH BEAVERBROOK LAST NIGHT IF HE WERE ABLE TO
ARRANGE IT WOULD UNITED STATES BE INTERESTED IN JIGS AND TOOLS
FOR CONSTRUCTION OF BAKER DASH ONE THREE NINE AN IMPROVED
ALBEMARLE
BOMBER ALBERMARLE WOOD FRAME FAST DAY BOMBER AND TORNADO FAST
FIGHTER X DUE PRESENT CONDITIONS WE MIGHT BE ABLE GET LARGE SUPPLY
SUPPLY JIGS AND TOOLS WHICH WOULD EXPEDITE PRODUCTION THESE
UNITS X BEFORE PRESSING MATTER SHOULD LIKE TO MAKE SURE OF YOUR
INTEREST

TOR CODEROOM 1330

SECRET

ANGLO-FRENCH PURCHASING BOARD

216

NEW YORK:
15 BROAD STREET

WASHINGTON:
725 15th ST., N. W.

This letter from

Washington, D.C.,
June 18, 1940.

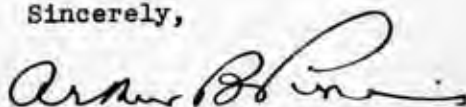
The Honourable Henry Morgenthau Jr.,
Secretary of the Treasury,
Washington, D.C.

My dear Mr. Morgenthau:

Thank you for your letter of June 7, 1940 in which you indicate to us the possibility of obtaining the services of Professor A. Gaudin of the Department of Metallurgy, Massachusetts Institute of Technology.

Our chances of taking advantage of his services have been considerably diminished due to recent circumstances, but I will endeavour to find out if there is some way in which we can use him.

Sincerely,



ABP:AEI

TREASURY DEPARTMENT

217

INTER-OFFICE COMMUNICATION

DATE June 18, 1940.

TO Secretary Morgenthau
FROM Mr. Foley

There is attached hereto a revised form of agreement intended to carry into effect the plan of financing plant extensions in connection with the national defense program as proposed by Mr. Knudsen last Thursday, June 13, with the modifications suggested in your office on Friday, June 14.

The tentative draft agreement contemplates that a corporation called the "Defense Finance Corporation", created by the Reconstruction Finance Corporation pursuant to Senator Glass' bill (S. 3938), if enacted into law, will finance a corporation, deemed for purpose of the agreement to be an aircraft engine manufacturer, in acquiring land, constructing a plant upon the land, and purchasing machinery and equipment for the plant.

To finance this project, the Defense Finance Corporation makes the manufacturer a loan bearing interest at 3%, secured by a direct first mortgage upon the project. This mortgage is the sole security for the loan, it being expressly agreed that the credit of the manufacturer is not to be pledged to the payment of the loan.

The amount of the loan would be spread over the total engines produced so that the sales price of each engine would include its pro rata share of the loan. The loan would then be repaid in quarterly installments according to the number of engines produced and sold either to the United States or to a foreign government.

For example, if a manufacturer borrowed \$1,000,000 to purchase machinery for his plant to produce 1,000 planes, the sum of \$1,000 would be added to the normal sales price of each plane. If in the first 3 months 100 planes were produced, then the manufacturer would repay \$100,000 on his loan.

If only machinery or other personal property is acquired, the loan will be secured by a chattel mortgage, the purpose of the plan being to vest title in the manufacturer but to permit the Government corporation to take over the machinery and equipment in the event of a default.

Under the draft agreement if the Government of the United States, or of a foreign country, should cancel its contracts with the manufacturer and the engines covered by such contracts are not sold at the same price within 6 months, then, if the manufacturer warrants that it will discard the buildings or machinery from use in its business, the Defense Finance Corporation will forgive the payment of that proportion of the loan which is allocable to the unmanufactured or unpaid for engines.

For example, in the case given above, if after 500 of the 1,000 engines contracted for had been delivered, the order was cancelled and neither the United States nor anyone else assumed the order, then the manufacturer could discard his plant or machinery and assuming this is done and the plant has no value, the unpaid balance of \$500,000 would be forgiven. Since only half of the engines were delivered, only half of the loan would have to be repaid. Of course, to the extent the plant or machinery had a residual or salvage value, the debt would have to be repaid, or the Government could foreclose and take over the abandoned property.

Under Mr. Knudsen's plan, manufacturers could borrow money only for standard types of equipment which could be used in the manufacture of planes or other armament for the War and Navy Departments, and this is covered also in the draft agreement.

It may be well to point out that the amount of the debt forgiven, if the contracts should be cancelled, would be taxable income. However, if the plant or equipment were permanently discarded, there would be an offsetting allowance for loss of useful value equal to the difference between the cost of the plant and its salvage value. Depreciation and obsolescence under the income tax law and under the Vinson-Trammell Act are treated in accordance with existing regulations.

The above provisions are all contained in Part 1 of the draft agreement. The procedure for financing the acquisition of the land, building and machinery is covered by Part 2 which provides that from time to time after the execution of the agreement the engine manufacturer will file requisitions with the Defense Finance Corporation requesting advances on account of the loan, each of which will be accompanied by a signed statement of purposes showing the use to which such advances will be put. If the requisition is satisfactory in form and substance, sufficient funds for the carrying out of the project for a reasonable period will be advanced.

The engine manufacturer will deposit the money so received in a separate account in a bank which is a member of the Federal Reserve system and the Federal Deposit Insurance Corporation and which is satisfactory to the Defense Finance Corporation. The manufacturer agrees to expend such moneys only for the purposes specified in a requisition and approved by the Defense Finance Corporation, the purpose being to safeguard adequately the use of funds loaned without the delay incident to prepayments.

Part 3 of the draft agreement relates to working capital. It provides that while the engines are being manufactured the Defense Finance Corporation will stand ready to provide working capital by purchasing from the engine manufacturer at par negotiable general obligation unsecured notes payable in 6 months and bearing interest at the rate of 2% per annum payable semi-annually. The maximum amount of such notes will be a specified percentage of the estimated cost of the labor and materials employed by the manufacturer in producing the engines.

-3-

The agreement provides that if the engine manufacturer receives any other funds from the Government for working capital, such as, for example, advances by the War and Navy Departments, the amount of working capital notes agreed to be purchased by the Defense Finance Corporation shall be reduced or retired accordingly.

The suggestions which you made requiring manufacturers financed under this plan to comply with the Walsh-Healey Act in producing engines, irrespective whether such engines are manufactured and sold to the United States or to foreign governments, are included in Part 4 of the draft agreement. This Part also incorporates your suggestion limiting to 12% of the contract prices profits of manufacturers for all contracts to manufacture engines irrespective whether such engines are sold to the United States or to foreign governments.

The manufacturer also agrees to secure from foreign governments agreements saving the Defense Finance Corporation harmless from loss of all or any part of funds advanced under the agreement, due to the cancellation by any foreign government of any contracts with the manufacturer. In this way the same draft agreement can be used whether manufacturers are building engines for the War and Navy Departments or for the British government but the Defense Finance Corporation would be protected against loss, even though it agrees to forgive the indebtedness of the engine manufacturer to it to the extent of any such cancellation.

Mr. Nelson's suggestion giving the Government the option to purchase for \$1 any gauges, dies, jigs, tools, fixtures and patterns, the cost of which has been included in the sales prices of the engines is included as §13 on page 13 of the draft agreement.

Part 5 of the agreement contains special conditions requiring the manufacturer to furnish certain information, providing that the Defense Finance Corporation shall not be obligated to pay expenses incurred by the manufacturer in performing its duties under the agreement, prohibiting the admission of any members of Congress in the benefits of the agreement, giving the Defense Finance Corporation the right to cancel the agreement if the manufacturer delays unreasonably in proceeding with the expansion of his plant, requiring the manufacturer to carry insurance upon the plant, listing the conditions precedent to the obligations of the Defense Finance Corporation to make any loan or purchase working capital notes, containing the representations and warranties of the engine manufacturer and providing how the agreement shall be construed.

Although the agreement is, of course, still in a very preliminary stage, I think it is now sufficiently rounded out to furnish the basis for initial discussion with the various agencies concerned and possibly also with the two leading aircraft engine manufacturers.

S. 10. 7h

1 AGREEMENT dated as of June 30, 1940,
2 between the DEFENSE FINANCE CORPORATION,
3 (herein called the "Lender") a corpora-
4 tion created by the Reconstruction
5 Finance Corporation and the _____
6 (herein called the "Borrower"), a cor-
7 poration organized under the laws of the
8 State of _____.

9 PART ONE.

10 General Provisions

11 1. Preliminary. With a view to increasing its capacity for
12 the production of aircraft engines and facilitating the delivery
13 thereof at an accelerated rate of production, the Borrower con-
14 templates (a) the acquisition of a title in fee to a tract of vacant
15 land, of approximately _____ acres, included within that area
16 bounded by _____
17 _____, (b) the construction upon said tract of a manufacturing
18 plant, consisting substantially of _____
19 _____, and (c) the purchase of standard and
20 special machinery, including but not limited to jigs, tools, dies,
21 fixtures, and patterns, for the production of said engines, but exclud-
22 ing machinery not usable for the production of said engines of types
23 and models approved for purchase by the United States of America or
24 any department, agency or instrumentality thereof (herein called the
25 "Government"). The acquisition of said land, the construction of said

26 manufacturing plant, and the purchase of said machinery are herein
27 collectively called the Project. In order to carry out the Project
28 the Borrower has made application to the Lender to aid in financing
29 the Project as a part of the national defense program. Said ap-
30 plication has been approved by the Lender, and to aid the Borrower
31 in carrying out the Project the Lender agrees to lend to the Bor-
32 rower, and the Borrower agrees to borrow from the Lender, an amount
33 equal to the cost of the Project as approved by the Lender but in
34 no event to exceed the sum of \$ _____ (herein called
35 the "Loan").

36 2. The Loan and the Mortgage. The Loan shall be secured by
37 a mortgage which shall constitute a direct first mortgage upon the
38 Project and any property hereafter acquired for reconstructing,
39 replacing, or repairing the Project or any part thereof. The mort-
40 gage shall be the sole security for the Loan, it being expressly
41 agreed and understood that the full faith and credit of the Borrower
42 shall not be deemed pledged to the payment of the Loan. The mortgage
43 shall be substantially in the form of Exhibit A hereto annexed, with
44 such changes as the Lender shall approve. Except as expressly pro-
45 vided to the contrary, all of the covenants and agreements of the

46 Borrower, as set forth in the mortgage, shall be considered a part
47 of this Agreement and shall constitute covenants and agreements by
48 the Borrower with the Lender. A prorated portion of the Loan has
49 been included by the Borrower in the sales prices of the aircraft
50 engines which the Government has agreed to purchase, or has an
51 option to purchase from the Borrower under the contracts identified
52 in the schedules contained in Exhibit B hereto annexed, plus the
53 aircraft engines which the governments of _____
54 (herein called "Foreign governments") have agreed to purchase, or
55 have options to purchase under the contracts identified in the
56 schedules contained in Exhibit C hereto annexed according to the
57 aggregate number of all such aircraft engines. The aircraft engines
58 covered by the contracts identified in such schedules in Exhibit B
59 and Exhibit C, are herein called "Engines". The Borrower hereby
60 covenants and agrees to pay or cause to be paid to the Lender within
61 one month after the close of each quarterly period of three months,
62 beginning with the quarter ending September 30, 1940, on account of
63 the Loan a sum equal to the prorated portion of the Loan included in
64 the sales price of each of the Engines multiplied by the number of
65 Engines delivered by the Borrower to the Government or Foreign

66 governments during each such quarterly period, together with interest
67 thereon, at the rate of three per centum per annum, payable quarterly, 223
68 in accordance with the payments on account of the Loan, until either
69 (a) the amounts so paid on account of the Loan shall equal the sum
70 of (1) the aggregate principal amount thereof as provided in para-
71 graph 1 hereof, and (2) the interest thereon as provided in this
72 paragraph 2 plus interest at the same rate on any unpaid install-
73 ments of interest, or (b) the Lender shall forgive the payment of
74 all or any part of the Loan as provided in paragraph 3 hereof.

75 3. Forgiveness upon Cancellation. The Lender hereby covenants
76 and agrees to forgive the payment of all or any part of the Loan which
77 shall be outstanding and unpaid but not due or in default if:

78 (a) The Government or Foreign governments should cancel
79 any contract or contracts with the Borrower for the
80 manufacture and sale of Engines for any reason other
81 than a material breach of such contract by the Borrower;

82 (b) The Engines covered by such contract or contracts
83 should not be sold or a contract or contracts for the
84 sale thereof entered into by the Borrower at the sales
85 price payable by the Government or Foreign governments

86 under the contract or contracts so cancelled
87 within a period of six months after such can-
88 cellation; and

89 (c) The Borrower should submit to the Government a
90 resolution of its board of directors determining
91 that the use of the Project will no longer be re-
92 quired by the Borrower and warranting that the
93 Borrower will promptly and permanently abandon the
94 Project and discard it from use in its business;

95 on the basis of the proportion which the number of the Engines
96 covered by the contract or contracts so cancelled which have not
97 been sold or agreed to be sold as provided in clause (b) of this
98 paragraph 3 bears to the sum of (1) the number of the Engines
99 covered by said cancelled contract or contracts plus (2) the number
100 of the Engines covered by the contracts with the Government and
101 Foreign governments which are performed and not so cancelled, less
102 the fair market value of the Project so abandoned and discarded.

103 PART TWO.

104 Carrying Out the Project.

105 4. Time of Essence. When this Agreement has been executed,
106 the Borrower (unless it has already done so) shall promptly take

107 all proceedings necessary to acquire the lands, construct the buildings,
108 purchase the machinery, and otherwise start the Project, and shall
109 continue the Project to completion with all practicable dispatch in
110 an efficient and economical manner. The Borrower hereby covenants
111 and agrees that time is of the essence of this Agreement and repre-
112 sents that it is ready, willing and able to perform its duties and
113 obligations hereunder expeditiously.

114 5. Requisitions. From time to time after the execution of
115 this Agreement, the Borrower shall file a requisition with the Lender
116 requesting the Lender to make an advance on account of the Loan.
117 Each requisition shall be accompanied by such documents as may be
118 requested by the Lender (a requisition together with such documents
119 being herein collectively called a "Requisition"). If a Requisition
120 requesting the Lender to make such payment is satisfactory in form
121 and substance to the Lender, the Lender within a reasonable time after
122 the receipt of such Requisition, will make an advance in such amount
123 - as will provide, in the judgment of the Lender, sufficient funds for
124 the carrying out of the Project for a reasonable period. Every re-
125 quest for an advance on account of the Loan must be accompanied by
126 a signed statement of purposes in which the Borrower must certify in

127 reasonable detail the purposes for which the advance requested will
128 be used, and by other documents supporting the request. A schedule 226
129 of such other documents to be submitted by the Borrower to the Lender
130 at the time that the first such advance on account of the Loan is
131 requested is contained in Exhibit D annexed hereto. A schedule of
132 such other documents to be submitted by the Borrower to the Lender at
133 the time that the second and subsequent advances on account of the
134 Loan are requested is contained in Exhibit E annexed hereto. All
135 advances on account of the Loan shall be made at a Federal Reserve
136 Bank to be designated by the Lender or at such other place or places
137 as the Lender may designate, against delivery by the Borrower of such
138 additional documents as may be requested by the Lender. The Lender
139 shall be under no obligation to make any advance on account of the
140 Loan beyond the amount which in the judgment of the Lender is needed
141 by the Borrower to carry out the Project.

142 6. Project Accounts. The Borrower shall deposit all moneys
143 received from the Lender pursuant to paragraph 5 hereof promptly upon
144 the receipt thereof in a separate account or accounts in a bank or
145 banks which are members of the Federal Reserve System and of the
146 Federal Deposit Insurance Corporation and which shall be satisfactory

147 at all times to the Lender. Each of such accounts is herein a
 148 "Project Account". The Borrower shall expend the moneys in a Pro-
 149 ject Account only for such purposes as shall have been previously
 150 specified in a Requisition filed with the Lender and as shall have
 151 been approved by the Lender. Payments for carrying out the Project
 152 shall be made only from a Project Account. Any moneys remaining un-
 153 expended in a Project Account after the completion of the Project
 154 which are not required to meet obligations incurred by the Borrower
 155 in carrying out the Project shall be applied to the payment of the
 156 Loan.

157 PART THREE

158 Working Capital.

159 7. Working Capital Notes. During the period in which the
 160 Project is being carried out and the Engines are being manufactured,
 161 and subject to the terms and conditions of this Agreement, the Lender
 162 will, in addition to the Loan, aid the Borrower in financing the
 163 manufacture, assembly, and testing of the Engines for delivery to
 164 the Government and to Foreign governments by providing working capital,
 165 and for that purpose the Lender will purchase at par, and the Borrower
 166 will sell at par, negotiable, general obligation, unsecured notes

167 (herein called "Working Capital Notes"), in a principal amount not
168 exceeding in the aggregate _____ percent of the estimated cost of
169 the labor and materials to be employed by the Borrower in the manu-
170 facture, assembly and testing of the Engines. The determination by
171 the Lender of the estimated cost of such labor and materials shall
172 be conclusive. The Working Capital Notes shall be payable six months
173 from the date thereof, shall bear interest at the rate of 2 per centum
174 per annum, payable semi-annually, and shall substantially in such form
175 as set forth in Exhibit F annexed hereto.

176 B. Requisition for Purchase of Notes. At any time after the
177 execution of this Agreement the Borrower may file a Requisition with
178 the Lender requesting the Lender to purchase Working Capital Notes.
179 If such Requisition is satisfactory in form and substance to the
180 Lender, the Lender within a reasonable time after the receipt of such
181 Requisition, will purchase Working Capital Notes in such amount as
182 will provide, in the judgment of the Lender, sufficient funds for the
183 purposes for which the proceeds from the sale thereof will be used for
184 a reasonable period, but not to exceed the percentage of the estimated
185 cost of the labor and materials to be employed in the manufacture,
186 assembly and testing of the Engines stated in paragraph 7 hereof.

187 The payment for the Working Capital Notes will be made at a Federal
188 Reserve Bank to be designated by the Lender, or at such other place
189 or places as the Lender may designate, against delivery by the Bor-
190 rower of the Working Capital Notes, together with such documents as
191 may be requested by the Lender.

229

192 9. Other Working Capital from the Government. If the Borrower
193 shall receive any funds from the Government, other than from the sale
194 to the Lender of Working Capital Notes, to aid the Borrower in financ-
195 ing the manufacture, assembly, and testing of the Engines for delivery
196 to the Government or to Foreign governments by providing working capital,
197 to the extent that such funds are so received, the aggregate principal
198 amount of the Working Capital Notes agreed to be purchased by the Lender
199 in paragraph 7 hereof shall be reduced, or, if already purchased by
200 the Lender in the maximum amount, to the extent that such funds are
201 so received, the Borrower will apply the same to the redemption of
202 Working Capital Notes.

203 PART FOUR

204 Provisions as to Engine Contracts.

205 10. Wage and Hour Provisions. The Borrower hereby covenants and
206 agrees that in the manufacture, assembly and testing of the Engines

.....

207 it will comply with all laws and all orders, rules and regulations
208 issued pursuant thereto to which the Borrower would be subject if the 230
209 Engines were manufactured under contracts made and entered into by
210 the Government or to which the Government is a party, requiring,
211 involving or relating to (a) the employment of persons in the manu-
212 facture or furnishing of materials, supplies, articles, and equip-
213 ment used in the performance of such contracts, or (b) the service
214 or employment of laborers or mechanics upon a public work of the
215 Government, irrespective of whether the Engines are manufactured for
216 or sold to the Government or are manufactured for or sold to Foreign
217 governments; and all such laws, orders, rules and regulations shall
218 be equally applicable to the contracts identified in the schedules
219 contained in Exhibit C hereto annexed as to the contracts identified
220 in the schedules contained in Exhibit B hereto annexed, and the Borrower
221 hereby covenants and agrees to comply therewith as if such laws, orders,
222 rules and regulations had been set forth in full as a covenant by the
223 Borrower in this paragraph 10 of this Agreement.

224 11. Profit Limitation. The Borrower hereby covenants and agrees
225 to pay to Foreign governments with which it has entered into the con-
226 tracts identified in the schedules contained in Exhibit C hereto

227 annexed, all profit in excess of the percentage of the total contract
228 prices for the Engines which the Borrower would have been required to
229 pay into the Treasury of the United States as excess profit under the
230 Act of May 27, 1934 (48 United States Statutes at Large 505), as
231 amended, if such contracts had been made by the Secretary of the Navy
232 for the construction and/or manufacture of any complete aircraft, or
233 any portion thereof, and the method of ascertaining the amount of such
234 excess profit to be paid to Foreign governments shall be determined
235 in the same way as it would have been determined if the contracts
236 identified in the schedules contained in Exhibit C hereto annexed had
237 been entered into with the Secretary of the Navy; and all the provisions
238 of section 3 of said Act, as amended, shall be equally applicable with
239 respect to contracts for the Engines, irrespective whether the Engines
240 are manufactured for or sold to the Government or are manufactured or
241 sold to Foreign governments, and the Borrower hereby covenants and
242 agrees to comply therewith as if such section had been set forth in
243 full as a covenant by the Borrower in this paragraph 11 of this Agree-
244 ment; it being the intention of this paragraph 11 to limit the profit
245 of the Borrower to 12 percent of the total contract prices for all
246 Engines covered by the contracts identified in the schedules contained
247 in Exhibit B and Exhibit C hereto annexed.

248 12. Indemnification. The Borrower hereby covenants and agrees
249 that it will obtain binding and legal agreements from each of the
250 Foreign governments with which it has contracts identified in the
251 schedules included in Exhibit C annexed hereto, said agreements to be
252 in form and substance satisfactory to the Lender, under which such
253 Foreign government agrees to indemnify and save the Lender harmless
254 from loss of all or any part of the Loan, or arising from the making
255 thereof or from the purchase of the Working Capital Notes, due to the
256 cancellation by such Foreign government of any of such contracts
257 for any reason other than the material breach thereof by the Borrower.

258 13. Option as to Dies. The Borrower hereby covenants and agrees
259 that it will sell to the Government and that the Government may, at the
260 option of the Government, at any time purchase or otherwise procure for
261 the sum of one dollar, payable at the principal place of business of
262 the Borrower, and that the Borrower will convey to the Government good
263 title to such gauges, dies, jigs, tools, fixtures, and patterns as may
264 be used or usable in the manufacture, assembly, or testing of the
265 Engines: Provided, That an amount equal to the cost of such gauges,
266 dies, jigs, tools, fixtures, and patterns has been included by the
267 Borrower in the sales prices of the Engines. The Borrower hereby

268 further covenants and agrees that it will not include any part of the
269 cost of such gauges, dies, jigs, tools, fixtures and patterns in the
270 sales prices of the Engines unless the state of the title of the
271 Borrower in said gauges, dies, jigs, tools, fixtures, and patterns,
272 is and will be such that the Borrower will always have and maintain
273 good right and lawful authority to comply with this paragraph 13 of
274 this Agreement.

275 PART FIVE

276 Special Conditions.

277 14. Information. During the carrying out of the Project, the
278 Borrower will furnish to the Lender all such information and data as
279 the Lender may request as to the carrying out, cost, progress, and
280 disposition thereof. The Borrower shall report, or cause to be reported,
281 to the United States Department of Labor monthly, within five days after
282 the close of each calendar month upon forms to be prescribed, and in
283 accordance with instructions to be furnished, by the United States
284 Department of Labor, covering the number of persons on payrolls directly
285 connected with the Project, the aggregate amount of such payrolls and
286 the man-hours worked, and an itemized statement of the total expenditures
287 for materials. The Borrower shall also furnish, or cause to be furnished,

288 at the earliest date practicable, to the United States Department of
289 Labor all the names, and addresses of all contractors and subcontractors 234
290 engaged in carrying out the Project.

291 15. Expenses. The Lender shall be under no obligation to pay any
292 costs, charges or expenses incident to compliance with any of the duties
293 or obligations of the Borrower hereunder including, without limiting
294 the generality of the foregoing, any legal, engineering or accounting
295 costs, charges or expenses incurred by the Borrower.

296 16. Interest of Members of Congress. No member of or delegate to
297 the Congress of the United States of America shall be admitted to any
298 share or part of this Agreement, or to any benefits arising therefrom.

299 17. Undue Delay by the Borrower. The Lender shall have the right
300 to cancel this Agreement and annul any obligation to make the Loan or
301 purchase Working Capital Notes if the Borrower shall delay for an un-
302 reasonable time in carrying out any of the duties or obligations to be
303 performed by the Borrower hereunder, or unless the Borrower shall
304 within a reasonable time (a) file Requisitions with the Lender in ac-
305 cordance with the provisions hereof and (b) commence or cause to be
306 commenced, and carried on with due expedition, the entire Project.

307 18. Insurance. The Borrower hereby covenants and agrees to carry
308 insurance of such types and in such amounts upon the Project or any 235
309 part thereof as the Lender may request.

310 19. Conditions Precedent to the Lender's Obligations. The Lender
311 shall be under no obligation to make the Loan or purchase Working
312 Capital Notes:

313 (a) If in the judgment of the Lender the financial condition
314 of the Borrower shall have changed unfavorably in a
315 material degree from the condition as theretofore
316 represented to the Lender;

317 (b) If the Lender shall not be satisfied that the Borrower
318 will be able to carry out completely the Project for the
319 sum of \$ _____, or that the Borrower will be able
320 to obtain in a manner satisfactory to the Lender, any ad-
321 ditional funds which the Lender shall estimate to be
322 necessary to carry out completely the Project;

323 (c) If the Lender shall not be satisfied that the Borrower
324 has complied with all the provisions contained in this
325 Agreement;

325 (d) If the Lender shall not be satisfied as to all legal
327 matters and proceedings affecting the Project and the
328 repayment of any funds advanced hereunder;

329 (e) If any representation made by the Borrower in any
330 document submitted to the Lender shall be found by the
331 Lender to be incorrect or incomplete in any material
332 respect.

333 20. Representations and Warranties. The Borrower represents and
334 warrants as follows:

335 (a) No litigation or other proceedings are pending or
336 threatened on the day and year first above written which
337 might adversely affect the Loan, the mortgage, the Working
338 Capital Notes, the carrying out of the Project, or the
339 financial condition of the Borrower;

340 (b) The Borrower has not paid, nor does it intend to pay, any
341 bonus, fee or commission in order to secure the Loan or to
342 sell the Working-Capital Notes hereunder;

343 (c) Every statement contained in this Agreement and in any
344 other documents submitted to the Lender or to the Govern-
345 ment are correct and complete, and no relevant fact

346 materially affecting the Loan, the Working Capital
 347 Notes, the Project, any of the schedules contained in
 348 the Exhibits annexed to this Agreement, or any of the
 349 duties or obligations of the Borrower under this Agree-
 350 ment, has been omitted therefrom.

351 21. Construction of Agreement. This Agreement shall be binding
 352 upon the parties hereto when copies thereof, duly executed by the Borrower
 353 and the Lender, shall have been received by the parties hereto. This
 354 Agreement shall be governed by and construed in accordance with the laws of
 355 of the District of Columbia.

356 IN WITNESS WHEREOF, The Lender and the Borrower have respectively
 357 caused this Agreement to be duly executed as of the day and year first
 358 above written, but actually on _____.

359 DEFENSE FINANCE CORPORATION
 360 By _____
 361 _____ CORPORATION
 362 ATTEST: By _____

Secretary Harganhan

JUN 18 1940

Mr. Foley

There is attached hereto a revised form of agreement intended to carry into effect the plan of financing plant extensions in connection with the national defense program as proposed by Mr. Amdeisen last Thursday, June 13, with the modifications suggested in your office on Friday, June 14.

The tentative draft agreement contemplates that a corporation called the "Defense Finance Corporation", created by the Reconstruction Finance Corporation pursuant to Senator Glass' bill (S. 3936), if enacted into law, will finance a corporation, deemed for purpose of the agreement to be an aircraft engine manufacturer, in acquiring land, constructing a plant upon the land, and purchasing machinery and equipment for the plant.

To finance this project, the Defense Finance Corporation makes the manufacturer a loan bearing interest at 3%, secured by a direct first mortgage upon the project. This mortgage is the sole security for the loan, it being expressly agreed that the credit of the manufacturer is not to be pledged to the payment of the loan.

The amount of the loan would be spread over the total engines produced so that the sales price of each engine would include its pro rata share of the loan. The loan would then be repaid in quarterly installments according to the number of engines produced and sold either to the United States or to a foreign government.

For example, if a manufacturer borrowed \$1,000,000 to purchase machinery for his plant to produce 1,000 planes, the sum of \$1,000 would be added to the normal sales price of each plane. If in the first 3 months 100 planes were produced, then the manufacturer would repay \$100,000 on his loan.

If only machinery or other personal property is acquired, the loan will be secured by a chattel mortgage, the purpose of the plan being to vest title in the manufacturer but to permit the Government corporation to take over the machinery and equipment in the event of a default.

Under the draft agreement if the Government of the United States, or of a foreign country, should cancel its contracts with the manufacturer and the engines covered by such contracts are not sold at the same price within 6 months, then, if the manufacturer warrants that it will discard the building or machinery from use in its business, the Defense Finance Corporation will forgive the payment of that proportion of the loan which is allocable to the unmanufactured or unpaid for engines.

For example, in the case given above, if after 500 of the 1,000 engines contracted for had been delivered, the order was cancelled and neither the United States nor anyone else earned the order, then the manufacturer would discard the plant or machinery and assuming this is done and the plant has no value, the unpaid balance of \$500,000 would be forgiven. Since only half of the engines were delivered, only half of the loan would have to be repaid. Of course, to the extent the plant or machinery had a residual or salvage value, the debt would have to be repaid, or the Government could foreclose and take over the abandoned property.

Under Mr. Kaufman's plan, manufacturers could borrow money only for standard types of equipment which could be used in the manufacture of planes or other aircraft for the War and Navy Departments, and this is covered also in the draft agreement.

It may be well to point out that the amount of the debt forgiven, if the contracts should be cancelled, would be taxable income. However, if the plant or equipment were permanently discarded, there would be an offsetting allowance for loss of useful value equal to the difference between the cost of the plant and its salvage value. Depreciation and obsolescence under the Income Tax Law and under the Vinson-Frawell Act are treated in accordance with existing regulations.

The above provisions are all contained in Part 1 of the draft agreement. The procedure for financing the acquisition of the land, building and machinery is covered by Part 2 which provides that from time to time after the execution of the agreement the engine manufacturer will file regulations with the Defense Finance Corporation requesting advances on account of the loan, each of which will be accompanied by a signed statement of purpose showing the use to which such advances will be put. If the regulation is satisfactory in form and substance, sufficient funds for the carrying out of the project for a reasonable period will be advanced.

The engine manufacturer will deposit the money so received in a separate account in a bank which is a member of the Federal Reserve system and the Federal Deposit Insurance Corporation and which is satisfactory to the Defense Finance Corporation. The manufacturer agrees to spend such moneys only for the purposes specified in a regulation and approved by the Defense Finance Corporation, the purpose being to safeguard adequately the use of funds loaned without the ability incident to proceeds.

Part 3 of the draft agreement relates to working capital. It provides that while the engines are being manufactured the Defense Finance Corporation will stand ready to provide working capital by purchasing from the engine manufacturer at par negotiable general obligation promissory notes payable in 6 months and bearing interest at the rate of 2 1/2 per annum payable semi-annually. The maximum amount of such notes will be a specified percentage of the estimated cost of the labor and materials employed by the manufacturer in producing the engines.

The agreement provides that if the engine manufacturer receives any other funds from the Government for working capital, such as, for example, advances by the War and Navy Departments, the amount of working capital notes agreed to be purchased by the Defense Finance Corporation shall be reduced or withheld accordingly.

The suggestions which you make regarding manufacturers financed under this plan to comply with the Walsh-Healey Act in producing engines, irrespective whether such engines are manufactured and sold to the United States or to foreign governments, are included in Part 4 of the draft agreement. This Part also incorporates your suggestion limiting to 15% of the contract price profit of manufacturers for all contracts to manufacture engines irrespective whether such engines are sold to the United States or to foreign governments.

The manufacturer also agrees to secure from foreign governments agreements covering the Defense Finance Corporation licenses from loss of all or any part of funds advanced under the agreement, due to the expropriation by any foreign government of any contracts with the manufacturer. In this way the same draft agreement can be used whether manufacturers are building engines for the War and Navy Departments or for the British government but the Defense Finance Corporation would be protected against loss, even though it agrees to forgive the indebtedness of the engine manufacturer to it to the extent of any such expropriation.

Mr. Salomon's suggestion giving the Government the option to purchase for its own engines, dies, jigs, tools, fixtures and patterns, the cost of which has been included in the sales prices of the engine is included as FD on page 13 of the draft agreement.

Part 5 of the agreement contains special conditions regarding the manufacturer to furnish certain information, providing that the Defense Finance Corporation shall not be obligated to pay expenses incurred by the manufacturer in performing the duties under the agreement, prohibiting the inclusion of any members of Congress in the benefits of the agreement, giving the Defense Finance Corporation the right to cancel the agreement if the manufacturer delays unreasonably in proceeding with the execution of his plans, requiring the manufacturer to carry insurance upon the plans, limiting the conditions precedent to the obligations of the Defense Finance Corporation to make any loan or part of same working capital notes, contacting the representations and warranties of the engine manufacturer and providing for the agreement shall be executed.

Although the agreement is, of course, still in a very preliminary stage, I think it is now sufficiently rounded out to furnish the basis for initial discussion with the various agencies concerned and possibly also with the two leading aircraft engine manufacturers.

(Incidental) S. H. F. 1 1/2

CH:18
4-27-49

1 AGREEMENT dated as of June 30, 1940,
2 between the DEFENSE FINANCE CORPORATION,
3 (herein called the "Lender") a corpora-
4 tion created by the Reconstruction
5 Finance Corporation and the _____
6 (herein called the "Borrower"), a cor-
7 poration organized under the laws of the
8 State of _____.

9 PART ONE.

10 General Provisions

11 1. Preliminary. With a view to increasing its capacity for
12 the production of aircraft engines and facilitating the delivery
13 thereof at an accelerated rate of production, the Borrower con-
14 templates (a) the acquisition of a title in fee to a tract of vacant
15 land, of approximately _____ acres, included within that area
16 bounded by _____
17 _____, (b) the construction upon said tract of a manufacturing
18 plant, consisting substantially of _____
19 _____, and (c) the purchase of standard and
20 special machinery, including but not limited to jigs, tools, dies,
21 fixtures, and patterns, for the production of said engines, but exclud-
22 ing machinery not usable for the production of said engines of types
23 and models approved for purchase by the United States of America or
24 any department, agency or instrumentality thereof (herein called the
25 "Government"). The acquisition of said land, the construction of said

26 manufacturing plant, and the purchase of said machinery are herein
27 collectively called the Project. In order to carry out the Project
28 the Borrower has made application to the Lender to aid in financing
29 the Project as a part of the national defense program. Said ap-
30 plication has been approved by the Lender, and to aid the Borrower
31 in carrying out the Project the Lender agrees to lend to the Bor-
32 rower, and the Borrower agrees to borrow from the Lender, an amount
33 equal to the cost of the Project as approved by the Lender but in
34 no event to exceed the sum of \$ _____ (herein called
35 the "Loan").

36 2. The Loan; and the Mortgage. The Loan shall be secured by
37 a mortgage which shall constitute a direct first mortgage upon the
38 Project and any property hereafter acquired for reconstructing,
39 replacing, or repairing the Project or any part thereof. The mort-
40 gage shall be the sole security for the Loan, it being expressly
41 agreed and understood that the full faith and credit of the Borrower
42 shall not be deemed pledged to the payment of the Loan. The mortgage
43 shall be substantially in the form of Exhibit A hereto annexed, with
44 such changes as the Lender shall approve. Except as expressly pro-
45 vided to the contrary, all of the covenants and agreements of the

46 Borrower, as set forth in the mortgage, shall be considered a part
47 of this Agreement and shall constitute covenants and agreements by
48 the Borrower with the Lender. A prorated portion of the Loan has
49 been included by the Borrower in the sales prices of the aircraft
50 engines which the Government has agreed to purchase, or has an
51 option to purchase from the Borrower under the contracts identified
52 in the schedules contained in Exhibit B hereto annexed, plus the
53 aircraft engines which the governments of _____
54 (herein called "Foreign governments") have agreed to purchase, or
55 have options to purchase under the contracts identified in the
56 schedules contained in Exhibit C hereto annexed according to the
57 aggregate number of all such aircraft engines. The aircraft engines
58 covered by the contracts identified in such schedules in Exhibit B
59 and Exhibit C, are herein called "Engines". The Borrower hereby
60 covenants and agrees to pay or cause to be paid to the Lender within
61 one month after the close of each quarterly period of three months,
62 beginning with the quarter ending September 30, 1940, on account of
63 the Loan a sum equal to the prorated portion of the Loan included in
64 the sales price of each of the Engines multiplied by the number of
65 Engines delivered by the Borrower to the Government or Foreign

66 governments during each such quarterly period, together with interest
67 thereon, at the rate of three per centum per annum, payable quarterly,
68 in accordance with the payments on account of the Loan, until either
69 (a) the amounts so paid on account of the Loan shall equal the sum
70 of (1) the aggregate principal amount thereof as provided in para-
71 graph 1 hereof, and (2) the interest thereon as provided in this
72 paragraph 2 plus interest at the same rate on any unpaid install-
73 ments of interest, or (b) the Lender shall forgive the payment of
74 all or any part of the Loan as provided in paragraph 3 hereof.

75 3. Forgiveness upon Cancellation. The Lender hereby covenants
76 and agrees to forgive the payment of all or any part of the Loan which
77 shall be outstanding and unpaid but not due or in default if:

78 (a) The Government or Foreign governments should cancel
79 any contract or contracts with the Borrower for the
80 manufacture and sale of Engines for any reason other
81 than a material breach of such contract by the Borrower;

82 (b) The Engines covered by such contract or contracts
83 should not be sold or a contract or contracts for the
84 sale thereof entered into by the Borrower at the sales
85 price payable by the Government or Foreign governments

86 under the contract or contracts so cancelled
87 within a period of six months after such can-
88 cellation; and

89 (c) The Borrower should submit to the Government a
90 resolution of its board of directors determining
91 that the use of the Project will no longer be re-
92 quired by the Borrower and warranting that the
93 Borrower will promptly and permanently abandon the
94 Project and discard it from use in its business;

95 on the basis of the proportion which the number of the Engines
96 covered by the contract or contracts so cancelled which have not
97 been sold or agreed to be sold as provided in clause (b) of this
98 paragraph 3 bears to the sum of (1) the number of the Engines
99 covered by said cancelled contract or contracts plus (2) the number
100 of the Engines covered by the contracts with the Government and
101 Foreign Governments which are performed and not so cancelled, less
102 the fair market value of the Project so abandoned and discarded.

103 PART TWO.

104 Carrying Out the Project.

105 4. Time of Essence. When this Agreement has been executed,
106 the Borrower (unless it has already done so) shall promptly take

107 all proceedings necessary to acquire the lands, construct the buildings,
108 purchase the machinery, and otherwise start the Project, and shall 246
109 continue the Project to completion with all practicable dispatch in
110 an efficient and economical manner. The Borrower hereby covenants
111 and agrees that time is of the essence of this Agreement and repre-
112 sents that it is ready, willing and able to perform its duties and
113 obligations hereunder expeditiously.

114 5. Requisitions. From time to time after the execution of
115 this Agreement, the Borrower shall file a requisition with the Lender
116 requesting the Lender to make an advance on account of the Loan.
117 Each requisition shall be accompanied by such documents as may be
118 requested by the Lender (a requisition together with such documents
119 being herein collectively called a "Requisition"). If a Requisition
120 requesting the Lender to make such payment is satisfactory in form
121 and substance to the Lender, the Lender within a reasonable time after
122 the receipt of such Requisition, will make an advance in such amount
123 as will provide, in the judgment of the Lender, sufficient funds for
124 the carrying out of the Project for a reasonable period. Every re-
125 quest for an advance on account of the Loan must be accompanied by
126 a signed statement of purposes in which the Borrower must certify in

127 reasonable detail the purposes for which the advance requested will
128 be used, and by other documents supporting the request. A schedule
129 of such other documents to be submitted by the Borrower to the Lender
130 at the time that the first such advance on account of the Loan is
131 requested is contained in Exhibit D annexed hereto. A schedule of
132 such other documents to be submitted by the Borrower to the Lender at
133 the time that the second and subsequent advances on account of the
134 Loan are requested is contained in Exhibit E annexed hereto. All
135 advances on account of the Loan shall be made at a Federal Reserve
136 Bank to be designated by the Lender or at such other place or places
137 as the Lender may designate, against delivery by the Borrower of such
138 additional documents as may be requested by the Lender. The Lender
139 shall be under no obligation to make any advance on account of the
140 Loan beyond the amount which in the judgment of the Lender is needed
141 by the Borrower to carry out the Project.

142 6. Project Accounts. The Borrower shall deposit all moneys
143 received from the Lender pursuant to paragraph 5 hereof promptly upon
144 the receipt thereof in a separate account or accounts in a bank or
145 banks which are members of the Federal Reserve System and of the
146 Federal Deposit Insurance Corporation and which shall be satisfactory

147 at all times to the Lender. Each of such accounts is herein a
148 "Project Account". The Borrower shall expend the moneys in a Pro- 248
149 ject Account only for such purposes as shall have been previously
150 specified in a Requisition filed with the Lender and as shall have
151 been approved by the Lender. Payments for carrying out the Project
152 shall be made only from a Project Account. Any moneys remaining un-
153 expended in a Project Account after the completion of the Project
154 which are not required to meet obligations incurred by the Borrower
155 in carrying out the Project shall be applied to the payment of the
156 Loan.

157 PART THREE

158 Working Capital.

159 7. Working Capital Notes. During the period in which the
160 Project is being carried out and the Engines are being manufactured,
161 and subject to the terms and conditions of this Agreement, the Lender
162 will, in addition to the Loan, aid the Borrower in financing the
163 manufacture, assembly, and testing of the Engines for delivery to
164 the Government and to Foreign governments by providing working capital,
165 and for that purpose the Lender will purchase at par, and the Borrower
166 will sell at par, negotiable, general obligation, unsecured notes

167 (herein called "Working Capital Notes"), in a principal amount not
 168 exceeding in the aggregate _____ percent of the estimated cost of
 169 the labor and materials to be employed by the Borrower in the manu-
 170 facture, assembly and testing of the Engines. The determination by
 171 the Lender of the estimated cost of such labor and materials shall
 172 be conclusive. The Working Capital Notes shall be payable six months
 173 from the date thereof, shall bear interest at the rate of 2 per centum
 174 per annum, payable semi-annually, and shall substantially in such form
 175 as set forth in Exhibit F annexed hereto.

176 8. Requisition for Purchase of Notes. At any time after the
 177 execution of this Agreement the Borrower may file a Requisition with
 178 the Lender requesting the Lender to purchase Working Capital Notes.
 179 If such Requisition is satisfactory in form and substance to the
 180 Lender, the Lender within a reasonable time after the receipt of such
 181 Requisition, will purchase Working Capital Notes in such amount as
 182 will provide, in the judgment of the Lender, sufficient funds for the
 183 purposes for which the proceeds from the sale thereof will be used for
 184 a reasonable period, but not to exceed the percentage of the estimated
 185 cost of the labor and materials to be employed in the manufacture,
 186 assembly and testing of the Engines stated in paragraph 7 hereof.

187 The payment for the Working Capital Notes will be made at a Federal
188 Reserve Bank to be designated by the Lender, or at such other place
189 or places as the Lender may designate, against delivery by the Bor-
190 rower of the Working Capital Notes, together with such documents as
191 may be requested by the Lender.

250

192 9. Other Working Capital from the Government. If the Borrower
193 shall receive any funds from the Government, other than from the sale
194 to the Lender of Working Capital Notes, to aid the Borrower in financ-
195 ing the manufacture, assembly, and testing of the Engines for delivery
196 to the Government or to Foreign governments by providing working capital,
197 to the extent that such funds are so received, the aggregate principal
198 amount of the Working Capital Notes agreed to be purchased by the Lender
199 in paragraph 7 hereof shall be reduced, or, if already purchased by
200 the Lender in the maximum amount, to the extent that such funds are
201 so received, the Borrower will apply the same to the redemption of
202 Working Capital Notes.

203 PART FOUR

204 Provisions as to Engine Contracts.

205 10. Wage and Hour Provisions. The Borrower hereby covenants and
206 agrees that in the manufacture, assembly and testing of the Engines

207 it will comply with all laws and all orders, rules and regulations
208 issued pursuant thereto to which the Borrower would be subject if the
209 Engines were manufactured under contracts made and entered into by
210 the Government or to which the Government is a party, requiring,
211 involving or relating to (a) the employment of persons in the manu-
212 facture or furnishing of materials, supplies, articles, and equip-
213 ment used in the performance of such contracts, or (b) the service
214 or employment of laborers or mechanics upon a public work of the
215 Government, irrespective of whether the Engines are manufactured for
216 or sold to the Government or are manufactured for or sold to Foreign
217 governments; and all such laws, orders, rules and regulations shall
218 be equally applicable to the contracts identified in the schedules
219 contained in Exhibit C hereto annexed as to the contracts identified
220 in the schedules contained in Exhibit B hereto annexed, and the Borrower
221 hereby covenants and agrees to comply therewith as if such laws, orders,
222 rules and regulations had been set forth in full as a covenant by the
223 Borrower in this paragraph 10 of this Agreement.

224 11. Profit Limitation. The Borrower hereby covenants and agrees
225 to pay to Foreign governments with which it has entered into the con-
226 tracts identified in the schedules contained in Exhibit C hereto

227 annexed, all profit in excess of the percentage of the total contract
228 prices for the Engines which the Borrower would have been required to 252
229 pay into the Treasury of the United States as excess profit under the
230 Act of May 27, 1934 (48 United States Statutes at Large 505), as
231 amended, if such contracts had been made by the Secretary of the Navy
232 for the construction and/or manufacture of any complete aircraft, or
233 any portion thereof, and the method of ascertaining the amount of such
234 excess profit to be paid to Foreign governments shall be determined
235 in the same way as it would have been determined if the contracts
236 identified in the schedules contained in Exhibit C hereto annexed had
237 been entered into with the Secretary of the Navy; and all the provisions
238 of section 3 of said Act, as amended, shall be equally applicable with
239 respect to contracts for the Engines, irrespective whether the Engines
240 are manufactured for or sold to the Government or are manufactured or
241 sold to Foreign governments, and the Borrower hereby covenants and
242 agrees to comply therewith as if such section had been set forth in
243 full as a covenant by the Borrower in this paragraph 11 of this Agree-
244 ment; it being the intention of this paragraph 11 to limit the profit
245 of the Borrower to 12 percent of the total contract prices for all
246 Engines covered by the contracts identified in the schedules contained
247 in Exhibit B and Exhibit C hereto annexed.

248 12. Indennification. The Borrower hereby covenants and agrees
249 that it will obtain binding and legal agreements from each of the
250 Foreign governments with which it has contracts identified in the
251 schedules included in Exhibit C annexed hereto, said agreements to be
252 in form and substance satisfactory to the Lender, under which such
253 Foreign government agrees to indemnify and save the Lender harmless
254 from loss of all or any part of the Loan, or arising from the making
255 thereof or from the purchase of the Working Capital Notes, due to the
256 cancellation by such Foreign government of any of such contracts
257 for any reason other than the material breach thereof by the Borrower.

253

258 13. Option as to Dies. The Borrower hereby covenants and agrees
259 that it will sell to the Government and that the Government may, at the
260 option of the Government, at any time purchase or otherwise procure for
261 the sum of one dollar, payable at the principal place of business of
262 the Borrower, and that the Borrower will convey to the Government good
263 title to such gauges, dies, jigs, tools, fixtures, and patterns as may
264 be used or usable in the manufacture, assembly, or testing of the
265 Engines: Provided, That an amount equal to the cost of such gauges,
266 dies, jigs, tools, fixtures, and patterns has been included by the
267 Borrower in the sales prices of the Engines. The Borrower hereby

268 further covenants and agrees that it will not include any part of the
269 cost of such gauges, dies, jigs, tools, fixtures and patterns in the 254
270 sales prices of the Engines unless the state of the title of the
271 Borrower in said gauges, dies, jigs, tools, fixtures, and patterns,
272 is and will be such that the Borrower will always have and maintain
273 good right and lawful authority to comply with this paragraph 13 of
274 this Agreement.

275 PART FIVE

276 Special Conditions.

277 14. Information. During the carrying out of the Project, the
278 Borrower will furnish to the Lender all such information and data as
279 the Lender may request as to the carrying out, cost, progress, and
280 disposition thereof. The Borrower shall report, or cause to be reported,
281 to the United States Department of Labor monthly, within five days after
282 the close of each calendar month upon forms to be prescribed, and in
283 accordance with instructions to be furnished, by the United States
284 Department of Labor, covering the number of persons on payrolls directly
285 connected with the Project, the aggregate amount of such payrolls and
286 the man-hours worked, and an itemized statement of the total expenditures
287 for materials. The Borrower shall also furnish, or cause to be furnished,

288 at the earliest date practicable, to the United States Department of
289 Labor all the names, and addresses of all contractors and subcontractors
290 engaged in carrying out the Project. 255

291 15. Expenses. The Lender shall be under no obligation to pay any
292 costs, charges or expenses incident to compliance with any of the duties
293 or obligations of the Borrower hereunder including, without limiting
294 the generality of the foregoing, any legal, engineering or accounting
295 costs, charges or expenses incurred by the Borrower.

296 16. Interest of Members of Congress. No member of or delegate to
297 the Congress of the United States of America shall be admitted to any
298 share or part of this Agreement, or to any benefits arising therefrom.

299 17. Undue Delay by the Borrower. The Lender shall have the right
300 to cancel this Agreement and annul any obligation to make the Loan or
301 purchase Working Capital Notes if the Borrower shall delay for an un-
302 reasonable time in carrying out any of the duties or obligations to be
303 performed by the Borrower hereunder, or unless the Borrower shall
304 within a reasonable time (a) file Requisitions with the Lender in ac-
305 cordance with the provisions hereof and (b) commence or cause to be
306 commenced, and carried on with due expedition, the entire Project.

307 18. Insurance. The Borrower hereby covenants and agrees to carry
308 insurance of such types and in such amounts upon the Project or any
309 part thereof as the Lender may request. 256

310 19. Conditions Precedent to the Lender's Obligations. The Lender
311 shall be under no obligation to make the Loan or purchase Working
312 Capital Notes:

313 (a) If in the judgment of the Lender the financial condition
314 of the Borrower shall have changed unfavorably in a
315 material degree from the condition as theretofore
316 represented to the Lender;

317 (b) If the Lender shall not be satisfied that the Borrower
318 will be able to carry out completely the Project for the
319 sum of \$ _____, or that the Borrower will be able
320 to obtain in a manner satisfactory to the Lender, any ad-
321 ditional funds which the Lender shall estimate to be
322 necessary to carry out completely the Project;

323 (c) If the Lender shall not be satisfied that the Borrower
324 has complied with all the provisions contained in this
325 Agreement;

326 (d) If the Lender shall not be satisfied as to all legal
327 matters and proceedings affecting the Project and the
328 repayment of any funds advanced hereunder;

329 (e) If any representation made by the Borrower in any
330 document submitted to the Lender shall be found by the
331 Lender to be incorrect or incomplete in any material
332 respect.

333 20. Representations and Warranties. The Borrower represents and
334 warrants as follows:

335 (a) No litigation or other proceedings are pending or
336 threatened on the day and year first above written which
337 might adversely affect the Loan, the mortgage, the Working
338 Capital Notes, the carrying out of the Project, or the
339 financial condition of the Borrower;

340 (b) The Borrower has not paid, nor does it intend to pay, any
341 bonus, fee or commission in order to secure the Loan or to
342 sell the Working Capital Notes hereunder;

343 (c) Every statement contained in this Agreement and in any
344 other documents submitted to the Lender or to the Govern-
345 ment are correct and complete, and no relevant fact

346 materially affecting the Loan, the Working Capital
347 Notes, the Project, any of the schedules contained in
348 the Exhibits annexed to this Agreement, or any of the 258
349 duties or obligations of the Borrower under this Agree-
350 ment, has been omitted therefrom.

351 21. Construction of Agreement. This Agreement shall be binding
352 upon the parties hereto when copies thereof, duly executed by the Borrower
353 and the Lender, shall have been received by the parties hereto. This
354 Agreement shall be governed by and construed in accordance with the laws as
355 of the District of Columbia.

356 IN WITNESS WHEREOF, The Lender and the Borrower have respectively
357 caused this Agreement to be duly executed as of the day and year first
358 above written, but actually on _____.

359 DEFENSE FINANCE CORPORATION

360 By _____

361 _____ CORPORATION

362 ATTEST:

By _____

Copy of Mr.
Kruszewski's pencilled notes
at meeting with Foley &
Kedes 6/18/40

259

June 19, 1940

On a whole new structure with equipment, the unpaid portion of the plant will be subject to sale or other disposal by the R. F. C. However, upon cancellation of the contract before completion the Government will agree to cancel the balance of the indebtedness if -- there be no new Government orders placed within six months of the date of cancellation of order and the manufacture by resolution of his Board of Directors certifies that there is no further use for the property, and promptly and permanently abandons the project and turns it back to the R. F. C.

On a partial investment in a plant, the unpaid portion of the investment will be subject to appraisal by representatives of the borrower and the lender and a sale negotiated, or the equipment will be subject to such other disposal as the R. F. C. may elect, but in case of additions to present building sale to owner or demolition is mandatory.

JUN 18 1940

June 4, 1940

Dear Dr. Mead:

In the circumstances necessitating your resignation to take effect June 4, 1940, namely, your association with the Advisory Commission to the Council for National Defense, there is nothing I can do but regretfully accept your resignation in the best interest of the national defense program.

In accepting the same I cannot overlook the opportunity to express my appreciation for your valued services and counsel while a member of my staff. Be assured that you have my heartiest good wishes in your new undertaking.

With personal regards, I am,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable George J. Mead,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

File to Mr. Thompson

HMB/CMB:cm
6/27/40

By Messenger / 00 on 6/18

TREASURY DEPARTMENT
Office of the Secretary 281
Technical Assistant to the Secretary

Date 6/11/44

TO: The Secretary

Room _____

*To sum up meeting
of 6/10/44 with
Mr. French Gold*

HMR
From: MR. COCHRAN

PARAPHRASE OF TELEGRAM RECEIVED

London

June 18, 1940

Secretary of State,
Washington.

RUSH PRIORITY

1710, June 18.

PERSONAL AND SECRET FOR SECRETARY HULL.

In reply to your telegram no. 1246 of June 17.

I have seen Kingsley-Wood and he tells me that the French have between 60 and 70 million pounds here now and that except for two shiploads about which they are worried all the gold should have left France before June 15. All the British gold will have been dispatched from here by June 30 but they are still ~~obliged~~^{obligated} to send whatever French, Belgian, and certain private gold remaining in England, which will start to move in July.

KENNEDY

S:JFS:DMZ

COPY OF MEMORANDUM HANDED BY MR. PINSENT OF BRITISH EMBASSY
TO MR. COCHRAN IN TREASURY AT 6:45 p.m., JUNE 17, 1940
AND AS CORRECTED BY TELEPHONE CONVERSATION WITH MR. PINSENT
AT 12:15 NOON, JUNE 18

Secret.

Please inform United States Government that in view of obscurity of position and uncertainty whether French offer of armistice will be accepted we did not to-day take steps to block French gold [? balances] before banks closed. We shall consider what will be appropriate steps to take tomorrow.

2. We should be glad to know what steps would be contemplated by U. S. Government to prevent French gold held in U. S. A. by French Government or Bank of France or gold in transit being handed over to Germany and French balances being used for benefit of Germany.

C O P Y

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

264

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

JUNE 18 1940

B M BARUCH
597 MADISON AVENUE
NEW YORK NEW YORK

SORRY I HAVE NO CONFIDENTIAL INFORMATION IN REGARD TO PROFESSOR
VON KARMAN STOP I USED HIM FOR ONLY TWO DAYS ON THE
RECOMMENDATION OF MR. MILLIKEN OF CALIFORNIA INSTITUTE OF
TECHNOLOGY

HENRY MORGENTHAU JR.

STANDARD FORM No. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

265

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WASHINGTON

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TECHNOLOGY

HENRY MORGENTHAU JR.

Treasury Department

266

TELEGRAPH OFFICE

20W

WAE11 M 25

1940 JUN 18 AM 11 20

NBN NEWYORK NY JUN 18 1940 1019A

HON HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

CAN YOU SEND ME CONFIDENTIAL INFORMATION YOU HAVE REGARDING
PROFESSOR VON KARMAN WHO IS SUPPOSED TO HAVE BEEN EMPLOYED
BY YOU IN CONNECTION WITH AIRPLANES

JUN 18 11 30
B M BARUCH

1118A

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Casablanca, Morocco

DATE: June 18, 1940, 10 p.m.

NO.: 30

Hostilities will be continued by the French Navy, the Air Force and the Army of North Africa.

The Director General of Finance informed me of the above this evening. He asked me to cable you to ask that credits of Morocco in the United States not be frozen so that rifles, machine guns and cartridges can be purchased therewith.

A detailed statement as to the arms and munitions desired for which immediate shipment would be asked by the Protectorate Government will be cabled upon receipt of reply that the United States will not freeze the above mentioned credits.

Due to heavy shipments to France, there is a shortage of small arms here.

GOULD.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

June 19, 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. 21
of June 18 from Bordeaux.

RECEIVED
DEPARTMENT

640 JUN 19 AM 9 32

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Bordeaux, France

DATE: June 18, 1940, 4 p.m.

Rec'd 2:30 a.m. 19th.

NO.: 21

TRIPLE PRIORITY.

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

The Bank of France Governor has asked that I cable you most urgently to say that no confirmation has yet been received from the Federal Reserve that the Bank of France has been credited with the amount of the gold shipment which was arranged through the exchange of cables with Ambassador Bullitt. Fournier said that it is vital that such notification be cabled immediately to the Bank of France.

I told the Governor that I felt sure that at least the 95 percent had already been credited to the Bank of France, in accordance with the cabled agreement. However, he insists that some formal notification be given him.

The Governor confirmed the statement to me by Rueff to the effect that the rest of the French gold reserves had been sent out - but the Governor modified the statement importantly by saying that a part of it was still in French ports on board ships, "awaiting the signal" to go. There will remain in France only some "three or four hundred million francs" when all of this has gone.

Gold

- 2 -

Gold belonging to the Belgians and Poles has been gotten out also.

It is the opinion of the Governor that it is "too late" to do anything about foreign securities in the way of listing and destroying them, saying that they have about a thousand sacks of such securities and that such an operation would take several weeks to carry out. He said that for them it was only a question of days or possibly hours. However, efforts are being made by Cariguel to get private banks to go along as fast as they can with the destruction of securities, in the presence of responsible bank officers.

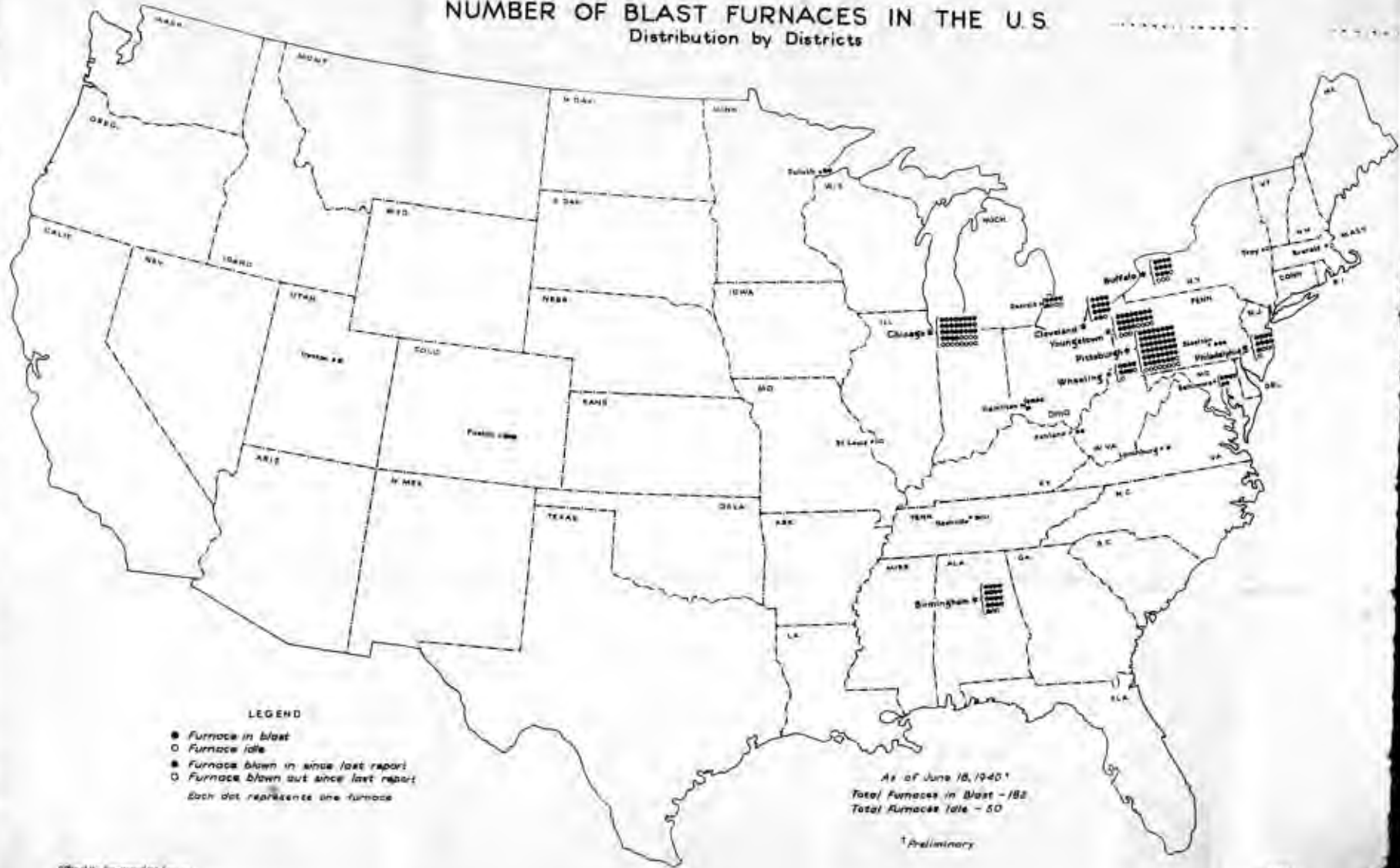
BIDDLE.

EA:LWW

L17

NUMBER OF BLAST FURNACES IN THE U.S.

Distribution by Districts



LEGEND

- Furnace in blast
 - Furnace idle
 - ⊙ Furnace blown in since last report
 - ⊘ Furnace blown out since last report
- Each dot represents one furnace

As of June 18, 1940*
 Total Furnaces in Blast - 182
 Total Furnaces Idle - 50

*Preliminary

June 18, 1940
10:45 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Wm. S. Knudsen: Yes.

H.M.Jr: Morgenthau.

K: Good morning, sir.

H.M.Jr: How are you?

K: Fine.

H.M.Jr: Knudsen, I think that your fellow, Vance, if you don't mind my saying it, sent out a very silly telegram yesterday to all these machine tool fellows. I've got a copy of it here. Can I read it to you, or maybe you've seen it.

K: No, go ahead and read it.

H.M.Jr: This is addressed to the National Machine Tool Builders' Association.

K: Yes.

H.M.Jr: Vance advises French capitulation will undoubtedly result cancellation all French orders, but requests that machine tool production continue full speed. He recommends that if French orders not yet on assembly floor, give preference to domestic orders if on assembly or finish them. "A complete description airmail, H. S. Vance, Machine Tool Coordinating Committee, Federal Reserve Building, Washington, sending delivery dates also special features. Vance will see if machines can be used on Government program. Will send further advices after Committee meets on Wednesday."

K: Yes.

H.M.Jr: Now, here's the point. I went over to see the President last night and he wants us to give

- 2 -

the English all the cooperation that we can, and they are in the middle of taking over all of the French orders. See?

K: Yes.

H.M.Jr: And what they're worried about is that if this goes out all over the country, maybe they can't get the airplanes or the airplane engines.

K: Oh, yes, they can.

H.M.Jr: See?

K: Yes.

H.M.Jr: And they want those parts of the machine tools which will be helpful in getting their program going in this country. You see?

K: Will you say that again?

H.M.Jr: They want whatever machine tools they need to carry on and fight. You see?

K: Yes, I see.

H.M.Jr: Now, -- and the President has asked me to give them all the help we can.

K: Yeah, well, we will.

H.M.Jr: And I don't want to cut them off on -- begin to cut off the end of the dog's tail, you see.

K: Well, they're not being cut off, sir.

H.M.Jr: They're not.

K: I got a memorandum yesterday from you for Mr. Nelson saying that he expected to get me information some time today that the English would take over all the French orders.

H.M.Jr: That's right.

K: And I instructed Vance to see that everybody kept right on working.

H.M.Jr: Well, that's swell. That's what you told me last night, but not to take the tools away from these fellows.

K: We're not taking any tools away, sir, yet. We're standing right by until we hear from you.

H.M.Jr: Well, when could you see Nelson.

K: I can see Nelson any time.

H.M.Jr: Well, tell me and I'll have him come over.

K: Yeah.

H.M.Jr: What time? (Pause) Hello, what time?

K: Yes, 11:00 o'clock.

H.M.Jr: When?

K: 11:00 o'clock.

H.M.Jr: 11:00 o'clock.

K: Yeah.

H.M.Jr: You're a quick worker.

K: Well, I think this is important enough so that I ought to take care of it.

H.M.Jr: I think it's very important and Mr. Purvis

K: But don't get the idea, Mr. Secretary, that anybody has stopped working or anything.

H.M.Jr: Well, from this telegram you couldn't blame me from -- and the English now. The English are thinking that they're going to lose some of the French order, that's what they're worrying

- 4 -

K: They're not going to lose anything, sir.

H.M.Jr: They're not going to lose anything.

K: No, sir.

H.M.Jr: Thank you. Hello?

K: Yes.

H.M.Jr: How would you like to have some pot cheese at lunch tomorrow at 1:00 o'clock?

K: Tomorrow?

H.M.Jr: Yeah.

K: All right, sir.

H.M.Jr: 1:00 o'clock.

K: Yeah. Is Mr. Nelson coming over here?

H.M.Jr: He'll be there at 11:00.

K: All right. Now you haven't heard from the French yet have you sir?

H.M.Jr: As to what?

K: As to these engines.

H.M.Jr: As I told you, as of last night the English are prepared to place an order for 6,000 Rolle Royce.

K: I got Purvis' letter which you sent me, but he put a proviso in there.

H.M.Jr: Well, that now -- he's given me his word and he'll put it in the form of a letter, he'll take 6,000.

K: All right, sir.

H.M.Jr: You can count on it and he hasn't had time to write a letter.

- 5 -

K: All right, sir.

H.M.Jr: But you can take my word and his word
it's all right. You can count on an order
for 6,000 Rolls Royce from the English
Government.

K: All right, sir.

H.M.Jr: And Nelson will be right over there.

K: Thank you.

June 18, 1940
11:20 a.m.

H.M.Jr: Hello.

Operator: General Watson.

H.M.Jr: Hello.

General Edwin
Watson: Hello.

H.M.Jr: How are you?

W: Pretty good.

H.M.Jr: Fine.

W:

H.M.Jr: Do you want to talk to me or can I shoot first.

W: You go ahead, I haven't got a thing.

H.M.Jr: Well, I talked to the President when I went in there, when you forced me to go in to see him yesterday.

W: Yeah.

H.M.Jr: And after my talk with him, he wants me to go ahead and help the English all I can -- the limit.

W: Yeah.

H.M.Jr: Therefore, I think that we definitely should release those 500 .75 millimeter guns.

W: To the English?

H.M.Jr: Yes, sir.

W: Now you understand, don't you, that they can't shoot anything but French-made ammunition.

- 2 -

H.M.Jr: Yeah, but they want them.

W: How?

H.M.Jr: They want them.

W: Yeah.

H.M.Jr: And under the President's orders we are to give them every help we can.

W: Yeah, all right.

H.M.Jr: But you can check it with him.

W: Well, I'll speak to him. I'm with you.

H.M.Jr: Now, those are my sailing orders.

W: Yeah.

H.M.Jr: Now, the other thing is and I've talked them -- there're two things that they want the most. One is destroyers, which I'm going to talk to him about

W: Yeah.

H.M.Jr: Hello.

W: Yeah.

H.M.Jr: And the other thing is these 4-engine bombers. Now he said he would like to consider, or have us consider, taking the ten oldest 4-engine bombers that we have -- Boeings, you know.

W: Yeah.

H.M.Jr: The four first ones that we got -- with the possibility of swapping them in and getting something new and turn over ten to them.

W: Yeah.

H.M.Jr: Now will you mention that to him, too?

- 3 -

W: All right. What do you want him to do about that?

H.M.Jr: Well, if he says yes, we'll just go ahead and do it, that's all.

W: All right, I'll mention both to him.

H.M.Jr: Yeah. Now, on the destroyers, sometime later today I may want some help.

W:

H.M.Jr: The destroyers.

W: Yeah.

H.M.Jr: No, I'm not going to ask him, but these two, will you help me?

W: Yeah, I'll do those.

H.M.Jr: Thank you, sir.

W: All right, sir.

H.M.Jr: Good-bye, sir, Private Morgenthau.

June 18, 1940
12:52 p.m.

H.M.Jr: Hello.

Operator: Yes.

H.M.Jr: General Watson said he'd go on another phone.

Operator: Oh, all right. Wait a minute. (Pause)
There you are.

General Watson: Hello.

H.M.Jr: Hello.

W: He says O. K. about the .75's

H.M.Jr: Yeah.

W: for me to give them orders to do it. Now he said, now, how would it check up, and see what the Army said about those 10 bombers. Of course, I don't know whether they'd say their surplus or not. Have you

H.M.Jr: No.

W: Have you done anything about that?

H.M.Jr: No, I just

W: Well, have we got the authority, Henry, to give them unless they said that.

H.M.Jr: We have the authority.

W: How?

H.M.Jr: We have the authority.

W: We have?

H.M.Jr: But do you want to kind of sound them out?

- 2 -

W: Well, I thought maybe I'd better ask the Army if they really wanted to do it.

H.M.Jr: Yeah.

W: He thought I ought to do that, but he said, if you and Henry think they ought to do it, go ahead.

H.M.Jr: Well, you sound out the Army and, of course, they're going to yell, but let's sort of take their temperature and see how

W: Yeah, that's what I thought. The other -- I've given direct orders on the other.

H.M.Jr: Well, let's take their temperature on these 4-engine bombers.

W: Yeah, that's what I thought.

H.M.Jr: All right.

W: All right, I'll do it and let you know later on.

H.M.Jr: Right-o.

W: All right. How're you coming on?

H.M.Jr: Oh

W: Are you on that Committee that -- Welles and all of them?

H.M.Jr: Yeah. You mean the one of yesterday?

W: No, about the one that Marshall and Stark

H.M.Jr: No.

W: About South America -- I don't think you are either.

H.M.Jr: About South America?

- 3 -

W: Yeah.

H.M.Jr: You mean on this

W: Yeah.

H.M.Jr: What?

W: Brazil business -- that country.

H.M.Jr: Buying up the surplus.....

W: No, no. I don't think you're in on this.

H.M.Jr: No.

W: It's a little one. They wouldn't have you chairman of it and you on it.

H.M.Jr: Oh.

W: Of course, he -- Welles couldn't be.

H.M.Jr: He could try. (Laughs)

W: Well, all right.

H.M.Jr: O. K.

W: Good-bye.

June 18, 1940

My dear Mr. Hoover:

I wish to acknowledge receipt from you of the following communications:

- June 11 - Wright Aeronautical Corporation, Paterson, New Jersey,
- June 12 - Newport News Shipbuilding and Dry Dock Company, Newport News, Virginia,
- June 13 - Presence of Germans in Mexico City,
- June 15 - War supplies awaiting shipment to Russia.

I read these with much interest and appreciate your sending them to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

June 18, 1940

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Director,
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Washington, D.C.

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

June 11, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

The Federal Bureau of Investigation has conducted a plant survey of the Wright Aeronautical Corporation, Paterson, New Jersey, and has submitted certain recommendations to the Management of this plant for its consideration. The Wright Aeronautical Corporation is engaged in the production of airplane engines and is one of the few large producers of such equipment.

Recently, during a contact with the Management of this plant, it was pointed out to a Special Agent of this Bureau that the plant at present has a large number of employees who are known to possess strong nationalistic tendencies. Some of these employees are reported to have positions in the plant which afford them access to a great deal of confidential information and others of these persons are said to be in positions which enable them to easily commit acts of sabotage if they were so inclined. The officials of the plant expressed a desire to discharge those employees who are known to possess nationalistic tendencies of the type mentioned. However, they state that it is impossible for them to do so at the present time because of existing legislation. The plant officials directed attention particularly to the Wagner Act and the Walsh-Healy Act, which, they state, prohibit them from discharging employees on the basis of their nationalistic tendencies.

The plant officials of the Wright Aeronautical Corporation have expressed considerable concern because of this situation, pointing out that it is their belief the plant is seriously endangered by the presence of employees possessed of

- 2 -

such strong nationalistic tendencies. They state that they do not believe the plant can occupy an effective place in the scheme for national defense under existing conditions.

I thought that you would be interested in the viewpoint expressed by the officials of the Wright Aeronautical Corporation, particularly in view of the present program for the production of national defense materials.

Sincerely yours,

J. E. Hoover

JOHN EDGAR HOOVER
DIRECTOR

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

PERSONAL AND
CONFIDENTIAL

June 12, 1940

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

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest, a copy of a statement dated June 11, 1940, containing information with regard to alleged sabotage activities at the Newport News Shipbuilding and Dry Dock Company, Newport News, Virginia.

I have instructed that an investigation be conducted concerning this matter, for the purpose of determining whether sabotage activities within the jurisdiction of the Federal Bureau of Investigation may be involved.

Sincerely yours,

J. E. Hoover

Inclosure

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

283

June 11, 1940

MEMORANDUM

Information has been received from officials of the Newport News Shipbuilding and Dry Dock Company, Newport News, Virginia, that on June 10, 1940, approximately two hundred steel clippings and two portions of metal welding rods were discovered in one of the low-pressure turbines being constructed for the S. S. President Jackson, which vessel is under construction for the United States Maritime Commission. The steel clippings and metal rod portions were discovered in the inner barrel of the upper half of the turbine. The turbine in question was designed for use in the operation of the ship's steering rudder. Officials of the Newport News Shipbuilding and Dry Dock Company have indicated positively that the steel clippings and metal rod portions were absolutely foreign to the area in which the turbine was located, it being noted that these clippings and welding rod portions could not have resulted from work being carried on in the vicinity in which the turbine was located.

Additional information has been furnished to the effect that the Newport News Shipbuilding and Dry Dock Company presently possesses United States Government contracts of the total value of approximately \$113,000,000, including a battleship now being constructed for the United States Navy at a total cost of about \$50,000,000, as well as an aircraft carrier presently being constructed for the United States Navy, namely, the U. S. S. Hornet. Information has been furnished to the effect that turbines being constructed for the U. S. S. Hornet are located in the immediate vicinity of the turbine in which the above described foreign material was found. It has been stated that this foreign material undoubtedly would have caused serious injury to, if not complete destruction of, the turbine in question, if the turbine had been placed in actual operation before the discovery. The discovery, according to available information, took place while steam pressure was being applied to the turbine before it was actually placed into operation.

JOHN EDGAR HOOVER
DIRECTOR

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

290

June 13, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you, I am transmitting herewith a memorandum incorporating information received from a source heretofore found reliable relative to the presence of Germans in Mexico City, Mexico.

Sincerely yours,

J. E. Hoover

Enclosure

June 13, 1940

M E M O R A N D U M

The Chief of the Highway Patrol Unit of Mexico City, who is now visiting in Los Angeles, California, reportedly stated that approximately 11,000 Germans between the ages of twenty-one and twenty-seven, and constituting a fully equipped fighting unit, have suddenly appeared in Mexico City. The Chief is also alleged to have stated the police in Mexico City are presently conducting an investigation to determine the place from which these Germans came.

JOHN EDGAR HOOVER
DIRECTOR

292

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

June 15, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting herewith for your information a copy of the report of Special Agent Keith E. Angell, dated at Seattle, Washington, May 31, 1940, in the matter entitled "Fifty Carloads of War Supplies Reported to be Waiting Shipment to Russia; Neutrality Act."

A copy of the above report is also being furnished to Assistant Secretary of State Adolf A. Berle and to the Offices of Military and Naval Intelligence.

Sincerely yours,

J. E. Hoover

Enclosure

FEDERAL BUREAU OF INVESTIGATION

Form No. 1
THIS CASE ORIGINATED AT SEATTLE, WASHINGTON

FILE NO. 64-5

REPORT MADE AT Seattle, Washington	DATE WHEN MADE 8/31/40	PERIOD FOR WHICH MADE 8/28/40	REPORT MADE BY KEITH S. ANGELL	CHARACTER OF CASE NEUTRALITY ACT	NL
TITLE 50 CARLOADS OF WAR SUPPLIES REPORTED TO BE WAITING SHIPMENT TO RUSSIA.					

SYNOPSIS OF FACTS:

50 carloads, alleged to consist of war materials, reported to be at Tacoma, Wa., awaiting shipment to Vladivostok, Russia. Greek Steamer "Aurora" under Panamanian registry, put in at Shafter Dock No. 1, Tacoma, on May 17, 1940. No indication that Federal violations are being committed.

- 0 -

DETAILS:

This case is predicated upon a call made by MR. ALBERT H. HOOKER, TR., of the Spoker Electrochemical Company, Tacoma, who advised that he had information regarding a possible violation of the U. S. Neutrality Laws.

MR. HOOKER stated that he had received word from CLARET DAVISON, reporter for the Tacoma Times newspaper, to the effect that on May 21, 1940 the American Legion Post in Seattle, Washington, had adopted the resolution, "To embargo the shipment of 50 carloads of war materials consisting of machinery, dies, and precision tools, which were presently standing on a pier at Tacoma, ready for shipment to a Russian Port." This resolution was introduced by STEPHEN S. CHADWICK, who is a past National Commander of the American Legion. CHADWICK had declared the materials were needed in the United States for this nation's rearmament program, and in addition, such a shipment would be un-neutral.

MR. HOOKER stated further that the American Legion Post in Tacoma was cognizant of the action taken by the Legion at Seattle, and its executive board was holding a meeting on the night of May 22, 1940, for the purpose of taking action with regard to the proposed shipment; that he had informed HENRY WARD, Local Legion Commander, that the proper Government

APPROVED AND FORWARDED:

SPECIAL AGENT IN CHARGE

DO NOT WRITE IN THESE SPACES

COPIES OF THIS REPORT

3 Bureau
1 G-2, Presidio of San Francisco
1 G-2, Fort Lewis, Wa.
1 CMI, Seattle,
2 Seattle

agencies would be apprised of all known facts, and that those agencies would no doubt make an investigation if same were advisable.

At a conference attended by Captain CARTER B. BAGRUDE, representative of the G-2 Officer No. A1, Fort Lewis, Washington, CASEY DAVISON, of the Tacoma Times, ALBERT HOOKER, Major of the Chemical Warfare Supplies Division of the Reserve Officers, and reporting Agent, DAVISON gave the following information:

"On April 18th the S.S. WILDWOOD, American-Foreign line of New York, had docked and unloaded its cargo at the Commercial Pier, Tacoma. This ship had sailed from New York City for Vladivostok, Russia, and had gone as far as the 180th meridian before turning back and docking at Tacoma. Its 7,800 ton cargo consisted, according to the U. S. Customs Manifesto, of three and one-half million dollars worth of airplane motors, stainless steel plates, stripped brass and one million dollars worth of copper bars. This ship was reported to have returned to an American port because of orders from the State Department.

"On May 16, 1940, 50 carloads of machinery, dies, and precision instruments had arrived in Tacoma, having been sent to the west Coast in one train load. These carloads were placed on a siding near the Commercial dock. The packing cases in which these war materials were packed, bore the same marks as the Wildwood shipment, indicating that they were for the "Antorg", Soviet Purchasing Agencies at Vladivostok, Russia. On May 17, 1940, the Greek Tramp Steamer "Aurora" flying the Panamanian flag, indicating Republic of Panama registry, arrived at Tacoma without cargo and put in at the Shaeffer No. 1 dock, which is one pier away from the Commercial Dock. The crew of this ship consisted of Greeks except for two Chinese crew members, who were observed to be wearing Chinese Nationalist hats."

DAVISON stated that he had obtained most of the above information through personal observation and through interviews with U. S. Customs officials and with CHAUNCEY LINGERMAN, manager of the Baker Dock, Tacoma, lessee of the Commercial Dock, Tacoma. He stated that he had learned the nature of the contents of the 50 carloads through a Legionnaire in Tacoma. He believed that STEPHEN CHADWICK was the person who had sent this information to the Tacoma Legionnaire.

Inasmuch as there is no indication that any Federal violation has been committed or will be committed, no further action is being taken.

CLOSED

June 18, 1940.

My dear Mr. Hoover:

I have received from Mr. Robert F. Vanderpool, Financial Editor of the Chicago Herald American, the enclosed bulletin which came to him through the mail. He believes that Justice is a "fifth columnist", and states that he was a former candidate for the Senate on the Father Laughlin ticket. I have informed Mr. Vanderpool that I am forwarding the release to you for any action you may care to take.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

Enclosure. ✓

GMV/dbs

By Messenger / 30

June 18, 1941.

Dear Mr. Vanderpool:

Thank you for your letter of June 12th, which encloses a copy of a bulletin put out by Boston Jenkins of Chicago. I feel that J. Edgar Hoover should see this release, and I am taking the liberty of forwarding it to him.

I also appreciate your offer of personal service and shall remember it in some opportunity offers to stall ourselves of it.

Sincerely,

(Signed) H. Worgenthau, Jr.

Mr. Robert F. Vanderpool,
Financial Editor,
Chicago Herald American,
226 West Madison Street,
Chicago, Illinois.

GHF/abs

HERALD CHICAGO AMERICAN
EVENING AND SUNDAY

297

J Hoover

326 W MADISON ST
CHICAGO

TELEPHONE
ANDOVER 1234

✓ y c

June 12, 1940

*7-10-41
9-9-41
B-2*

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

Dear Secretary Norgenthau:

Enclosed is a bulletin received by me through the mail today. Jenkins is a former candidate for the United States Senate on, I believe, the Father Coughlin ticket. Obviously he is a fifth columnist. It is probably just as well for the government to know men of this type.

If I can be of any service to the country in the serious times that lie ahead, please feel free to call upon me.

Sincerely yours,

Robert P. Vanderpoel

Robert P. Vanderpoel
Financial Editor

RPV.J

RECEIVED
JUN 13 1940
U.S. DEPARTMENT OF THE TREASURY

AMERICAN BUSINESS and THE NEW PEACE

By

Newton Jenkins
33 S. Clark Street, Chicago
Telephone: Dearborn 1852

Wide awake American business men are beginning to ask each other what the peace terms are going to look like and what their effect will be on business. Whatever the terms are, it is likely that their influences in the field of world business will be even more far reaching than are the changes of national boundary lines.

Hitler believes that the war on him and his country was engineered and carried out by the powerful Jewish influences in world business and politics. He knows, and they know, that he won at every turn in this contest of boycotts, blockades, and blitzkriegs. The cost of the war therefore will in all probability be levied against world Jewry. That will be the first of the peace terms. Hitler will send the bill to Jewry.

The vast world monopolies built up by England and France in close intimate collaboration with powerful Jewish families are in for close scrutiny and will probably be reallocated by Hitler under the peace terms. Germany is of course likely to benefit from many of these changes for she will, in so far as Europe is concerned be in the driver's seat. Other nations, friendly to Germany, will likewise participate and many nations including our own might get substantial consideration in the gigantic reshuffling likely to take place. Indeed American business men might become the chief beneficiaries, if they wake up, for they are in better position by reason of the magnitude of their enterprises and resources to take advantage of the far reaching changes, which the Hitler peace is bound to effect.

The big monopolies radiating out of the far flung British and French empires into which powerful Jewish influence has penetrated over a wide field of activity. The Rothschild fortunes built up in international finance and the Sassoon billions accumulated in the beginning through dope peddling throughout India, China and the rest of the world, and later through many other lines of business are two instances of the far reaching Jewish power. These and numerous other important Jewish families will find their accumulations considered, unravelled and perhaps partly distributed around the conference tables at the peace meeting.

The big Jewish world monopoly in money and its manipulation will come in for early dissolution at the peace conference. These rights and privileges will go back to the productive energies of the various nations and their peoples. Whether Hitler will seek to set up a new gold standard or extend his barter system which has already worked extensively between the totalitarian powers will be one of the most important decisions to be reached at the peace conference. American business men should seek at the earliest possible moment to determine what this decision is to be, and gear their plans and actions to the decision as soon as it is arrived at and made known.

The effect of the peace terms on farm prices throughout the world is likely to make for price levels that will be higher and much more stable. The grain and commodity markets of the world have been controlled to a high degree by European Jewish market manipulators. This racial monopoly over the world markets will be thoroughly broken. Farmers in all countries may confidently look for higher prices for their efforts and a much more potent voice in the national economy of all countries than they now enjoy. The producer of the farm commodity instead of the market manipulator will be the one to be considered henceforth in the economic picture.

Well known monopolies in which Jewish influence are substantial or dominant are likely to receive careful attention. The big diamond monopoly operating from Holland and South Africa is one of those. The metal operations in gold, silver, copper, lead, zinc, nickel, tin and other precious and non-precious lines will be extensively affected. These will all afford attractive fields for American capital and ingenuity to explore and penetrate. The distribution of tea, rubber, coffee, sugar and wheat are all likely to be given minute attention.

The cable lines are apt to be given careful attention by Hitler. It is quite likely that the cables will be opened up on some fair basis to the peoples of the world. Linked closely to the cables are other agencies of communication such as the telephone, the telegraph and the radio. The trend in all of these vast enterprises will be definitely away from Jewish influence.

World shipping is bound to be a big question at the peace conference. True freedom of the seas is apt to be an important agreement arrived at. Dibraltar, the Suez Canal, Singapore, South Africa and other strategic ports and passages will be gone over and reallocated. The extent to which the ship companies, the shipping lanes, the important ports and channels as well as maritime insurance have responded to Jewish influence has been tremendous. When some other squeeze play could not be invoked by Britain, she could usually rely on her control over insurance rates to compel shipment in British bottoms in competition with the ships of other countries. Germany, Italy and Japan will undoubtedly move in for a substantial share in world shipping. Hamburg will likely become, for sea-board commerce, one of the largest ports in the world. Whether American shipping interests can get further into this lucrative trade is not certain.

American industry with heavy foreign exports like steel, motors, seat packing, etc., should be quick to encourage for their own good the expansion of American shipping as a protective measure against future discrimination in rates favoring those foreign countries in which their main competition exists. The American steel industry must expect to face a real run for its money with the growing steel industry of Germany.

One of the peace terms is likely to provide for the establishment of a comprehensive Jewish state on a scale never before contemplated. While Jews generally have been bitter in their condemnation of Hitler, it might remain to him, to do what Jews for generations have talked about, argued over and tried without much success to achieve. While Jewish leaders like Herzl and others have tried to establish the Jewish state in Palestine, Hitler knows as many practical Jews have pointed out that the poverty stricken area of Palestine can't support a Jewish state or any other substantial nation. He knows that the Christians and the Mohammedans are equally as firm as the Jews in claiming Palestine as the birthplace of their religions. It would not be surprising if Hitler should carve out a new Jewish nation, on dimensions that will be far more elaborate and extensive than anything they have ever planned for themselves. That certain of their leaders will reject the proposal, whatever it may be, is inevitable.

The press of the world, having made such a miserable spectacle of itself with falsifications, which have misled and befuddled the peoples in all lands, is recognized by Hitler as largely subject to Jewish inspiration. As an industry newspapers and magazines are likely to receive a heavy blow at the coming peace conference. Mergers and mortality among American newspapers and magazines are likely to be heavy in the months ahead.

Having been consistently doing either the wrong thing at the right time or the right thing at the wrong time our Washington Administration now leaps to a big defense program. The defense industries, which bank too heavily upon the sudden spurt of building for defense, frantically encouraged by the leaders of both parties in Washington, are likely to be disappointed. With the vast armaments of all countries which have vast armaments, in his hands at the close of the war, Hitler will be in a position to impose a disarmament program on the whole of Europe. In such an undertaking our country is quite as apt to acquiesce, as to run in opposition to the then general trend away from swords toward plowshares.

With the totalitarian nations looming ever larger in the world industrial operations, those American industries which are quickest to gear their own respective pictures to fit the new world scene will make the most progress. It is an old saying that Jews are not so conspicuous on the battle fields as they are at the peace conferences, but the Hitler peace conference will be different. The nation or the industry that is quickest to shear itself of its Jewish implications is likely to be the one that goes forward the most surely after the coming peace conference. American business enterprises, financial institutions and even political parties with even remote Jewish domination will be under suspicion in the new world, which we enter after the important peace conference has concluded its deliberations.

Sound genuine purely American business, has nothing to fear. It has a chance to escape from the dog eat dog impasse, into which it had been ever more deeply drawn over the past decade or two, and may now move out on a higher plane of world fair play.

JT

PLAIN

BERLIN

Dated June 18, 1940

Rec'd 5 p.m.

Secretary of State,
Washington.

1916, eighteenth.

By number 1345, May 16, noon, last paragraph.

FOR TREASURY FROM HEATH, and also for the information of the Department.

According to press reports the Reich on June 15, resumed issuance of 4 per cent Treasury certificates which had been discontinued since the beginning of May. The new series however has a ten year maturity whereas the four series which preceded it had a maturity of at first five later five and one half years. The new series is being sold at 99 $\frac{3}{4}$ which is one quarter below the present market price of the first series but three quarters above their original selling price. They may be used as collateral at the Reichsbank and will later be dealt in on the market.

The new series was announced in the press in contrast to the first series three months ago which was not even mentioned

-2- #1916, June 16, from Berlin

mentioned until some time after it was introduced. Although these loans may be subscribed to by the public they can hardly be called a public loan in the usual sense of the term since the amount to be issued has not been announced. The consortium for Reich loans is not entering into action and no time limit for subscriptions has been set. It is apparent that it is desired to escape the odium associated in Germany with war loans. It is emphasized in the press that the issuance of the new Treasury certificates does not mean that the Reich will discontinue its previous policy of financing war expenditures mainly through sales of short term paper no consolidation of which is yet planned. Consolidation the press states, will presumably not occur until later, possibly not until war financing is terminated and the transition to a peace time economy begins and the form and extent of the consolidation will then depend on how great demands on the capital market will be made by industries resuming peacetime production.

HEATH

CSB

JT

GRAY
LONDON

Dated June 18, 1940

Rec'd 6:24 p.m.

Secretary of State,
Washington.

1713, June 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

One. As a smokescreen the Bank of England last night gave notice to financial institutions and to newspapers for publication this morning that permission ~~XXXX~~ granted to transfer "controlled securities" under S. R. and O. 1939, No. 966 (see pages 12 to 17 of the Embassy's memorandum on British Exchange Control Regulations) whether between residents or from residents to non-residents will be withheld until further notice and that dealings in such securities should accordingly be discontinued. Permits for such sales abroad not already acted upon are no longer valid and must be lodged with the Bank of England for cancellation. This notice is a smokescreen in the sense that steps are being taken to send these securities to Canada for purposes of safety and therefore of course, dealings could not take place, but the fact
of

JT-2- #1713, June 18, 6 p.m., from London

of transfer to Canada is not being made public. The first step now being taken is a voluntary one, namely, requesting the joint stock banks and certain other institutions to take the requisite action. The British Treasury states that at a later stage a new defence (finance) regulation will be promulgated and then foreign and other financial houses in London will be requested to follow suit.

Two. The British Treasury also states that some stocks of diamonds are being moved to Canada.

Three. The British Treasury indicated that ~~French~~ ^{French} balances are being blocked today, but inasmuch as mail and telegraph communications are cut with France this action is mainly regarded as a response to public opinion that such a precautionary measure should be taken.

KENNEDY

NPE

MA

GRAY and PLAIN

Bogota

Dated June 18, 1940

Rec'd 11:47 p.m.

Secretary of State
Washington

163, June 18, 9 p.m.

As the Minister of Finance advised me on June 14 the Council of Ministers in extraordinary session today approved measures proposed by the Ministry of Finance for reorganizing the national economy and decrees promulgated under authority of extraordinary powers act will be issued and effective as of tomorrow.

The measures involve modifications in existent banking legislation and comprehend the following subjects:

Refunding and consolidation of internal public debt which will be serviced by contract with the Bank of the Republic at reduced interest rates of 4 and 6 %. The Bank of the Republic will make a loan to the nation of 20,000,000 pesos largely from proceeds derived from Export and Import Bank loan.

A new section will be created in the Agricultural Credit Bank with a capital of 5,000,000 pesos derived from the above funds for the purpose of making short and long

MA -2- tel # 163 from Bogota dated June 18.

long term loans to agriculturalists and livestockmen. The nation will subscribe 2,000,000 additional capital to other sections of the Agricultural Bank and this bank will be able to make twenty year mortgage loans and six year agricultural or industrial security loans. It can accept as security for agricultural loans future crops from permanent plantations. Commercial banks will be permitted to buy unlimited amounts of the Agricultural Bank's bonds maturing in less than eighteen months and permitted to buy amounts of the longer term bonds up to 40% of their capital and reserve the bonds to be rediscountable.

BRADEN

EMB

304

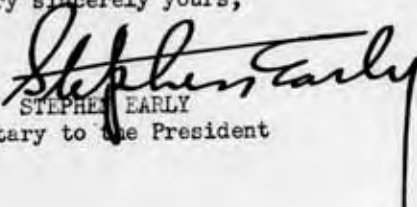
THE WHITE HOUSE
WASHINGTON

June 18, 1940.

My dear Mr. Secretary:

The President on June fourteenth signed an Executive order entitled "Directing the Secretary of the Treasury to Assemble Annually a Coast Guard Personnel Board", as recommended by you.

Very sincerely yours,


STEPHEN EARLY
Secretary to the President

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

June 18, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

The State Department has requested that we send a cutter with Consul Penfield as a passenger up the east coast of Greenland to two ports, Angmagssalik and Scoresby Sound, which are respectively 400 and 860 miles north of Cape Farwell. Ice conditions will not permit any cutter to get in to either of those ports until about the middle of August, and conditions even then make it inadvisable to send any cutter other than one especially built for Arctic work. The only vessel of this type we have is the NORTELAND, now at San Francisco. The NORTELAND is being ordered to proceed to New York as soon as possible and should arrive about the middle of July.

The only armament on the NORTELAND at present is a single 4-inch gun. It seems to me highly desirable that for this mission the NORTELAND be equipped with armament generally similar to that with which the GEORGE W. CAMPBELL was equipped for her voyage to the west coast of Greenland. Since the time schedule will permit only about a week's delay, if we are to equip the NORTELAND in this manner it will be necessary that you direct the Navy Department to give the job priority at whatever yard they may select for the work. The matter will be most urgent if Navy should decide that the work should be done at Kars Island.

HMD/r

(Signed) H. Morgenthau, Jr.

By Messenger / 10

June 18, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

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(Signed) H. Morgenthau, Jr.

HEB/r

MS

By Messenger

June 18, 1940
9:50 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Sen. Pat
Harrison: Henry, how are you?

H.M.Jr: Oh, I'm fine. How are you all coming up there?

H: Well, we're getting along pretty well. Of course, we got through practically with all the Senate amendments yesterday except this Townsend proposition which I'm going to try to strike out today and the Byrd amendment will be taken up today and I'm just leaving it to them. I'm going to vote for it.

H.M.Jr: Yeah.

H: But I think we'll get through maybe today.

H.M.Jr: Wonderful.

H: Certainly by tomorrow. Of course, we've got this excess profits and all that stuff's got to be offered. They're going to offer it. But I think they'll probably be defeated.

H.M.Jr: Yeah. Well, you're handling it

H: We're getting along pretty well.

H.M.Jr: Well, you're handling it in your usual masterful way.

H: Well, I think we're getting along pretty well if we don't adjourn here now Saturday. We've got to get to work on this -- on real excess profits stuff.

H.M.Jr: I'm with you a hundred percent.

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H: Oh, Henry.

H.M.Jr: Yes, sir.

H: Tell me something, now. I've got a delegation here from Mississippi -- from Mississippi, one of our biggest cities.

H.M.Jr: Yeah.

H: They've got a fine airport there and so forth. Now, of course, they want to get something out of the Government on it and want to present their matters.

H.M.Jr: Yeah.

H: Are you having anything to do with that?

H.M.Jr: No, I don't Pat, they've taken it all away from me.

H: Well, now, where is it lodged?

H.M.Jr: You mean airports?

H: Well, the whole thing with reference to making airplanes and the airports and everything else.

H.M.Jr: Well, I would say that I'd tackle Woodring or Johnson.

H: You think Louis Johnson.

H.M.Jr: Yeah, or Woodring, whoever you know best.

H: It's all in the War Department then.

H.M.Jr: Well, the final say is, yes.

H: Yeah, the CAA doesn't have much to do with it.

H.M.Jr: Well, they have something too but the money is with the War Department.

H: With the War Department.

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H.M.Jr: That's where the money is.

H: Well, I don't want to put any burden on you if you haven't got anything to do with it.

H.M.Jr: I have nothing to do with it. The money is in the hands of the War Department.

H: All right, Henry. Much obliged to you.

H.M.Jr: Thank you.

H: Thank you.

June 18, 1940
11:47 a.m.

Admiral
McIntire: Hello, Henry.

H.M.Jr: Gosh, what a friend you are!

McI: What's the matter now?

H.M.Jr: I haven't got anything from you.

McI: For God's sake, you mean to tell me -- hasn't McGee gotten hold of you yet?

H.M.Jr: I haven't heard a thing.

McI: Well, that's a funny thing. He was going to get hold of you and he should have talked to you long before now.

H.M.Jr: Well, I was to get a memo or something that I could go to Woodring on. That's the last we said, I think, on Friday. I haven't had a word since.

McI: Well, all right, we'll stimulate him again right now.

H.M.Jr: If somebody would just take three minutes to write on a piece of paper what I should do when I talk to him

McI: O. K. I'll write it down and send it over to you myself. He'll talk to you though without question, but I'll shoot it over to you now. I'll write down - tell you what the dope is, but I did want him to explain to you, so you'd have a little bit better - I thought you wanted to write those people a letter.

H.M.Jr: I do.

McI: O.K. I'll send this over to you, you'll have it in five minutes. I'll send it right on over in that time.

H.M.Jr: Right.

McI: All right.

H.M.Jr: Thank you.

June 18, 1940
1:00 p.m.

H.M.Jr: Hello.

Admiral Noyes: Hello, Mr. Secretary?

H.M.Jr: Yeah.

N: Could I come to see you for about five minutes?

H.M.Jr: I don't know. I'm very exclusive today, Admiral. Is it on that Thursday business?

N: Yes, sir, on our original proposition.

H.M.Jr: That stuff gets in Thursday, doesn't it?

N: Sir?

H.M.Jr: Thursday, it comes in, doesn't it?

N: Thursday.

H.M.Jr: That load.

N: Yes.

H.M.Jr: Yeah.

N: You got the time, didn't you?

H.M.Jr: Yeah, Admiral Stark gave it to me.

N: But we got a despatch that I had to ask you about from the other side we'll have to answer, you see.

H.M.Jr: I see.

N: It won't take but a minute to look at it.

H.M.Jr: Yeah. Could you be here a little bit before two?

N: Yes, sir. Any time you say.

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H.M.Jr: Quarter of two.

N: At a quarter of two.

H.M.Jr: Yeah. You may have to wait a few minutes, if you don't mind, but I'll try to make it a quarter of two.

N: All right, sir. This is a despatch that was sent to us and we've got to answer it or, that is, we don't want to answer it, and we want to see what you think about it.

H.M.Jr: Ought I to have Cochran there?

N: Sir?

H.M.Jr: Do I need Merle Cochran?

N: That would be all right.

H.M.Jr: I mean, is it Navy or financial?

N: It comes from the Embassy, that's the reason.

H.M.Jr: Oh, I'll have Cochran standing by.

N: All right.

H.M.Jr: Thank you.

N: Thank you, sir. Quarter to two I'll be there.

H.M.Jr: If you please.

TREASURY DEPARTMENT
 INTER OFFICE COMMUNICATION

DATE June 15, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 6:45 yesterday evening Mr. Pilsent, Financial Counselor of the British Embassy called on me and showed me a copy of a cablegram which had come to his Embassy. I made a copy thereof. Today noon Mr. Pilsent telephoned me certain corrections in the message, so that it reads as follows:

Secret.

Please inform United States Government that in view of obscurity of position and uncertainty whether French offer of armistice will be accepted we did not to-day take steps to block French gold $\sqrt{}$ balances $\sqrt{}$ before banks closed. We shall consider what will be appropriate steps to take tomorrow.

2. We should be glad to know what steps would be contemplated by U. S. Government to prevent French gold held in U. S. A. by French Government or Bank of France or gold in transit being handed over to Germany and French balances being used for benefit of Germany."

With reference to the first paragraph of the message, I told Mr. Pilsent that the Treasury Department had shortly after noon yesterday issued orders "freezing" French assets in this country, and I gave him the documents pertaining to this operation.

I told Pilsent that I could not give a definite answer to the second paragraph. I reminded him that one of the basic purposes of our "freezing" policy was to see that foreign funds in this country were held by their rightful owners, and that I was sure that every proper effort would be made toward achieving this end. At the same time, I pointed out that in the event of an armistice or of a capitulation on the part of France there would be many factors which would have to be considered, such as the terms of the armistice or surrender, our general governmental policy in the premises, and the legal questions that would arise. On these points the State Department particularly would have to pass.

In this connection Mr. Pilsent told me that the above message would be transmitted by the British Embassy to the Department of State. He asked if I knew of any objection to the Embassy raising with the Department of State at the same time the question of blocking German assets in this country, which had been one of the suggestions made by Lord Lothian in a letter to the President. I saw no objection to this. I reminded Pilsent that I had told him sometime ago that a

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definitive reply to the letter could not be given by the Treasury Department, since the letter was addressed to the President, but I let him know that it had been the consensus of opinion of the officials of the State and Treasury Departments who had discussed the matter that we should not in present circumstances proceed with the blocking of German assets in this country. Incidentally, Under Secretary Bell and I had reaffirmed this position to Mr. Pinsent, in the presence of Mr. Leroy-Beaulieu, the French Financial Attache, who had called on us and revived the question after Italy had entered the war.

Dr. Feis, of the State Department, telephoned me this afternoon to the effect that a communication had now been received by the State Department containing the above quoted message. In order that Dr. Feis might know the Treasury's position, I am forwarding to him a copy of this memorandum.

At 5:45 this evening Mr. Pinsent telephoned me and referred to the final sentence of the first paragraph of yesterday's message. He stated that he had now received a message from his Government to the effect that French assets had been blocked.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 18, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Attache of the French Embassy, telephoned me at 5:00 this afternoon in regard to some applications received through French diplomatic channels for the release of French assets blocked in this country by the Treasury's order of yesterday. I placed Mr. Leroy-Beaulieu directly in touch with Mr. Pehle on this subject.

While we were on the telephone, Mr. Leroy-Beaulieu referred to his conversations in the Treasury Department this forenoon. He said that after leaving the Treasury he had consulted with his Ambassador and that the decision had been taken not to transfer any French assets at present from New York to Ottawa. The Ambassador saw no reason for taking any immediate steps towards changing the situation of French funds in New York as it presently obtains. The Bank of France has followed the policy of dividing its reserves, having about as much in Canada as in the United States. The balance of the reserves is either on the water en route to America or, to a smaller extent, in England.

In the second place, the French Ambassador cannot conceive that the United States, particularly after instituting its freezing operations, would release French funds to Germany while Great Britain has not made a separate peace. Mr. Leroy-Beaulieu points out that it may be very much to the advantage of France to have funds in the United States with which corn and other supplies could be bought here and shipped to France to relieve needs and suffering in that country within the next few months, even with France under German domination. Mr. Leroy-Beaulieu insisted that the above decision should not be interpreted to indicate the slightest break in solidarity between France and Great Britain. In closing, Mr. Leroy-Beaulieu told me that he had been a little reluctant to talk too much about French gold and financial policies in the large meeting this morning, but would be very pleased to give any further details or explanations to Secretary Morgenthau if and when the latter may desire them.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 18, 1940

TO Mr. Thompson

FROM Mr. Haas

In response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of May 1940.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the month of May 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on the following dates; May 2, 7, 15, and 23. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Turner, Mrs. Wadleigh, Miss Eyre

These reviews contained, in addition to analysis of the current situation, special studies, as follows:

- (1) British Government finance (Review of May 2, page 3). - Mrs. Wadleigh
 - (2) The institutionalization of investment (Review of May 7, page 3). - Mr. Tickton
 - (3) The value of "rights" to purchase Treasury securities (Review of May 23, page 4). - Mr. Turner
2. Memorandum on the setting for the June financing was prepared, and was transmitted to the Secretary on May 29. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Turner, Miss Eyre
 3. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the

preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll

4. At the request of the Secretary, arrangements have been made to secure periodically from the Anglo-French Purchasing Board certain information regarding purchases by the Allied governments in the United States. Weekly statements are received covering in dollar volume itemized purchases through the Board by England, France, Canada, and Australia, itemized purchases made by these governments with the knowledge of the Board but not through its facilities, and inquiries made by the Board or with its knowledge for future purchases. In these reports all Allied orders and deliveries are being classified in some twenty-five commodity groups designed especially for the purpose of this project.

Arrangements have been made also to secure from the same source periodic statements showing commitments and actual payments made by the Allied governments for the purpose of providing capital assistance to American companies in order to expedite deliveries. These commitments are listed in four groups - (a) expansion of plant capacity, (b) personnel training, (c) income tax contributions, and (d) United States development costs.

Special attention is being directed toward the aircraft industry, both as to the effect of capital assistance and as to output. Weekly statements are prepared showing by airplane and airplane engine companies the physical volume of orders placed, deliveries made, and estimated deliveries on unfilled orders and on options. These statements give detail by type of airplane or type of engine.

It is expected that similar statements will be prepared covering physical volume of Allied purchases from certain other industries. - Mr. Haas, Mr. Lindow, Mr. Tickton

In carrying on this project, reports were prepared and transmitted during May as follows:

May 8, 1940 - A folder was transmitted to the Secretary containing charts and tables showing the estimated value of airplanes and airplane engines purchased by England and France, and estimated deliveries thereon as of the

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end of February, during March and during April. In addition, similar charts and tables showed the number of airplanes and airplane engines purchased and delivered as of the same dates.

- May 9, 1940 - A table was transmitted to Mr. Young for the Secretary showing the British and French purchases of airplanes and airplane engines during April 1940, classified by companies.
- May 10, 1940- A table was transmitted to Mr. Young for the Secretary showing expenditures incurred by the British and French Governments for expansion of capacity of the aircraft industry, classified by companies. This report showed expenditures incurred through March 31, during April, and through April 30, 1940.
- May 16, 1940- A report was transmitted to the Secretary giving information concerning capital commitments of the British and French Governments in the aircraft industry. This report showed capital commitments for (1) expansion of plant capacity, (2) personnel training, (3) income tax contributions, (4) development costs incurred by the United States Government, and (5) undesignated purposes. Details were given by companies for the period up to and including March 31, 1940, during April, from May 1 to May 15, and the totals through May 15. A supplementary schedule showed payments on these capital commitments as of the same dates.
- May 17, 1940- Reports were transmitted to the Secretary showing the scheduled deliveries, by months, of airplane orders and airplane engine orders of the British and French Governments, classified by manufacturer and by type of plane or engine, as of April 30. Supplementary tables showed the number of airplanes and number of airplane engines delivered to the British and French Governments from May 1 to May 15, classified by manufacturer and by type of plane or engine.
- May 20, 1940- Reports were transmitted to the Secretary showing scheduled deliveries, by months, of airplane orders and airplane engine orders of the British and French Governments, classified by manufacturer and by type of plane or engine, as of May 15, 1940.

May 24, 1940 - Reports were transmitted to the Secretary showing scheduled deliveries, by months, of airplane orders and airplane engine orders of the British and French Governments, classified by manufacturer and by type of plane or engine, as of May 22, 1940. Supplementary tables showed the number of airplanes and airplane engines ordered by the British and French governments and delivered to them from May 16 to May 22, 1940, classified by manufacturer and by type of plane or engine.

May 27, 1940 - Analyses made of capital commitments, and payments thereon, of the British and French governments other than in the aircraft industry. These schedules showed commitments and payments by companies for the period through March 31, 1940, during April, from May 1 to May 15, and through May 15, 1940.

5. At the request of the Secretary on May 23, arrangements were made for securing each week from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared each week showing this information by type of plane or engine and by class of purchaser. The first weekly report was transmitted to the Secretary on May 28. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton
6. Analysis of the Lee bill (S. 1650) for drafting capital in time of war, was prepared in response to a request from Under Secretary Bell, and was transmitted to him on May 25. - Mr. Murphy, Mr. Lindow, Mr. Conrad
7. Tabulation of holdings of Government securities by principal life insurance companies as of December 31, 1939, was prepared, in response to a request from Dr. E. A. Goldenweiser in the office of the Board of Governors of the Federal Reserve System, and was forwarded on May 2. - Mr. Tickton
8. Analysis of proposed legislation to amend Section 1(a) of the District of Columbia Alley Dwelling Act, as amended, was prepared at the request of the Legal Division. The report was incorporated in a letter to the Bureau of the Budget for signature of the Secretary. - Mr. Lindow, Mr. Tickton, Miss Eyre

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9. Analysis of the financial strength of the corporation involved, in relation to proposed compromise in an income tax case, was prepared at the request of the General Counsel, and was transmitted to him in a memorandum of May 3. - Mr. Murphy, Mr. Conrad
10. Memorandum on the financial status of the Hudson County National Bank, Jersey City, New Jersey, prepared at the request of Under Secretary Bell, was forwarded to him on May 31. - Mr. Murphy, Mr. Conrad
11. Data on bank preferred stock purchases were prepared for use in testimony by Comptroller of the Currency Delano before the House Banking and Currency Committee. At the request of the Comptroller's Office, Mr. Murphy appeared at the hearing. Transcript of the testimony was reviewed. - Mr. Murphy, Miss Eyre
12. Analysis of the proposed Farm Credit Act of 1940 was undertaken at the request of Under Secretary Bell in anticipation of possible statement before the Senate Committee on Agriculture. When it was determined that no statement would be made, the work was discontinued. - Mr. Murphy, Mr. Tickton
13. Report on S. 3878, a bill, "Authorizing adjustment of the mortgage indebtedness of certain borrowers from the Federal Land Banks," prepared in the Legal Division, at the request of Under Secretary Bell was reviewed and then forwarded to him on May 16. - Mr. Tickton
14. Report on S. 3867, a bill, "To establish a ratio within which banks may expand their deposit liabilities based upon their capital, surplus, and undivided profits, and for other purposes," prepared in the Legal Division, at the request of Under Secretary Bell was reviewed and then forwarded to him on May 23. - Mr. Murphy
15. A report prepared by the office of the Under Secretary relative to the amendment of the existing agreements between the Public Works Administration and the District of Columbia so as to provide for a reduction in the rate of interest which the District of Columbia will be required to pay on the sum of \$9,982,500 which was borrowed from the Public Works Administration under authority of an Act approved May 25, 1938, at the request of Under Secretary Bell was reviewed, and forwarded to Mr. Hadley on May 6. - Mr. Murphy

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II. Projects or studies under way

1. Chart comparing yields on long-term Treasury bonds and over-the-counter volume depends for completion upon arrangements to secure the necessary data. - Miss Eyre
2. Statistical (graphic correlation) analysis of factors affecting high-grade interest rates has been completed except for graphic work. - Mr. Turner
3. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner, Mr. Conrad
4. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
5. Study of the effect of the size of the issue on the prices and yields of U. S. securities. - Mr. Lindow, Mr. Conrad
6. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War have been completed except for the graphic work. - Mr. Turner
7. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mr. Murphy
8. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
9. Review of war-financing measures in the United Kingdom and the British Dominions, France, and Germany in the present war. - Mr. Murphy
10. Preparation of data for the Secretary of Commerce re amount of interest-bearing securities of Federal corporations and agencies outstanding December 1929-1939, as part of a report being prepared jointly with the Office of the Commissioner of Accounts and Deposits and the Division of Tax Research. - Mr. Lindow, Mr. Conrad
11. United States Savings Bonds - An analysis of factors affecting redemptions of United States Savings bonds, as a guide to future experience. - Mr. Conrad
12. Analysis of plan by State Senator Esquirol of New York for stimulating recovery by means of increased expenditures

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on housing, is being prepared at the request of Under Secretary Bell. - Mr. Murphy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Office of the Commissioner of Accounts and Deposits showing the latest revised estimates of receipts, by months and by principal sources of revenues, for the period April through June 1940, and for the fiscal year 1941, and was transmitted on May 6. - Mrs. Stanley
2. The regular monthly summary comparison of estimated receipts and actual receipts in April and in the first ten months of fiscal year 1940, on the daily Treasury statement basis, was prepared, May 4. - Mrs. Stanley
3. The regular monthly detailed comparison of estimated and actual receipts in April 1940 and in the first ten months of the fiscal year 1940, based on the collections classification, was prepared, May 31. - Mrs. Stanley
4. Estimate was prepared for and transmitted on May 11, to the Division of Tax Research, of the revenue effects for the years 1940, 1945, 1950 and 1960 of the following changes in the treatment of tax-exempt securities:
 - (1) If the interest from outstanding and future issues of State and local Government obligations were to become taxable immediately, and
 - (2) If the interest from future issues of Federal obligations were taxable from the same date onward and outstanding obligations were called at their earliest callable dates. - Mr. Driver, Mr. Leahey
5. An estimate was prepared for the Division of Tax Research of the revenue effects on the basis of calendar year 1940 business levels of increasing the individual surtax and normal tax rates in accordance with a schedule attached to Mr. Blough's memorandum of April 24, 1940, in combination with increases in the corporation income tax rate of 2 percent and 1½ percent. The estimate was transmitted to Mr. Blough on May 9. - Mr. Driver, Mr. Leahey
6. An analysis was made for the Division of Tax Research, in connection with possible revenue effects, of H. R. 8264.

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a bill "To provide for national recovery by raising revenue and retiring citizens past sixty years of age from gainful employment and provide for the general welfare of all the people of the United States, and for other purposes." A letter for signature of Assistant Secretary Sullivan to the Committee on Ways and Means incorporating an estimate of the revenue effects was transmitted to Mr. Blough on May 31. - Mrs. Stanley, Mr. Wilson

II. Projects or studies under way

1. An estimate of the revenue effects of the bill H. R. 1, 76th Congress, First Session (a bill providing for an excise tax on retail stores) is in process of preparation for the Division of Tax Research. - Mr. Leahy
2. In connection with the proposed Revenue Act of 1940, a number of revenue estimates were prepared for use of the Secretary and Assistant Secretary Sullivan, as follows:
 - (1) Tentative revenue estimates under the proposed Special National Defense Tax provisions were transmitted to the Secretary on May 27 in a table showing by major sources amounts estimated to be received during the period from July 1 through December 31, 1940, and during the fiscal year 1941.
 - (2) Tentative revenue estimates anticipating enactment of the proposed legislation were transmitted to Assistant Secretary Sullivan on May 27 in a table showing by major sources revenue expected for full-year collections, for the fiscal year 1941, and for July 1, 1940, to February 1, 1941, together with a schedule showing for the various amounts of surtax net income, by the proposed rate of tax, the amount of surtax on higher amount of surtax net income.
 - (3) Tentative revenue estimates anticipating enactment of proposed legislation were transmitted to Assistant Secretary Sullivan on May 27, showing by all major sources revenue expected for full-year collections, for the fiscal year 1941, and for July 1, 1940, to February 15, 1941, together with a schedule showing for the various amounts of surtax net income by the present rate of tax and by the proposed rate of tax, the present and proposed amounts of surtax on higher amount of surtax net income.

- (4) Tentative revenue estimates anticipating enactment of proposed legislation were transmitted to Assistant Secretary Sullivan on May 29, in a table showing by major sources amounts to be received on full-year collection basis.
- (5) Revenue estimates transmitted to Assistant Secretary Sullivan on May 30, in table showing itemized detail of additional revenue attributable to the proposed Revenue Act of 1940, for fiscal year 1941, and for the first full year, from corporate and individual income, capital stock and excess-profits, estate, and gift taxes; alcoholic beverage taxes, tobacco taxes, stamp taxes, manufacturers' excise taxes, and miscellaneous taxes.

Additional estimates are being prepared for use during the consideration of the bill by the Committee on Ways and Means. - Mr. O'Donnell, Mr. Driver, Mr. Leahy, Mrs. Stanley, Mr. Wilson

3. An analysis of preliminary estimates of income tax receipts for the calendar year 1940 from individuals classified by net income and marital status, is in preparation for the Division of Tax Research, and has been nearly completed. - Mr. Driver
4. Studies are being made for refining and improving the methods of estimating revenues from the following taxes: - Miss Rastall, Mr. Smith
 - (1) Lubricating oil
 - (2) Wines, domestic and imported
 - (3) Transportation of oil by pipeline
 - (4) Tires and inner tubes

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and transmitted to the Secretary on the following dates: May 6, 11, 20, and 27. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

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A comparison of farm income and rural sales of general merchandise was shown in a chart in business memorandum of May 6. - Mr. Daggit, Miss Rastall

A study of General Motors retail sales of cars during the model years 1938-40 and their stocks of new and used cars, in relation to sales, was included in two charts in business memorandum of May 20. - Mr. Daggit, Miss Rastall

2. Memoranda on employment under the Work Projects Administration were prepared and transmitted to the Secretary on the following dates: April 29, May 8, 20, and 27. - Miss Rastall
3. Memoranda on the movement of export freight from North Atlantic ports were prepared and transmitted to the Secretary on May 2, 8, 15, 22, and 29. - Mr. Daggit, Mrs. May, Miss Rastall
4. At the request of the Secretary, a new study was made to determine the location of blast furnaces in the United States, grouped by districts. Arrangements were made to receive currently reports as to which plants are active and which idle. A chart was prepared and submitted with a memorandum to the Secretary on May 14; revisions were submitted May 24 and May 31. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith
5. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mr. Chevraux
6. Stock prices at Milan, Italy, compiled daily on the basis of cable reports, together with market comments, are transmitted to the Secretary each day. - Mr. Chevraux
7. A study was made of the relationship between sales of industrial gases by the Air Reduction Company and steel ingot production, in an attempt to determine the significance of these sales as a measure of steel consumption activity. On basis of the showing of the preliminary work the project was discontinued. - Mr. Daggit, Mrs. May
8. At the request of Under Secretary Bell, a study was made of the capacity of the steel industry for producing the principal finished steel products, and was transmitted to him on May 3. - Mr. Daggit

II. Projects or studies under way

1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. Work on the U. S. Steel Corporation, a large and representative segment of the steel industry, has been completed. - Mr. Daggit, Miss Rastall

2. Indications of business maladjustment.

Various indications of business maladjustments, shown in graphic form, are being brought together for convenient reference. This project is practically completed. - Mr. Daggit

3. Forces determining trends of basic commodity prices.

This project involves individual price studies for various basic commodities, a number of which have been completed, which are intended eventually to be combined into a general index representing the basic price trend, after allowance for the effect of supplies, industrial demand, and other separable factors. During May preliminary work on hides, butter, and flaxseed was completed and work was started on cottonseed oil. - Mr. Daggit, Mrs. May

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of 16 important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Rastall

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

8. Weekly approximations of the FRB index of industrial production.

Project was started during March and will be completed after the release of the new FRB monthly index (now in process of revision by the Federal Reserve Board and expected out in one to three months). This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Miss Rastall, Mr. Smith

9. Relationship between New York Times index and FRB index.

A study of the relationship between the New York Times index and the FRB index in an attempt to estimate the weekly level of the FRB index from the New York Times index. This estimate will be superseded by one based on components comparable to those in the FRB index as soon as pending revisions in the FRB index are completed. Chart was included with business memorandum of May 11. - Mr. Daggit, Mrs. May

10. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand;

and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales," which is designed to measure the "offtake" of manufactured goods into various consumption channels. Substantial progress has been made during the month. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith

Actuarial Problems

I. Projects or studies completed

1. Sale of annuity bonds by the Treasury; proposed amendment to the Second Liberty Bond Act, as amended.

A report made at the request of Under Secretary Bell, on a draft of a proposed bill which would authorize the sale of annuity bonds by the Treasury, was forwarded, with an alternative plan, to the Under Secretary on May 20. - Mr. Reagh

2. Study of horse race results.

This study was undertaken at the request of the Legal Division, for use in connection with the Annenberg case.

The results of some thirteen thousand horse races have been recorded on punch cards and tabulated to show the financial results of betting under various systems and of following the selections of different expert handicappers. A memorandum embodying the results of the study was forwarded to Mr. Foley on May 3. - Mr. Reagh, Mr. Brown

3. Yield to maturity on savings bonds.

At the request of the Division of Savings Bonds a table showing "Yield to maturity of United States savings bonds for each six months' period computed with and without current increment in redemption value" was prepared, and transmitted to Mr. Sloan on May 9. - Mr. Reagh

4. Review of report on S. 7855.

A report on this bill, "To amend title X of the Social Security Act, as amended, to provide for additional aid to the blind," prepared in the Office of the Commissioner of Accounts and Deposits, at the request of the Office of the Commissioner of Accounts and Deposits was reviewed

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and then forwarded to the Legal Division on May 8. - Mr. Reagh

5. Review of report on S. 3924.

A report on this bill, "Amending the Social Security Act so as to provide insurance benefits for wage earners permanently and totally disabled for causes not arising out of their employment," prepared in the Office of the Commissioner of Accounts and Deposits, at the request of Mr. Heffelfinger was reviewed and then forwarded to Under Secretary Bell on May 24. - Mr. Reagh

6. Proposed wage reports to Social Security Board, by industries, by localities.

At the request of the Central Statistical Board draft of statement providing background information on proposal of Social Security Board to obtain the quarterly wage reports on Form SS-1a by industries, by localities, was reviewed and reply was forwarded to the Central Statistical Board on May 21. - Mr. Reagh

II. Projects or studies under way

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

There is pending before the Board of Actuaries the matter of approving regulations with respect to the optional benefits payable under the Civil Service Retirement Act. At the present time the Board is awaiting the decision of the Comptroller General as to whether a cash refund of voluntary contributions would be permissible under the Act. - Mr. Reagh

2. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The Board has in process of preparation its Nineteenth Annual Report. A draft has been returned to the Chairman with suggestions for its revision. Work on the final report is in process. - Mr. Reagh

3. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees.

A first draft of the chapter on "Financing the Plan" is in process of preparation. - Mr. Reagh

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4. Actuarial Advisory Committee under the Railroad Retirement Act.

At a meeting of the Actuarial Advisory Committee held on May 7, 1940, the proposed plan of procedure for a valuation of the Railroad Retirement plan was approved tentatively. The actuary of the Railroad Retirement Board was asked to make several minor changes in his valuation formulae and submit copies to the members of the Committee. These additional data have not yet been received. - Mr. Reagh

5. Retirement system for Haitian Government employees.

The State Department is preparing data with respect to the employees included under a proposed retirement plan, and informal request has been received that when the data are submitted cost estimates be prepared and plans be suggested for financing the system. - Mr. Reagh

6. Federal Communications Commission.

A request from the Federal Communications Commission was received on May 18 to review an actuarial report of the American Telephone and Telegraph Company regarding recent changes which they have made in the valuation of their pension plan. Members of the Division's staff will serve in an advisory capacity. The actuarial report has been submitted to the Division for study. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared or reviewed for the May issue of the Bulletin, as follows:

Prepared -

Average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Lindow, Miss Eyre

Reviewed -

Amount of interest-bearing debt outstanding, the computed annual interest charge and the computed rate of interest. - Mr. Lindow

Estimated customs duties and taxes, and value of dutiable and taxable imports, by tariff schedules. - Mr. Lindow, Mr. Wilson

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Estimated receipts from taxes imposed by various revenue acts on imports. - Mr. Lindow, Mr. Wilson

Computed duties collected, by countries. - Mr. Lindow, Mr. Wilson

Treasury criminal cases. - Miss Michener, Mr. Lindow

2. Correspondence.

Replies were prepared to letters of inquiry on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During May 274 letters were received in the Division and 274 were handled as required.

3. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of May is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, May 1 to May 31.

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New Charts:</u>			
Total charts completed	46	27	73
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 (times)	-	26 (times)
All other charts brought up to date	651	49	700
<u>Miscellaneous:</u>			
Total jobs	16	12	28
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	39	45	84
Number of-			
Negatives	104	112	216
Contact prints	30	166	196
Enlargements	213	145	358
<u>Photostats:</u>			
Total jobs	139	44	183
Number of-			
Lettersize copies	440	498	938
All other copies	980	1,589	2,569
<u>Multilith:</u>			
Total jobs	1	4	5
Number of-			
Zinc plates	1	73	74
<u>Miscellaneous:</u>			
Total jobs	3	3	6

B:wt
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Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months,
beginning January 1940.

Type of Work	Jan.	Feb.	Mar.	Apr.	May	June	Total
A. Graphic							
New charts completed	41	52	52	50	73		
Charts brought up to date	773	678	713	713	700		
Bond book charts completed	57						
Bond books brought up to date	-	24(times)	25 (t)	26(t)	26 (t)		
Miscellaneous jobs completed	49	11	38	32	28		
B. Photographic							
<u>Photographs:</u>							
Total jobs	69	89	73	98	84		
Number of-							
Negatives	179	145	137	170	216		
Contact prints	192	947	369	370	196		
Enlargements	604	226	141	214	356		
<u>Photostats:</u>							
Total jobs	137	101	165	181	183		
Number of-							
Lettersize copies	2,361	464	2,522	780	938		
All other copies	781	868	1,589	1,014	2,569		
<u>Multilith:</u>							
Total jobs	2	4	8	14	5		
Number of-							
Zinc plates	65	66	89	81	74		
<u>Miscellaneous:</u>							
Total jobs	6	3	9	14	6		

REQUIRED weekly by instr. of May 27, 1939 from Bureau of F. & D. Commerce.

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#1 335

FINANCIAL SITUATION IN BELGIUM AS OF JUNE 10, 1940.

Note: The last financial weekly report from Brussels reported conditions up to May 18. Communications have been interrupted since the middle of May, but the financial situation has been static. A summary of conditions at present is given below.

From:
Edward A. Dow, Jr., American Vice Consul
American Embassy, Brussels, Belgium.

Date of completion: June 10, 1940.

Date of mailing: June 18, 1940.

Approved:

K. L. Rankin, Commercial Attache

* * *

The Belgian Government and the National Bank of Belgium management left Brussels on May 17, reportedly with all of the gold and foreign exchange reserves still held by the Bank in Belgium. The following day German troops occupied Brussels. There had been no foreign exchange transactions since May 10 and withdrawals from banks had been sharply limited since May 14. Bankers and depositors waited to see the attitude which would be taken by the occupying authorities with regard to foreign exchange, safe-deposits, Belgian franc accounts and foreign currency, including dollar, accounts.

The German military authorities at first appeared to take no interest in financial questions and until the arrival in Brussels of a section of the German Devisenschutzkommando during the week ending May 25, no action whatever was taken. After the latter date a few instructions were issued by the German authorities, often verbally, and the situation was approximately as follows up to and including June 10:

Foreign Exchange.

The general prohibition against dealing in foreign exchange was maintained in force, except that a rate of 10 francs to the mark was officially established. Reichsmarks themselves, however, were not allowed to circulate in Belgium. Reichskreditkassenbons in Reichsmark denominations began to come into circulation due chiefly to purchases by soldiers, and the 10 franc rate applied. A rate of 15 francs to the guilder was also established, but remained virtually nominal as there were practically no buyers of guilders.

Up to June 10, no rate had been set for dollars or any other foreign currency, although German officials stated that a rate would be established shortly.

Belgian franc accounts in banks.

The provisions of the Belgian decree-law of May 13, limiting withdrawals to 5,000 francs per account per fortnight, remained in effect. The 5,000 franc limitation could be waived in cases where payrolls had to be met or in other special instances. Franc accounts opened after May 10 were not subject to limitation, but few such

accounts were opened. Transfers of accounts from bank to bank were authorized.

Dollar and other foreign exchange accounts.

These accounts were blocked by order of the Deviezenschutzkommando if they were the property of "enemy" citizens. The term "enemy" was to apply to British, French, Belgian and Netherlands citizens. The Deviezenschutzkommando did not publish this order, but communicated it verbally to banks, some of whom requested and received a written order to the foregoing effect.

Dollar accounts were not blocked if they were the property of American or other neutral citizens. In effect, however, they were of little use to their owners, as withdrawals could not be converted into francs and drafts could not be sent out of the country owing to the lack of communications which still prevailed on June 10.

Safe-Deposits.

All property in safe-deposit vaults was blocked by the Deviezenschutzkommando, which required that safe-deposit boxes could only be opened in the presence of a German official. It was reported that in practice such officers were allowing Americans and other neutrals to remove their property without hindrance, but Belgians and other enemy citizens were reported to be required to hand over gold and foreign exchange against a receipt. As a result few Belgians opened their safe-deposit boxes and it was believed possible that an order would be issued requiring their opening. No such step had been taken, however, up to June 10.

Circulating medium.

The Belgian franc continued to circulate freely and a considerable amount of Reichskreditkassensbons began to come into circulation, the

latter being accepted as legal tender at the rate of 10 francs to the mark. The German authorities announced that this currency was legal and tender in occupied territory only, at the same time, that ordinary Reichsmarks were not legal tender in occupied territory. Reichspfennige, however, were offered and accepted in the absence of any official statement concerning them.

Bankers reported a serious shortage of Belgian francs, large supplies of which were reported to have been taken away by the National Bank of Belgium. It was pointed out that the Societe Generale de Belgique, one of the largest Belgian banks, had power, under Belgian law, to issue banknotes, but the approval of the German authorities would naturally be required. The latter stated that a decision would be taken in the near future and were understood to believe that enough Reichskreditkassenbons could be put into circulation to meet immediate needs. There was also some discussion of a "Central Bank of Belgium" being formed as a bank of issue, but up to the middle of June no decision had been taken regarding the alleviation of the shortage of paper in circulation.

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COPY

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent, Financial Counsellor of the British Embassy, called on me late yesterday evening, he said that he would transmit to me today a message based upon instructions which he had received from his Government in regard to disposition of Tientsin silver. The attached communication has been received on this subject this afternoon.

Almost simultaneously, I received a telephone call from Mr. Hamilton, Chief of the Far Eastern Division of the Department of State, who told me that his Department had heard from the British Embassy that the question of the United States Treasury purchasing from the British a part of the silver had been raised. Mr. Hamilton said that the State Department was interested in this, since various complicated issues were involved. I told Mr. Hamilton that I was aware that the Treasury had refused to buy this silver from the Chinese, and that I would look into the records and circumstances carefully before recommending any action now. Furthermore, I would naturally welcome any suggestions from him. Mr. Hamilton made the point that the Chinese themselves have not given us any word that they are willing that the silver should now be sold. He thought a clearance from the Chinese should be obtained before we took any step toward purchasing it. Furthermore, his Department would be interested to know who would eventually get the foreign exchange proceeds from the silver sale, and particularly as to whether this might go to Japan or for purchases in the United States, etc.



British Embassy,
Washington, D. C.
18th June 1940.

Dear Merle,

I think you are acquainted with the outline of the agreement recently reached between the British and Japanese Governments over the Tientsin dispute. The State Department have been kept informed on the matter.

One of the provisions of the agreement is that £100,000 worth of silver should be taken from the deposit in Tientsin (which has been one of the matters in dispute) and sold with the object of raising funds for relief purposes in occupied China.

We now have instructions to enquire whether the United States Treasury would be in a position to purchase this amount of silver. The actual amount as at present proposed would be silver to produce the gross amount of £100,000 without deduction for costs of shipping, insurance and assay; nevertheless,

/in

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.

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in case it should be desired to increase the amount slightly in order to cover these costs we should be grateful, supposing that the United States Treasury is in principle prepared to purchase this silver, if you could express your agreement to take up to, say, £110,000 or £120,000 worth.

From the particulars which have reached us it seems that the proposal would be to ship the silver direct from Tientsin to San Francisco for delivery at the mint there. The details of delivery, etc., could be settled as soon as you are in a position to say whether the proposal is, in principle, acceptable to you.

Yours sincerely,

(Signed) Jerry Pinsent.

P.T.O.

(COPY)

P.S. As I explained yesterday, the reason why we should particularly appreciate the purchase of the silver by the United States Treasury is that this would give the Relief Fund managers a free hand to make purchases in the United States. If, on the other hand, the silver had to be purchased by the British Government we should have to confine the expenditure of the Relief Fund to the sterling area as far as we possibly could.

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BRITISH EMBASSY,
WASHINGTON, D.C.

Secret

June 18th, 1940.

Dear Mr. Secretary,

In Lord Lothian's absence

_____ I enclose herein a copy of the latest
report on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Herle Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram despatched from London
in the evening of June 17th, 1940

French Army has been ordered to cease fighting. Before this order French 10th Army was reported in full retreat south west towards Laval and Rennes. Army of Paris was withdrawing on axis of Paris, Dexis.

B.E.F. is moving to coast and evacuation is proceeding from Cherbourg, Brest and Leire in the face of enemy air attack. As a result of bombing S.S. "Lancastria" (16,243 tons) with 3,000 troops on board has been sunk and S.S. "Oronsay" (20,043 tons) has been damaged. No further details yet available.

3. No major operations by R.A.F. reported during period under review. Wellington aircraft sent to France returned today to United Kingdom.

4. On June 16th long range bomber force employed mainly against ground forces along the River Loire and to the south of it. No information regarding activities of dive bombers or fighters but there are indications that both light and heavy fighters are now based on aerodromes to the south of Paris. Transport aircraft mainly engaged in taking supplies to advance positions.

5. Sporadic air raids continued at Malta but apparently caused little damage and few casualties.

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BRITISH EMBASSY,
WASHINGTON, D. C.

June 18th, 1940.

Secret.

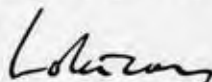
Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of June 17th.

Situation East and South of Paris obscure, but reported that German forces may have crossed Loire near Orleans. West of Paris, line held by French 10th Army yesterday morning was Northeast edge of Forest de Longui (East of Montagne) - St. Evroult - Morteaugen - River Dives to the sea. Between Forest de Longui and Tours, appeared to be only isolated detachments of French troops. General Marshall Cornwall's force (now Norman force) is continuing to fight under the command of French 10th Army, and comprises Beaman force, one infantry brigade 52nd division, one armoured brigade and one field artillery regiment. Exact section in general line given above held by this force is not known.

2. Owing to the unfavourable weather, no bombing operations carried out yesterday by Royal Air Force though certain mine laying operations were performed. Fighter patrols reconnoitered near Cherbourg and aerodromes in northern France, but encountered no enemy aircraft. Six squadrons of Battles arrived back in United Kingdom yesterday from France.

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3. German aircraft bombed shipping in the mouth of Loire for the first time yesterday, and laid magnetic mines. No damage caused to shipping.

4. Three German aircraft reported over England yesterday, and considerable activity, probably mine laying, from Downs to Start Point last night. Fighters failed to make contact owing to bad weather.

5. Malta raided twice by aircraft yesterday; five of these aircraft appeared to be German. Slight damage and no casualties. Italian bombers were for first time escorted by fighters. Royal Air Force from Malta bombed Tobruk (Libya) and aerodromes in the vicinity causing explosions and some damage to aircraft on the ground.

6. Enemy aircraft yesterday bombed Sollum, Sidi, Barrani, and Matruh, causing very slight Egyptian casualties and some damage to barracks and stores at Sollum. Three enemy aircraft shot down.

7. On June 14th and 15th Italian aircraft bombed two posts in Sudan southwest of Sukkin and railway station south of Kassala. Very slight damage caused.

8. Wajir and Moyale in northern frontier district of Kenya Colony bombed by Italian aircraft on June 15th. South African aircraft bombed enemy troops at Mega (northwest Moyale). Direct hits

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obtained on wireless station and barracks. Aerodromes in Southern Abyssinia at Neghelli and Yavelmas also successfully bombed, and Southern Rhodesian aircraft successfully bombed Italian troops and armoured cars north of Moyale. Military patrols from Moyale successfully raided six Italian frontier posts last night.

9. Nothing to report from Gibraltar, Palestine or British Somaliland.

10. One British ship not in convoy sunk in home waters yesterday. One Greek ship not in convoy sunk in home waters on June 14th. Norwegian tanker sunk off Aden yesterday.

11. Canadian troops have arrived at Reykjavik, Iceland.

12. Corrigendum. Australian troop convoy referred to in my immediately preceding telegram should read Australian and New Zealand troop convoy.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In light trading, sterling opened at 3.61-1/2 and moved within a narrow range all day. The final quotation was 3.61-3/4, about 3¢ lower than yesterday's close.

Sales of spot sterling by the six reporting banks totaled £199,000, from the following sources:

By commercial concerns.....	£ 57,000
By foreign banks (Europe, South America and Far East).....	<u>£142,000</u>
Total.....	£199,000

Purchases of spot sterling amounted to £158,000, as indicated below:

By commercial concerns.....	£129,000
By foreign banks (Far East and South America).....	<u>£ 29,000</u>
Total	£158,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £1,000 to the British Control on the basis of the official rate of 4.02-1/2.

Sterling in the amount of £9,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£8,000 by the Guaranty Trust Company (for rubber)
1,000 by the Bank of Manhattan (for whisky)

£9,000 Total

The other currencies closed as follows:

Swiss franc	.2242
Canadian dollar	19-3/4% discount
Lira	.0505
Reichsmark	.4000
Cuban peso	10-1/16% discount
Mexican peso	.1818 bid, .2000 offered.

CONFIDENTIAL

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We sold the following amounts of gold, to be added to the earmarked accounts of the banks indicated:

\$ 700,000 to the Bank of Portugal
300,000 to the Lithuanian Bank

\$1,000,000 Total

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$ 8,225,000 from England, shipped by the Bank of England, to be earmarked for its account.

2,110,000 from Colombia, shipped by the Central Bank of the Colombian Republic for its account, disposition unknown.

\$10,335,000 Total

India's precious metal prices, which have been moving downward during the past few days, continued to decline today.

The Bombay gold price fell the equivalent of 51¢ to \$34.79.

Spot silver in Bombay worked out to the equivalent of 42.87¢, off 1-7/16¢.

In London, spot silver rose 1/4d to 23-1/4d, while the forward price moved off 3/16d to 21-1/2d. The advance in the spot quotation probably reflects a shortage of silver for immediate delivery. The U. S. equivalents were 42.27¢ and 39.09¢, respectively.

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¢.

There were no purchases of silver made by us today. In all probability, the absence of silver offerings reflects the New York market's reaction to the news that the Senate voted down Senator Townsend's amendment to the \$1,007,000,000 defense tax bill which would have terminated the Government's purchases of foreign silver.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:30 this afternoon, Mr. Irigoyen, of the Argentine Ministry of Finance, telephoned me from Buenos Aires. I gave him the latest political news from Europe, as recorded on our tickers, and also summarized operations on the American securities and stock markets today.

This noon, I had spoken with the Secretary in regard to my conversation of yesterday with Mr. Irigoyen concerning Argentine's request for a credit of some twenty or twenty-five million dollars. Shortly before Mr. Irigoyen spoke with me this afternoon, I telephoned Mr. Jesse Jones. I reminded him that some weeks ago I had introduced Mr. Irigoyen to him and that the possibility of a loan had been discussed. I explained to Mr. Jones the situation which Mr. Irigoyen had described to me yesterday, and Mr. Jones was quite agreeable to the idea of talking directly with Mr. Irigoyen when the latter might call me. Consequently, I passed Mr. Irigoyen's call on to Mr. Jones this afternoon.



June 18, 1940.
9:00 a.m.

GROUP MEETING

Present: Bell
Thompson
White
Cochran
Graves
Gaston
Foley
Young
Nelson
Schwarz
Harris
Sullivan
Viner
Klotz

Harris: Well, I have got some news that will make up for what you had on me last night. They sunk that ship at sea, four thousand five hundred tons of her.

H.M.Jr: Did they? Where?

Harris: Off the Canary Islands, a British destroyer.

Gaston: Your arrangements were all right then, were they, Basil?

Harris: Well, you wanted me to produce so I produced.

H.M.Jr: I thought you were going to produce through a strike. How did you hear that?

Harris: It came over the Associated Press wires.

White: They reported to him at once.

H.M.Jr: Sir Ashley and I had a good talk last night.

Harris: You know, I checked back after you called me and the rumor was in New York late last night that the Queen Mary was going out before dawn, but Harry didn't think it was so.

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Foley: The Queen Elizabeth.

Harris: The Queen Elizabeth, I mean.

H.M.Jr: Harry, unless I change, and I don't think I will, you and Bell are invited to have supper with me at seven-thirty tonight. It will be the first time I can talk about this bank.

White: I may not be able to come, but I will see if I can arrange it.

H.M.Jr: Going to the British Embassy?

White: Well no, I will pay my respects to that place with a floral wreath later on.

H.M.Jr: Well, if you have got something --

White: I will let you know later if I may.

H.M.Jr: Because Bell says he wants to talk to me about this.

White: I would like to have an opportunity to talk to you about it this morning.

H.M.Jr: That is just the point, it is impossible.

White: It is impossible?

H.M.Jr: The first time will be tonight.

White: All right.

H.M.Jr: It is impossible.

Thompson: Dr. Mead has asked that we put on our pay roll for about a week Theodore Wright, vice president of Curtiss-Wright.

H.M.Jr: My God, I thought he went off that pay roll.

Thompson: Mead has left us and will go on the defense pay roll as soon as funds are available.

- 3 -

H.M.Jr: Whose pay roll is he on now?

Thompson: His own pay roll until the defense funds are available.

H.M.Jr: How about the other people?

Thompson: We still have one man at sixty-five hundred.

H.M.Jr: Taylor? I am to put Wright on my pay roll?

Thompson: He is asking us as an accommodation to do it. He went off the Curtiss-Wright pay roll June 5th. It is just an accommodation. I think we need not do it, as he should stay on the Curtiss-Wright pay roll until defense funds are available, which will be in the next few days.

H.M.Jr: Let him stay on the Curtiss-Wright pay roll. Mead is coming in at a quarter of ten. Have you got a memo on it?

Thompson: I just have this memorandum.

H.M.Jr: Why does he take a man he can't pay for? I wouldn't give him a nickel. Let him stay with Curtiss-Wright. That is the craziest thing I ever heard of. Don't you think so? He can stay on their pay roll for two weeks longer.

Klotz: But he is off their pay roll, he is not on it, is that it?

Thompson: Yes, that is true but I think he could easily arrange to go back on the Curtiss-Wright pay roll for the few days involved.

H.M.Jr: What else?

Thompson: That is all.

H.M.Jr: Dan?
Harold?
Harry?

- 3 -

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H.M.Jr: Dan?

Harold?

Harry?

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White: Townsend has attached his silver bill on to one of the other bills and Senator Wagner asked us for some material yesterday --

H.M.Jr: Talk louder, please.

White: Senator Wagner is going to oppose it on grounds of international political policy, so we prepared something for him that he is going to use this afternoon.

H.M.Jr: Will you (Thompson) let Sullivan read that and give it back to me?

White: This morning at ten o'clock I am supposed to participate in a small committee --

H.M.Jr: Talk up, Harry. There is something the matter with my ears.

White: This morning at ten o'clock I am supposed to participate with a small group to draft a proposal which is to be brought to a meeting tomorrow at which - it will be a repetition of the meeting held yesterday, so far as attendance is concerned. I take it Herbert will tell you about that.

H.M.Jr: I tell you what let's do. Let's go on and see how much time I have got and then I will come back to you, see.

White: All right.

H.M.Jr: Maybe we can do a little business here.

White: Okay.

Sullivan: Who are you giving that Townsend stuff to, Harry?

White: Wagner.

Sullivan: Left this morning?

White: Yes, he got it yesterday afternoon.

Sullivan: May I have a copy of it?

White: Surely.

H.M.Jr: Why didn't you tell me you worked for Nelson Rockefeller on the memorandum for the President?

White: Why didn't I tell you that I did?

H.M.Jr: Yes.

White: That is one of those, "When did you stop beating your wife?" questions. In the first place, I didn't. The second and third place don't matter.

H.M.Jr: You mean to say my pipe line is wrong?

White: Your pipe line is cracked.

H.M.Jr: Them are fighting words. I will let him defend himself. All right.

White: Ruml was in to see me about several days ago and he talked over some of the things and I know that Ruml has been working or talking with --

H.M.Jr: And if Ruml wrote it for Nelson Rockefeller and you talked to Ruml --

White: That is very likely. We talked on some of the things, not all of them. That was about ten days ago.

H.M.Jr: My pipe line isn't so bad after all.

White: I didn't say it was broken, I said cracked. But Welles didn't like it very much, so I wouldn't want to claim authorship in any case.

H.M.Jr: Any movement on ships today, I would like know of, Herbert. Everybody is very, very anxious to know what the French do with their ships.

George?

Haas: That is all I have.
(Handing report to Secretary.)

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H.M.Jr: Does anybody during the week ever see anybody from either Kiplinger or Harry Eaton?

Gaston: Now and then Ryerson has come in to see me.

Schwarz: I see Ryerson about once a week.

H.M.Jr: Who is he.

Schwarz: He is the tax letter man for Kiplinger.

H.M.Jr: I understand Harry Eaton says he can't get any contacts with the Treasury.

Sullivan: Harry Eaton comes in to see me.

Schwarz: He talks to me regularly and talks to Herbert.

Haas: Shelton comes in to see me sometimes.

H.M.Jr: Well, it sounded particularly unfriendly. Give it a thought, will you?

Mr. Purvis is coming in at ten and I want Mr. Nelson, Mr. Philip Young, Mr. Merle Cochran, Foley, Bernstein and Harry White and Bell attend. It is this question of their contracts and this whole question of French gold and everything will be settled at that time. Will you get word, please, now to Leroy-Beaulieu? I sent word to him last night to be here at ten. Do it now.

Cochran: Yes, sir.

H.M.Jr: Bell, White, Cochran, Nelson, Young, Foley and Bernstein, please, at ten o'clock. It is very important. He has done a magnificent job. We have got to sew it up now on the transfer of these French - and how they get paid. I mean, he has done a magnificent job.

Bell: I didn't know last night how they were going to do this. The French financial attache --

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H.M.Jr: He was at the house last night and he can go one of two ways, with our help, and he is a little hesitant about asking the French for their gold, you see, but the thing that they have worked out is a way that they will buy the French gold and then give them a credit in Canada, you see. It is terribly important, this thing is, and if the thing is done today it will pass because in exchange for that they will get all the outstanding orders from American manufacturers. I looked up the plane orders and the engine orders and they are tremendous and from the standpoint of our own American manufacturers, I have talked to Mr. Knudsen last night. They have all gotten together and he said he didn't know but he just told them, "Don't worry and go on manufacturing." They have all got the jitters. Incidentally, I told Mr. Knudsen last night the English are ready to place an order for six thousand engines. Purvis has done a beautiful job.

Young: Do I still have a nine-thirty date this morning with Mr. Woodring?

H.M.Jr: Yes, haven't you?

Young: As far as I know. Did he talk with you this morning on the telephone?

H.M.Jr: No, but I have asked Towers and Arnold to come and see me this morning. You had better keep your appointment.

Young: Yes.

Foley: We drafted that agreement for Knudsen that will incorporate the suggestions made when we got together last week.

H.M.Jr: He told me Jones has agreed to it.

Foley: He did?

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- H.M.Jr: Well now, he is going to go ahead as we understand each other with the Curtiss-Wright people and jobs agreed to, forty-nine million dollars. Is that the one?
- Foley: I don't know. I hadn't heard that.
- H.M.Jr: And he says the Foley memorandum stands.
- Foley: Well, there is the revised one for your files with the changes we made.
- H.M.Jr: He says based on the Foley memorandum.
- Foley: Eaton over there called me yesterday and he said that Biggers wanted to know what we were doing about special concessions in the way of obsolescence and depreciation for manufacturers engaged in the National Defense Program. We told them we weren't doing anything.
- H.M.Jr: Who is Mr. Eaton?
- Foley: He is the lawyer from Cotton and Franklin that Smith brought down supposedly to police Mr. Knudsen, but so far as I can find out Knudsen doesn't pay any attention to him. So Mr. Biggers, who is Knudsen's assistant, apparently wanted this information. I was quite short with him. I told him Knudsen and Stettinius had been over here and we had told them there wasn't anything we could do. We had to treat all manufacturers alike and under the law we had no discretion.
- H.M.Jr: And Mr. Knudsen said Jones accepted the theory that we had worked out over here and he is going ahead with a contract with Curtiss-Wright tomorrow, I think. I don't know whether it is Edsel Ford today and Curtiss-Wright tomorrow or vice versa and it is about forty-nine million dollars, half plant and half working capital, based entirely on your memorandum.
- Foley: I had better get that revised draft over, then.

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H.M.Jr: Yes.

Foley: We had it ready, but I didn't have a chance to talk to him about it.

On the plane business, flying the planes to Canada, Gates of the Civil Aeronautics Authority told the Purchasing Commission that they couldn't fly them, they had to push them across the line again and I called Bob Hinckley and Bob got hold of Gates and put Gates on.

H.M.Jr: Who is Gates?

Foley: Gates is the head of the foreign division of the Civil Aeronautics Authority and he has to give them a schedule for routes and time and when they can take off and all that sort of stuff. We are not going to get that cleared up until the State Department revises their regulations. They have got outstanding regulations that say that these things can't be flown across and I told Bob Hinckley I would get hold of Berle again and see if he wouldn't follow through on it.

H.M.Jr: Want me to do it?

Foley: Yes.

(The Secretary placed a call for Mr. Berle.)

H.M.Jr: While we are waiting for Berle, you two birds (Foley and Sullivan) sent me that radio when I was going home. Let me get this thing straight.

Foley: He sent the radio, I didn't. He signed my name to it and came around and told me.

Sullivan: He gave me a copy of the law that has been changed since he had given it to me.

Foley: I will take back my power of attorney.

H.M.Jr: Well, as we were, so to speak. Let me get this thing straight. At Cabinet I gave the impression to the President that Mr. Woodring - that there was no change in the War Department,

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that the War Department still had to go through the Treasury as far as Vinson-Trammell is concerned.

Sullivan: That Impression was wrong.

H.M.Jr: Well, Mr. Woodring said I was right.

Sullivan: He was wrong, too.

H.M.Jr: That puts me and Woodring on the same basis. Now, after you fellows sent me this message, do I understand that both War and Navy - that the thing is no longer - no longer has to clear through us first?

Sullivan: The law, at the time, as we understood it, was phrased to say, "With the approval of the President," and we were going to prepare a memorandum from the President to the Secretary of War and the Secretary of the Navy saying that he was delegating his power of approval to the Treasury, to you, and then we got a revised edition of the bill and it said the subject of the regulations made by the President and we found out that the bill had not passed, so we sent the memorandum --

H.M.Jr: You did send it?

Sullivan: We sent a memo to the President.

H.M.Jr: That is the first I knew of it. You said you weren't going to send it. You did send it?

Sullivan: Oh yes.

Foley: John said in the wire to you, Mr. Secretary, that he would send the memorandum over but he would tell the President to hold it until the bill became law. What we did was to change it and say that when the bill became law he was going to issue regulations which would require those things to be passed upon by the Treasury before --

H.M.Jr: Did you send the memorandum over?

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Sullivan: Yes, sir.

H.M.Jr: Did you give Mrs. Klotz a copy of it?

Thompson: Yes, I gave it to Miss Chauncey.

H.M.Jr: Now, where do we stand? What does the memorandum say to the President?

Foley: The memorandum to the President said that when the bill became law he was going to issue regulations which would require costs under the Vinson-Trammell Act to be approved by the Treasury Department, even though the law placed the first approval in the War and Navy Departments.

H.M.Jr: Well, has the Army bill passed?

Sullivan: No.

H.M.Jr: Why couldn't he get it changed?

Foley: Well, he could get it changed if he wanted to.

Sullivan: The whole bill is changed now. Yesterday it was put in that every order for both the Army and Navy is subject to a profit limitation of 7.53 percent, everything.

H.M.Jr: Who is behind that?

Sullivan: Well, it started in the Naval Affairs Committee in the House and Vinson toyed with it and then dropped it and then they got going over in the Senate and then Vinson asked us to draft a bill eliminating deficiency of profit and then the next thing we knew Walsh was interested again and then Walsh introduced this bill yesterday. Yesterday morning he added an exception in favor of food, clothing and medicine. I couldn't see any sense in that and that was a limitation --

H.M.Jr: But the thing was entirely from the Hill or --

Sullivan: All the push from here was sometime ago when we were trying to fight against the raising of the percentage on naval vessels and hence called for lowering the percentage on airplanes.

H.M.Jr: If that is the status, why couldn't we get the thing changed, send another memorandum to the President and say, "If you want the thing changed and if you okay this thing, we will just carry it up on the Hill," and try and get it introduced.

Foley: You can do it that way. This is an effective way and it doesn't cause any trouble, if he will sign the memo. I don't know whether he will sign the memo.

H.M.Jr: He asked for it, it wasn't my suggestion.

Foley: But I don't know whether he signed it or not after he got it.

H.M.Jr: You told him to wait, didn't you, until the bill passed?

Foley: No, we didn't, that was where we sent the telegram to you. Then we changed the memorandum we sent in and instead of saying, "Hold it until the bill passes," we said in memos for his signature to War and Navy, "When the bill becomes law I intend to issue regulations placing approval of your conclusions as to costs in the Treasury Department before the manufacturer is notified and the contract is awarded."

H.M.Jr: Think that is all right?

Foley: Yes, that is all right.

H.M.Jr: Supposing you (Thompson) call up Forster and find out what happened to that. What would happen today?

- Foley: The Vinson-Trammell Act hasn't been changed.
- Sullivan: Not yet, but I would suggest if he does want that changed we have got to find out, because I very strongly suspect that Walsh is going to throw this right in the middle of this tax bill business with the excess-profits bill.
- H.M.Jr: You gentlemen asked me if the President signed those memos.
- Sullivan: That is right.
- White: Wouldn't it be stronger to have it in the bill rather than subject to regulations which may be changed for one reason or another?
- Foley: If it is going to be changed for one reason or another, Harry, of course it wouldn't be so good but if the regulations will be issued along the lines we indicated to the President and he won't change them, then it is just as effective as if we had the law changed.
- White: But he is less likely to change them if it is in the bill. He can't change them. I was thinking there might be pressure brought to bear later if there are any difficulties in delay.
- H.M.Jr: No.
- Foley: We will avoid a fight if we do it this way.
- H.M.Jr: Anything else?
- Foley: No.
- Gaston: The cutter Northland is leaving for an expedition to the east coast of Alaska - I mean the east coast of Greenland. She is the only cutter suited for that work up there and she has no armaments. If we were to put a few guns on her, say a couple of three inch anti-aircraft and some fifty caliber, we have to, in order to get it done in time, have an order from the President to the Navy to give it priority at one of the Navy yards.

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H.M.Jr: Well, we have the Camel up there, haven't we?

Gaston: But the Camel is on the west coast of Greenland. What they want is a cutter to go to Angmagssalik which is on the east coast of Greenland and on up north from there and it is a real Arctic expedition. They won't be able to get in until the latter part of August and then ice conditions there will be such that a cutter can get in. We will have to use the Northland. She could be fitted out in time and get around the Pacific Coast and up there in time to get in by the time the ice opens but we would need a priority order from the Navy to get any guns on the ship.

H.M.Jr: I want her armed just the way the Camel is armed.

Gaston: We will need, then, to have the President direct the Navy Department to give us priority.

H.M.Jr: Fix me up a memorandum that I can write to the President.

Gaston: Right.

I called Lowell Mellett and he told me that that letter as to cooperation with the F.B.I. was just something that was being sent out as a routine matter to several of the departments and we could send it out or not, just as we pleased, and he said there was no element of criticism of our men but rather a coincidence is that when I got out of here yesterday I found a call from Clegg of F.B.I. and Clegg told me a story that one of our men who didn't wish his name known had told one of his men that we had sent out a general order that reports on espionage and so on, unless it were an emergency character, should be sent first to our - to the Treasury in Washington before being communicated to F.B.I and he pointed out that that was not the understanding and I agreed with him that it was not and I would find out whether there was such a letter. There wasn't any such a letter

so it is rather queer coincidence. It looks as if F.B.I. was needling us from two different points of view, but anyway, I am going to talk to Clegg about it again today.

H.M.Jr: Okay.

Gaston: Basil Harris and I attended a meeting with Colonel Maxwell and people from State and Commerce over at the Munitions Building yesterday. It is on this matter of setting up regulations for the control of exports and machine tools and a lot of essential supplies and we are going to hold another meeting today. Do you want to go into this meeting yesterday?

H.M.Jr: Yes.

Gaston: I think Harry can tell you as well as I or better, but you probably saw this letter from the President which went to you and other heads of departments concerned and including a memorandum from some one, the authorship not stated, which it said was one of several on this subject and this memorandum was read by Secretary Hull at the meeting yesterday.

The first recommendation of it is some method of acquiring under a single management the surplus crops of the South and Central American countries and disposing of them and it makes various other recommendations. While this letter was being read and there was some comment by Welles and others that - as to where it came from, Harry Hopkins volunteered that it came from Nelson Rockefeller. After that was read, Pasvolaki, who has been a member of the committee on which Harry White has served, working on this same problem of how to solidify our commercial relations with South America and Central America and protect them against Nazi domination, presented their preliminary report which suggests the formation of commodity cartels and an over all corporation to control the disposition of various South and Central American products, particularly the surplus,

and there was some discussion as to what that might cost the United States and various estimates which I see the newspapers reported pretty fully, that it might cost us as much as - I think Harry estimated as much as five hundred million a year. You first estimated --

- White: From a quarter to a half.
- Viner: Was Jerry at that meeting, too?
- White: I was going to say Jerry was not at that meeting.
- Gaston: Anyway, the thing came out rather fully in the papers this morning and an incident of it was that Summer Welles --
- White: I thought I answered your question fully, Dr. Viner.
- Viner: Ask Ed Foley.
- Gaston: Summer Welles took occasion to say that he thought the letter by Nelson Rockefeller showed a lamentable ignorance of what the Government was doing.
- White: Since there have been at least a half dozen glances in my direction, let me state categorically that though Nelson and I are like that (crossing fingers), Rockefeller and I, and you know I buy his oil and gasoline every day, but he must have talked to at least a thousand people and Ruml talked to another thousand and I take it that that memorandum is some ideas which he has gleaned from here and there. It is a better memo than Welles indicated.
- Gaston: Very much.
- Viner: I had it two weeks ago.
- White: Then at least let's share the authorship.
- Gaston: Harry Hopkins was particularly enraged and I think rightly, because I think Summer Welles' remarks on this letter were directed

at Harry. The other thing was the concerted action toward the gold policy by the Department of Agriculture, beginning with Mordecai Ezekiel and he passed the ball to --

- White: Secretary Wallace upon leaving said that he thought possibly he was wrong and I was right and he would like to talk to me more about it and Ezekiel called up since and said he thought he had spoken too hastily.
- Gaston: They have been carrying on quite a little propaganda on gold over there in the Department of Agriculture. It is a departmental policy. I happened to pick that up from other sources.
- H.M.Jr: Well, it is interesting on that gold thing. From the time I made that little talk on gold to date, all newspaper criticisms and editorials practically stopped.
- Schwarz: The Herald Tribune is on your side this morning.
- H.M.Jr: They have been right along, but you saw Mordecai Ezekiel said he was wrong.
- White: He said he thought he spoke too hastily and there were other angles and I am sure we will be able to clear it up.
- Gaston: Harry made the suggestion that it would be desirable if we went into this vast project of attempting to control American surpluses, that it would be desirable to put it on an exchange basis and that would be desirable from the standpoint of the preservation of gold as the medium of international exchange and then Mordecai Ezekiel commented that as he understood it, that meant --
- White: Gold standards versus democracy.
- Gaston: The gold standard was more important than our South American relations.

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- White: He said it was more important than democracy and I stopped him right there - he said he spoke too hastily.
- H.M.Jr: As usual.
- Gaston: What I noticed was that concerted feeling apparently of the Department of Agriculture on gold.
- White: He speaks rapidly but not always hastily.
- Gaston: There is another meeting for Wednesday.
- White: Let's do him justice.
- Viner: Harry is doing a little justice.
- White: I need some support. I have no support this morning.
- H.M.Jr: You are all right, Harry.
- Gaston: They are proposing to put this before the Pan American Conference on Thursday. They are attempting to move pretty rapidly on a tremendously important thing and I don't think they realize - I didn't get an opportunity to say that yesterday but I don't think they realize the necessity for building up both Congressional and popular support without which they will not get to first base with any of these things.
- H.M.Jr: Well, let me just put it this way. At one-fifteen yesterday was the first time that I got any notice of this meeting when Mr. Welles called me himself and he said, "Hasn't Mr. Hull spoken about it?" and he said, "I told him to," and I said, "He didn't." He said, "I know he didn't. I am very much annoyed." So he said, "I am sorry." And that was the first - and then shortly after that a letter from the President covering the thing came. Now, if anybody thinks that on a thing as important as this I am just going to jump into it, they are crazy and I am sure the people who work with me

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would agree with me. This is something that if somebody else has been thinking about it - I am not being personal, Harry - if somebody else has had a couple of weeks or a month's thought on this thing and they think I am going to commit the Treasury on an over night basis on a thing like that, I am not going to do it.

- White: I don't think there has been that much preparation, Mr. Secretary.
- H.M.Jr: I am just not going to do it.
- Gaston: A suggestion of Herbert Feis' - I don't know whether it was intended in a facetious manner or not --
- H.M.Jr: I am not going to do it and I am going to freeze everything as far as the Treasury is concerned until I can assimilate that thing thoroughly.
- White: Right, and I think it --
- H.M.Jr: I don't want anybody, please, in any way to commit the Treasury until I have ample time --
- Gaston: To show the tremendous scope of this thing, Herbert Feis made a suggestion - I don't know whether it was facetious or not - that we form a corporation to consolidate all sales of - foreign sales in the United States.
- White: Well, a good many of those remarks were exploratory in nature and preliminary and I think unquestionably the matter is very important and it assumed that degree of significance and imminence only by virtue of this President's letter that we had had a couple of meetings which I indicated to you about a week apart in which a good deal of work was done but it was all of a very preliminary and exploratory nature and we were going to prepare a final report sometime next week, at which we were going to bring to the various departments, thinking that this thing would not emerge until several months, at least. My first information that there was any such imminence or

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pressure was at this meeting, so that I suspect that many of those who have been working on it didn't know that it was going to be given that degree of attention by the President so soon, but now that it has, I think that the matter is important enough so that if possible you could devote some time to it and I don't think it would take very long to bring you up to date. At what point after that you want --

- H.M.Jr: If it can be arranged for tonight, that is the first time I can do it.
- White: Would you want me to participate --
- H.M.Jr: Do you (Gaston) want to continue to follow this thing through?
- Gaston: I would be glad to.
- H.M.Jr: I am going to take it on. I just had you pinch hit for me yesterday.
- Gaston: I would be glad to be in contact with it and go along with it.
- H.M.Jr: Supposing you come also tonight.
- Gaston: Tonight at eight-thirty?
- H.M.Jr: No, seven-thirty.
- White: Mr. Secretary, let me understand you perfectly. You do or do not wish me to participate in the morning? Do you prefer I step out of the picture until you have had a chance to talk it over?
- H.M.Jr: No, Harry, this thing that we are doing here this morning is terrifically important.
- White: This other thing will probably drag over for hours.
- H.M.Jr: If you will stay behind for two or three minutes, I will talk to you and I would like you here, Dr. Viner, at ten o'clock. I

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mean, the whole question of how England and France are going to handle their gold and money is going to be settled here between ten and eleven and it is an enormously important meeting.

Viner: I will be here.

H.M.Jr: And I think that on that thing that --

Viner: This other thing is important, too, and I hope you don't stop White from participating as a technician.

H.M.Jr: Oh, not at all.

Viner: Without committing the Treasury in any way, because it ought to move, if it is going anywhere, it ought to move and they need him.

H.M.Jr: Well, I agree with you but it is a question of - I mean, I am not going to - my policy, as far as the Treasury is concerned, I will do anything possible to help the people the President appoints to come down here to make a success but on the other hand I am not going to dilute the Treasury and weaken it in order to help somebody else. Now, I have got this thing, which is fully my responsibility, the whole question of whether the English can take over the orders, what is going to happen to the French gold. That is all going to be settled here between ten and eleven. That is my responsibility and I am not going to dilute my strength in order to do something else which is not my responsibility. But I mean, it is just on the basis - I mean, the - you go from the sublime to the ridiculous, any more than I am going to let McReynolds take seven chauffeurs from me to give one chauffeur to each of his council for the defense. I am not going to do it, that is all. Never have I permitted myself to be rushed off my feet knowingly. I am not going to now. All right.