

DIARY

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October 15 and 16, 1940

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October 15, 1940  
9:30 a. m.

GROUP MEETING

Present: Mr. Bell  
Mr. Sullivan  
Mr. Gaston  
Mr. White  
Mr. Cochran  
Mr. Haas  
Mr. Foley  
Mr. Graves  
Mr. Young  
Mr. Pehle  
Mr. Schwarz  
Mr. Thompson  
Mrs. Klotz

HM Jr: Good morning everybody.

At 11:00 I have the Cuban delegation, and I would like Mr. Bell, Mr. Gaston and Mr. White to be here at that time; and at 11:15, Mr. Pinsent and Mr. Purvis, and at that meeting I want Bell, White, Cochran and Young. And before you come in - I will give this to Bell (handing paper to Mr. Bell) could you people read that, and don't leave it laying around. It is pretty confidential.

Bell: This is for the 11:15?

HM Jr: 11:15.

And then this thing here is very urgent. It is dated October 11th. I only got it yesterday, Merle, and there's no mark on this thing at all. I consider this Chilean thing urgent. Who has considered this?

White: I got something yesterday.

HM Jr: 100,000 tons of coal - that's very urgent.

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White: It came in yesterday from the State Department. I wanted to talk to you about it before Jones came in. Won't you want us to come in a little ahead of time?

HM Jr: Oh, yes. And I want you (Gaston) in on that, too. I don't know if you know any of them or not.

Gaston: Well, yes. I know Eduardo Montouleu.

HM Jr: What luck did Waesche have on that?

Gaston: I don't know whether he got hold of Dasher or not. He was in a meeting.

HM Jr: Well, will you put it into a memorandum?

Gaston: Yes.

HM Jr: Will you?

Gaston: Yes.

HM Jr: Anything else?

Gaston: The scrap iron and steel continues to go out quite heavily to get under the deadline.

HM Jr: Well, now how are they handling that? If it's on a boat . . .

Gaston: It goes out if it is in a boat - if it is aboard the ship before midnight on the 16th.

HM Jr: (aside to Mrs. Klotz) Send my three children copies of the New York Times article of yesterday on my statement.

Mrs. Klotz: To your father, too?

HM Jr: No, he saw it.

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Gaston: I haven't anything else except that this Hoover special intelligence meeting, the first one in three months, is at 10 o'clock.

HM Jr: Philip, that memo that you said you were making a study of economic controls - you know - I wish you would consult with White on that and let him in on it. I am delighted to see you take the initiative but get the benefit of White's advice, will you?

Young: Yes.

HM Jr: But I am delighted to see you take the initiative.

Young: Yes.

HM Jr: And when you get ready make it a joint memo.

Anything else, Herbert?

Gaston: Nothing.

Foley: Here is a telegram from Fleet.

HM Jr: That's the one I sent?

Foley: No.

HM Jr: Is that very confidential or could I see a copy of it?

Foley: No, not very.

HM Jr: I mean the one I sent.

Sullivan: I think I would let him see it.

Foley: Miss Chauncey has it.

(At this point Mr. McKay entered the room and gave Mr. Gaston a note.)

Gaston: The Special Intelligence Meeting has been cancelled.



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(At this time HM Jr told the operator to have Miss Chauncey send in by messenger the copy of the telegram which he sent to Major Fleet.)

HM Jr: They kept talking to me about the telegram I sent. Well, this is an answer to the one I haven't seen:

"Have just received wire from Secretary Morgenthau advising your conference with Commissioner Studenbaker. We very much appreciate the interest you are showing and trust by now you have received my letter October eleventh transmitting copy report on San Diego Vocational School needs. Prepared by Superintendent Crawford and sent to Commissioner Studenbaker. We are following up problem from every possible angle including use of Balboa Park buildings and contacting Beswick."

Who's Beswick?

Foley: He's the vocational director for California.

(Mr. McKay brought in copy of telegram to Major Fleet.)

HM Jr: That's pretty snappy, isn't it?

Now do you think we ought to send copies to Knudsen, War and Navy? Don't you think that would be a nice thing to do.

Foley: Yes.

HM Jr: Will you (Foley) take care of that - you know you can do it through my office - War, Navy and Knudsen.

Foley: Yes.

Young: We have another little development on Fleet also. On his delivery schedule - he has sent to George an entirely different delivery schedule. George's people

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called him back and he said he would have to check up, and that the figures would either stand or they would get a new production man. So they sent in a wire this morning giving revised delivery figures which cut down the schedule which the boys brought back by almost 50%. Instead of 8 bombers by the end of December, there will be 4; and instead of 13 boats, there will be 8, according to the telegram this morning.

HM Jr: Well, don't you think you ought to wire back and tell them to get a new production manager? I would circulate that. I would circulate that information. Will you (Young) take care of it?

Young: Yes.

HM Jr: I mean you get hold of General Brett and Admiral Towers, and ask them what they are going to do now.

Young: What about "Sknudsen"?

HM Jr: Okay. Start with "Sknudsen".

HM Jr: John?

Sullivan: I would like to see you about that matter I was to discuss with you at eight o'clock this morning.

HM Jr: That's possible. How about a quarter to eleven?

Sullivan: Fine.

Cochran: Livesey of the State Department asked me if I would see Havas, financial advisor of the Hungarian Legation. He is coming in at 2:30.

Bell: The Minister invited me to lunch up there with Feis on Thursday. I don't know what they want to discuss. It's probably either the debt or the standstill agreement.

Cochran: It's the standstill agreement.

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HM Jr: Okay. What else?

Cochran: Nothing, sir.

Schwarz: Baron Stackelberg, one of the managers of the Financial News of London, has asked to see you.

White: He's been around a good deal all right and he comes in periodically.

Schwarz: He sends back memos. He doesn't actually write the stuff. Merle advises against it.

HM Jr: Merle's advice is good. I don't want to see him.

Schwarz: All right. He is coming in to see me this morning any way.

HM Jr: Now if there is a Baroness or something like that . . .

White: He is almost as good.

Sullivan: He is better.

HM Jr: He is back.

I just was going to say, before Harry got in that good one, that those kind of people should see Pehle.

What else, Chick?

Schwarz: That's all.

HM Jr: Pehle, what good are you doing for the Duchess of Luxembourg?

Pehle: We are checking to see how much is actually there first. (Hearty laughter) I mean how much cash is actually there.



HM Jr: Philip?

Young: I have a large volume which I received from Mr. Purvis dealing with that munitions program which I am probably to transmit to you immediately but I would like to take a look at it. Also a schedule comparing British pursuit planes which also needs a little clarification.

HM Jr: Comparison of pursuit planes?

Young: Yes.

HM Jr: Where is that?

Young: It's on my desk.

HM Jr: How could I get it to my desk?

Young: I could send for it.

HM Jr: Will you do that?

Young: Yes, sir.

(At this point Mr. Young left the conference for a moment to telephone to his office)

HM Jr: George?

Haas: Nothing.

HM Jr: Who do you talk to, George, when you have these conversations with Fleet?

Haas: I don't talk to anybody. One of the men in the Treasury does it. When a report doesn't come in, he calls them up. I guess that it is the Treasurer of the company he talks to.

HM Jr: Anything else?

Haas: I have nothing.

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HM Jr: George, I wish you would kind of watch prices for me. If you see any particular run-up, don't wait until Monday. Give me a little snack in between.

Haas: There are some already.

HM Jr: I don't know but could you bring in anything that you have? You know you used to run these fan charts on the non-ferrous metals.

Haas: Yes.

HM Jr: Well, if you could bring that in tomorrow . . .

White: Along that line, I don't know what it indicates, but Perry called me up and he wanted to know the date on which the President made his statement on prices after our negotiations here - after the conferences here in the spring of 1938. I said I would look it up and tell him. I don't know if that is anything or not.

HM Jr: Okay.

White: On the Japanese balances - they have been building up for a period of years a customer account which reached a total of \$140,000,000 some time late in the spring. They hadn't been reporting that. That sum has been substantially reduced now. I sent a man up yesterday to get further details on that matter. There may be a question of legal responsibility. We are going to turn it over to the Legal Division, and we would like to know whether you think anything should be done. But it is down substantially now, and we are getting further data.

The Swiss dollar balances are dropping. I don't know how rapidly the last week or two - Merle has some information on that - but they have been dropping in the past three weeks, and I suspect have been dropping more rapidly in the last 10 days. They probably are withdrawing their dollars, I suspect, because they feel that there will be exchange control imposed on Swiss balances here, and those who can get their balances out are doing so.



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Bell: Don't we have a telegram saying that there had been continuous repatriation of those funds since the fall of France?

Cochran: It was a letter from the Federal Reserve Bank summarizing capital movements.

Bell: Oh, yes.

White: But the official balances are increasing.

Cochran: The official balances are increasing. They're taking over private balances.

White: When this man Cooper comes here with respect to possible British exports, the Treasury, it seems to me, has a very definite interest; namely, possibly the more exports the less gold or credits we have to take.

HM Jr: Well, that's . . .

White: They will be in the picture somewhere.

HM Jr: I mean that's one of the reasons I have sent for Purvis and Pinsent together.

White: To my knowledge, those figures which were promised to us on the third of the month have never come in.

Cochran: We received them last night. We are making copies of it. I sent a copy up to the Secretary's house last night.

White: There was an interesting agreement between Brazil and Argentine which has in it the proposal that each country extends substantial loans to the nationals of its own country to buy the simplest products of the other country. In other words, Argentine will extend loans to its people to buy simple products from Brazil, and Brazil extends local currency loans to its nationals to buy simple products from the Argentine. To my knowledge, it is a very interesting development.



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White: Some figures came in from the Customs officials at Dakar, indicating that over a billion and a half dollars of gold came in over there. Now that's much in excess of my figures.

Cochran: I checked that with Pinsent and it was one billion ten million. That includes Polish, French and Belgian gold.

HM Jr: A billion how much?

Cochran: One billion, ten million.

HM Jr: A billion and ten?

Cochran: Yes. That includes Polish, Belgian and some French gold that we didn't know about.

HM Jr: At Dakar?

Cochran: Yes. They have moved it back inside now.

Bell: That's quite a sum.

White: Well, the Consul gave us the figure of one and a half billion.

Cochran: The Consul was wrong about that.

HM Jr: It seems to me that the English might better had landed there.

White: And, curiously enough, the answer the French gave to the Poles when they wanted their \$68,000,000 was that all gold in invaded areas had been frozen by the order of the French Government of August 8th.

Cochran: That was the consul statement.

White: Another interesting development is that Colombia has taken a leaf out of our book and has restricted payments to all invaded areas. There also is a cable which

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stated that the French Government is extending credits to Italy at the request of or as a result of pressure by the German Government on the French Government.

HM Jr: Who is extending credits to Italy?

White: The French Government of France - I assumed it was the French Government.

Pehle: The Bank of France was requested by the German Commissar.

White: That's all I have.

HM Jr: Harold, you and I went over yesterday to Procurement and they told us about this man of Sears, Roebuck being there. Have you checked on that?

Graves: Not yet, sir.

HM Jr: When you check up, I would like to know how many people of similar nature who are on the pay rolls of companies are working in Procurement. That is something new.

Graves: In Procurement?

HM Jr: How many people in Procurement who are on the pay rolls of companies. I don't care whether they're serving as liaison men or what. I want to know.

Graves: Well, I can tell you that now. There aren't any more.

HM Jr: Well, I don't know. Find out what this fellow is doing and all about him.

Graves: Well, Nelson sent him over there to cooperate with Mr. Mack, to serve as a liaison officer on this purchase program.

HM Jr: Well, go into it. Just see what this man is doing over there, how much he is getting, whether he handles materials, whether he is on leave, etc.



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Graves: Yes, sir.

HM Jr: And I am just curious.

Graves: I will find out.

HM Jr: And in talking with Mack, tell him that he shouldn't put on any one of that nature who is connected with a company without talking to me. If he is on a company pay roll, I want to know all about him first. I don't care if he is a liaison officer or what they call him. See?

Graves: Yes, sir.

HM Jr: What have you (Bell) got?

Bell: Nothing.

White: I have one little item here that I overlooked before. It's a report from the Commercial Attache which says that without consulting the State Department it is indicated that the U.S. scrap embargo which was imposed will reduce operations of the iron and steel industry by 30 to 40%.

HM Jr: Oh, yes - that one that came in from Nicholson yesterday - you (Mrs. Klotz) give it to Cochran and you (Cochran) get it to whoever is interested in Japan. Let them read it. It was intensely interesting. He had this interview with this man who has come to look over the civil government of Shanghai, and in it this man says there is a very strong revolutionary Socialistic pact in Japan, and they are trying to keep them from getting the upper hand. Yes. Yes. And that, plus the fact that in this statement two days ago, I think it was the Foreign Minister of Japan, in which he admonished the Japanese for their attitude about the war - you know that that wasn't the right attitude to take . . .

Gaston: Good spot for some propaganda there.

HM Jr: Evidently.



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HM Jr: Norman?

Thompson: Mr. White has recommended appointment of this man from the International Business Organization (hands HM Jr some papers).

HM Jr: International Business Organization? What do you (White) want to put this man on?

White: (taking papers from HM Jr's hands) This man is from the International Business Organization.

HM Jr: Don't walk away with it. I want to know what you want him to do.

White: He is going to work on British assets in this country and direct investments here.

(HM Jr approved the papers and handed them back to Mr. Thompson.)

Thompson: Now this Mrs. Witherspoon from Loans and Currency - she has a list of about five Senators. She had borrowed a little heavily down in Loans and Currency through credit unions and she had subordinates as co-makers . . .

HM Jr: Is she one of the two we passed?

Thompson: No. This one had several of her subordinates as co-makers on notes. The case had gone through several weeks ago and she had been reduced, all of her supervisory work was taken away. So Mr. Bell and I think that should stand, and we should just say that she violated the regulations.

Bell: I think there is some excuse for these people violating these regulations. They are so old and they should be gotten out and re-issued.

HM Jr: What is the regulation?

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Bell: That they can't borrow from subordinates and they can't have subordinates as co-makers on notes. You see the subordinates are just as guilty as the overseer. A lot of people don't know about it because it is so old.

HM Jr: Well, will you get it out again?

Thompson: Yes. There are three circulars and we are combining them into one.

HM Jr: What ever happened to the law which said that all government contracts should be made public? Remember the thing that I asked for - you know that I swapped . . .

Sullivan: The contracts would be made available to the public?

HM Jr: Yes.

Sullivan: They are now drawing up the regulations.

HM Jr: My, God! When will they begin to do something about it?

Sullivan: I don't know.

HM Jr: Well, isn't the move up to the Army and Navy?

Sullivan: We are working with them. We had several conferences last week.

HM Jr: Can't they get it out this week?

Sullivan: Well, there had to be two different certificates - one as to the necessity and one as to the adequacy of the provisions.

HM Jr: Yes, but can't they get that done?

Foley: The whole committee had to pass on it.

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HM Jr: Well, you - are you (Foley) in on this, too?

Foley: Yes.

HM Jr: Well, let's let John do it. We'll pin this one on him. You (Sullivan) get in touch with Colonel Greenbaum, see?

Sullivan: Yes, sir.

HM Jr: And let him get hold of that and see if we can work it that way.

Sullivan: Yes.

HM Jr: I am very anxious to get this thing finished. And when you have it all worked out, I think if you could let Chick know, he could bring it to Steve Early's attention. He would bring it to the President's attention and the President might let it be known that it is the policy of the Administration to make all contracts public. I'd like to get that done this week.

Sullivan: Yes, sir.

HM Jr: So will you see whether you can't go ahead a little on it because it is good public stuff.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 15, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. McKeen of the Federal Reserve Bank of New York gave us the following information regarding the transfer listed below from the account of the German Gold Discount Bank, Berlin, maintained with the Crocker First National Bank of San Francisco.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 15	\$ 4,500,000	Marine Midland Trust Co., New York, for account of Topken & Farley



*Text*

*Approximately Oct. 19*

Translation

*1490*

Agreement drawn up between Dr. Serge Huard, General Secretary of Public Health, Dr. Félix Codvelle, Director of Health and Welfare, and Doctors Sawyer, O'Brien and Strode, members of the Health Commission of The Rockefeller Foundation to Europe, after their interview of August-September, 1940.

An agreement has been drawn up between the Health Commission of The Rockefeller Foundation and the Office of the General Secretary of Public Health in the Home and Youth Ministry. Its members had two conferences with Dr. Serge Huard, General Secretary, and Dr. Félix Codvelle, Director of Health and Welfare, on August 20 and 27, 1940. On August 28 the members of the Commission, accompanied by Dr. Codvelle, visited the laboratory of the Ministry of Public Health, which is under the direction of Professor Fabre, chief of this laboratory. The memoranda of August 20 and 27, 1940 were the result of the interviews which took place at each conference. At the end of a final interview, on September 2 between the members of the Commission, Dr. Huard and Dr. Codvelle, and an interview on September 3 between Dr. Strode and Dr. Codvelle, who was delegated by Dr. Huard, the following conclusions were adopted:

The extremely dangerous conditions to which the health of the French population, in the free zone as well as in the occupied zone, is exposed as a result of the unfortunate outcome of the war are the foremost consideration of the Office of the General Secretary of Public Health; moreover, the valuable collaboration which the Health Commission of The Rockefeller Foundation offers at this particularly opportune moment is here and now accepted with gratitude.

This collaboration can be carried on according to the following principles:

1. The general reorganization of the hygiene and public health services in France implies the establishment of a National Institute of Health in Paris with technical services (laboratory, information and statistical) and which would at the same time be designed for the study of epidemiological, bacteriological, biochemical and other problems as regards their application to public health, and for the instruction and training of health officers and sanitary technicians.

2. To avoid excessive centralization and to permit the study in the field of most of the current health problems, it is necessary to establish Regional Health Institutes also, patterned along the same lines and directly responsible to a regional director of public health.

It is possible to take steps immediately to create services which might be considered the nucleus of future organizations. In this connection the following points should be considered:

(a) Establishment of a technical organization - nucleus of the future National Institute of Health.

(b) Undertake a study of the new epidemiological conditions which the war - and above all the rationing of food - impose on the throngs of refugees.

(c) Establish in the free zone a technical organization which could become the center for a regional institute of health and which would be in a way the prototype of such an organization.

According to this very general program the collaboration between The Rockefeller Foundation and the Office of the General Secretary of Public Health should be studied with regard to the following points: technicians, buildings, material, etc., means of transportation, motor



fuel, etc., financial support for a definite period (three years, for example). The members of the Health Commission of The Rockefeller Foundation and the Office of the General Secretary of Public Health agree as to the importance of

- I a) the presence in Paris of a doctor who is a specialist in the biochemistry of foods
  - b) an epidemiologist and a bacteriologist
  - c) an epidemiological statistician.
- II In the free zone, a sanitary engineer who is a specialist in sanitation, and the necessary personnel for the establishment at the proper time of the regional institute mentioned above, paragraph c.

The Office of the General Secretary of Public Health will offer to these American technicians the collaboration of eminent French technicians, and it is certain that the result of this exchange of viewpoints and of this work in common will be of great value to public health and will be helpful in the scientific training of the technicians themselves.

If the Commission should find that it is impossible to send funds into France or meet its obligations for any reason outside of its power, it is understood that it will have no further engagements.

The Secretary General of Public Health  
HUARD (Signed)

The Director of Health and Welfare  
CODVELLE (Signed)

The Members of the Health Commission to Europe of The Rockefeller Foundation  
W. A. SAWYER (Signed)  
GEORGE K. STRODE (Signed)  
D. O'BRIEN (Signed)

*gats**October 15, 1940*

FROM: MR. GASTON'S OFFICE

TO: ~~The Secretary~~.....

Gorman talked to Col. Dasher and Waesche  
~~this~~ talked to him this morning. Dasher had  
 already sent a memo to the President saying  
 that if other projects went through there  
 would be \$12 million left in the authori-  
 zation which the cutter project would use up.  
 Dasher says it makes no difference whether  
 the cash comes from a Coast Guard or a  
 Presidential appropriation, as the authority  
*Authorization is not revolving.*  
 will be used up anyway. Consequently he sees  
 no need of an additional memo to the President  
 to say Coast Guard will ask for funds directly.  
 There are several ways in which the funds  
 could be granted after Jan. 1 to support the  
 authorizations and Budget is undecided which  
 will be used. The President will probably  
 ask new authorizations in any event.

*WJH*

## PARAPHRASE

No. 486, October 15, 5 p.m., from Buenos Aires

Reference no. 467, September 27, 11 a.m.

Despite the announcement of September 27 of the Ministry of Finance importers of American merchandise continue to report failure to receive prior exchange permits. Among the specific products affected have been razor blades, chemicals, paper, photographic goods, wood pulp, office equipment, cosmetics, road building equipment and tractors. Increased imports are essential, the Chief of the Exchange Control Office says, and the necessary permits will be granted but he adds that imports will probably have to be restricted in the main to articles regarded as essential to Argentine industry, and that applications in other categories will be made the subject of careful study. No representations have been made on the subject (although the foregoing procedure would seem to be at variance with the interpretation placed on the announcement of the Argentine Government in the telegram referred to) in view of the forthcoming conversations in Washington between the Central Bank officials and officials of the United States Treasury Department. However, American exporters feel considerable resentment, especially those who are expected to benefit directly from



from the recent loan as, for instance, railway equipment suppliers, who had been given to understand that the freight car purchase would be approved and who have now been advised that this deal has been called off due to the Minister of Public Work's opposition.

TUCK

THE SECRETARY'S DEPARTMENT  
RECEIVED

910 OCT 13 PM 5 24  
BALAB

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

Prepared by: Mr. Turner  
Mr. Murphy  
Mr. Haas

DEPARTMENT  
OF COMMUNICATION

23

DATE October 15, 1940

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of Treasury bonds have shown little change since the end of September.
- (2) During the statement week in which the December notes were refunded, weekly reporting member bank holdings of Treasury notes decreased by \$298 millions, while their holdings of Treasury bonds increased by \$256 millions. Reporting banks in New York City decreased their note holdings by \$109 millions, but increased their bond holdings by only \$29 millions (Chart I).
- (3) High-grade corporate bond prices have declined on balance since the end of September. Municipal bonds, on the other hand, have reached new highs (Chart II). The volume of new bond offerings in the New York market last week was the largest for any single week since June 1938.
- (4) Expenditures of the Dominion of Canada during the current fiscal year are expected to amount to about \$1,348 millions, of which \$900 millions represents war expenditures. About \$588 millions of this has been or will be borrowed. Since the outbreak of war, the debt of the Dominion Government has increased by about \$860 millions, equivalent on a per capita basis to about \$10 billions in the United States (Chart III). Of this sum, \$300 millions was raised last month by a 12-year bond issue, which was offered on a 3-1/8 percent yield basis. This is slightly below the yields of outstanding Dominion bonds of comparable maturity (Chart IV). It also represents a reduction in interest cost of about 1/8 of 1 percent from the first war loan last January, which is about in line with the decrease in yields on Canadian Government bonds (Chart V).



Secretary Morgenthau - 2

- (5) The price of British 2-1/2 percent consols has risen 5/8 of a point since the end of September. Japanese dollar bonds rose sharply in the first week of October, but have since fallen back to levels below those of the beginning of the month. Italian dollar bonds have declined almost steadily this month (Chart VI).

### I. United States Government Securities

Prices of United States Government securities tended to rise during the first week of October; but declined during the second week largely as a result of developments in the foreign news. Prices of Treasury bonds rose yesterday. For the period since the end of September, net price movements have been mixed, Treasury bonds with 5 to 15 years to call having risen slightly, while the prices of the longer bonds suffered a slight decline. Price changes since the end of September are shown in the following table:

	Average price change October 1 - 14, inclusive
	(In thirty-seconds)
<u>Notes</u>	
1 to 3 years	0
3 to 5 years	- 1
<u>Bonds</u>	
5 to 15 years to call	+ 4
15 years and over to call	- 4



Secretary Morgenthau - 3

## II. Bank Holdings of Government Securities

Considerable rearrangement of the Government security holdings of weekly reporting member banks in leading cities occurred in the course of the refunding of the December notes. A decrease of \$298 millions in the Treasury note holdings of such banks during the statement week ended October 9 was matched by an increase of only \$256 millions in their holdings of Treasury bonds (Chart I). Weekly reporting banks in New York City decreased their note holdings by \$109 millions and increased their bond holdings by only \$29 millions. Banks outside of New York City, on the other hand, reported a decrease in their note holdings of \$189 millions, but added \$227 millions to their Treasury bond portfolios.

## III. Other Domestic High-grade Securities

High-grade corporate bond prices have declined slightly on balance since the beginning of the month. The average yield of such bonds, moving inversely to prices, was 2.71 percent at yesterday's close, as compared with 2.68 percent on September 30. Municipal bonds, on the other hand, have continued their advance to new high levels. The Dow-Jones average yield of twenty 20-year bonds has decreased 4 basis points so far this month. This brings to 65 basis points the decrease from the high yields which ruled at the end of May (Chart II).

New bonds offered to the public in the New York market have aggregated about \$231 millions since the first of October. Of this sum, \$173 millions appeared during the week ended Saturday, October 12. This was the largest volume of such new offerings in a single week since June 1938. Dominating the field were an offering of \$60 millions by New York City and one of \$108 millions by the Southern California Edison Company. The latter is the largest public utility issue to be offered publicly since March 1937.

The New York City issue, the largest offering of long-term bonds by the City since 1933, consisted of 3 percent 1- to 30-year serial bonds, which were awarded to a syndicate of over 100 members at an interest cost to the City of 2.97 percent and were reoffered at prices to yield from 0.30 percent to 3.10 percent. The ten shortest maturities were

Secretary Morgenthau - 4

absorbed by some of the larger banks, and a group of insurance companies took the five longest. The intermediate maturities met a good demand and were nearly all sold within an hour.

The Southern California Edison offering, on the other hand, has moved somewhat more slowly. The issue (rated Aa by Moody) consisted of 3 percent, 25-year first and refunding mortgage bonds offered at 104 to yield 2.77 percent. It is reported that the "Big Five" insurance companies made no commitments on the issue, allegedly because they were disappointed that they had been unable to purchase it at private sale, but that there was a broad demand from the smaller insurance companies. Latest advices indicate that about one-fourth of the bonds are still in the hands of the syndicate.

#### IV. Canadian War Finance

Estimates released early this month by the Canadian Minister of National Revenue indicate that the Dominion of Canada will spend \$1,348 millions (Canadian) during the current fiscal year which ends March 31, 1941. Of this sum, \$448 millions represents civilian expenditures and \$900 millions, war expenditures. It is estimated also that current revenues, including new taxes, will amount to \$760 millions, or enough to cover civilian expenditures, and about 35 percent of war expenditures. This leaves about \$588 millions to be borrowed. Of this amount, \$300 millions was raised by the second war loan last month. In addition, the Dominion Government expects to realize \$50 millions from the sale of war savings certificates. It is assumed by the press that the balance plus such additional funds as may then be needed will be raised by a third war loan, probably in January.

Since the outbreak of war, the debt of the Dominion Government has increased, according to our estimates, by about \$860 millions (Chart III). This is an increase of nearly 25 percent, and would be equivalent on a per capita basis to an increase of about \$10 billions in the United States. Of this increase, the first two war loans account for \$200 millions and \$300 millions, respectively. In addition, \$325 millions was borrowed in May from the Bank of Canada to supply the Foreign Exchange Control Board with funds with which to purchase gold and foreign exchange. This last figure is not included in the budget estimates referred to above.



Secretary Morgenthau - 5

The second war loan, which was floated in September, was for \$300 millions cash, plus a small amount (\$26 millions) offered in exchange for a maturing issue. The new bonds, callable in 1949 and maturing in 1952, bear a 3 percent coupon and were offered at 98-3/4 to yield 3-1/8 percent. This is 1/8 of 1 percent less than the yield basis on the first war loan offered last January, and was slightly below the yields of outstanding Dominion bonds of comparable maturity (Chart IV). The yield on Canadian Government 3-1/4's of 1956-66 had decreased from about 3.40 percent in the middle of January to about 3.25 percent in the middle of September (Chart V).

The cash portion of the new loan was oversubscribed by about \$42 millions. This oversubscription, however, was less than half as great percentagewise as that on the first war loan, and was obtained only after special sales pressure was applied in the closing days of the two-week campaign. Institutional investors, it is reported, will be allotted about 75 percent of their subscriptions, as compared with 40 percent last January.

The explanation of this rather disappointing experience appears to lie more in the deficiencies of the sales campaign than in the strain on the Dominion's financial resources. Although the amount of the loan was half again as great as the amount of the first war loan, interest rates have eased since January, as is indicated by Chart V, and by the fact that the average rate on Canadian Treasury bills reached a new low for the war period on August 30, just before the loan was offered. According to press reports, there was no intensive effort to impress upon small investors the fact that the success of the loan depended upon them, rather than upon the large financial institutions. In fact, the announcement that \$92 millions had been subscribed by institutional investors on the first day tended to give the opposite impression. It has also been suggested in press comment that a 3-1/8 percent issue offered at par would have been more readily understood by individuals who are not regular investors than a 3 percent issue priced below par to yield 3-1/8 percent.



Secretary Morgenthau - 6

V. Foreign Government Securities

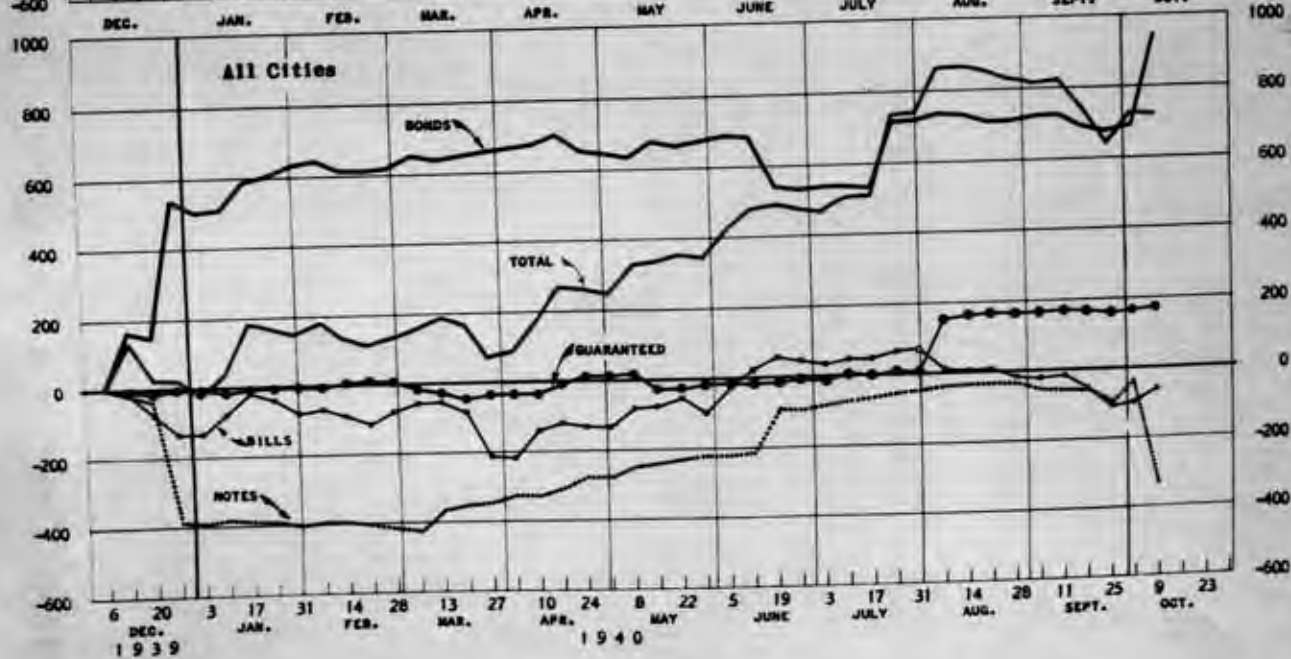
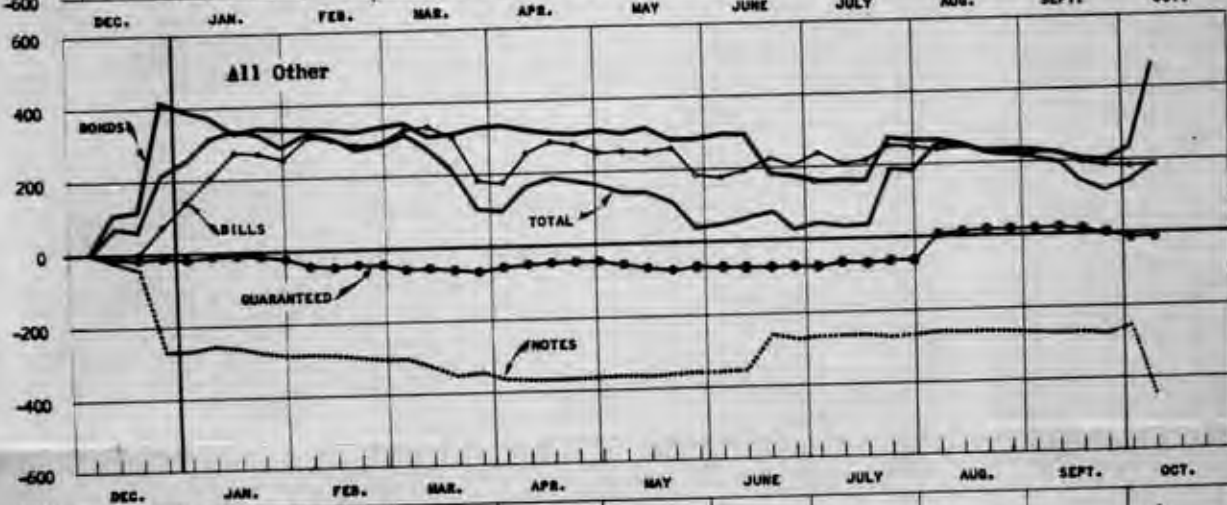
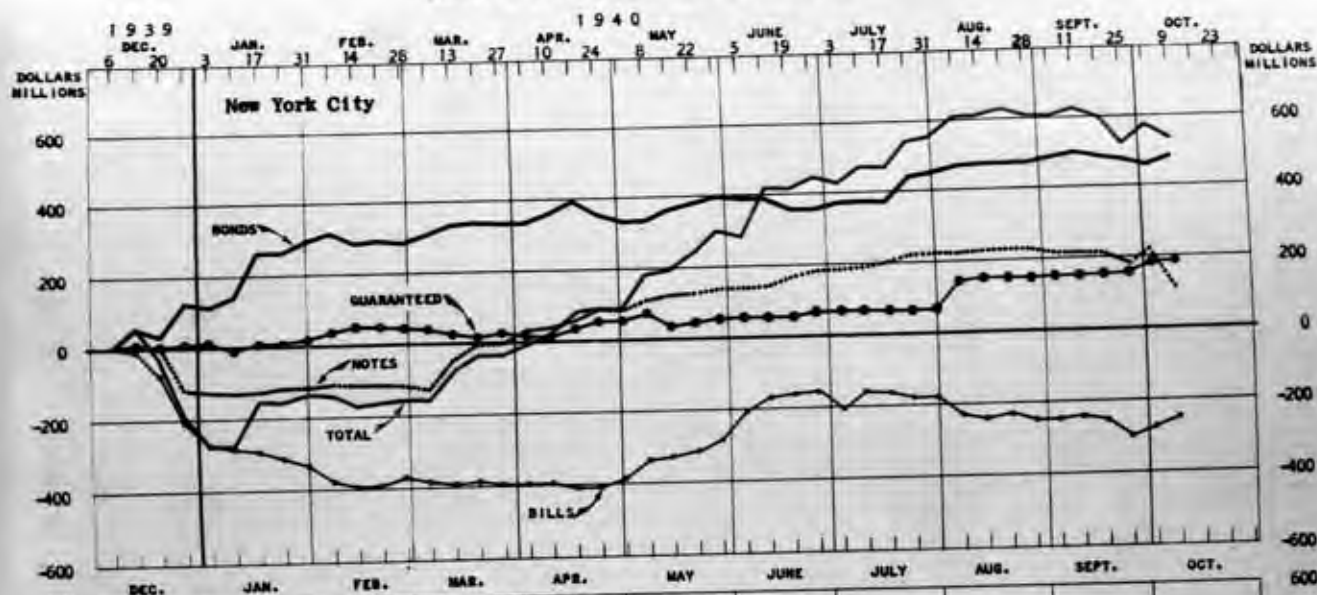
British 2-1/2 percent consols closed yesterday at  $74\frac{5}{8}$  to yield 3.37 percent. This is a rise of  $\frac{5}{8}$  of a point since the end of September.

Japanese dollar bonds rose sharply in the first week of October, but have since fallen back to levels below those of the first of the month. Italian dollar bonds have fallen in price almost continuously since the end of September. Australian, Canadian, and German external securities show little net change since the end of September (Chart VI).

Attachments

U.S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS

Cumulative Net Change from December 6, 1939

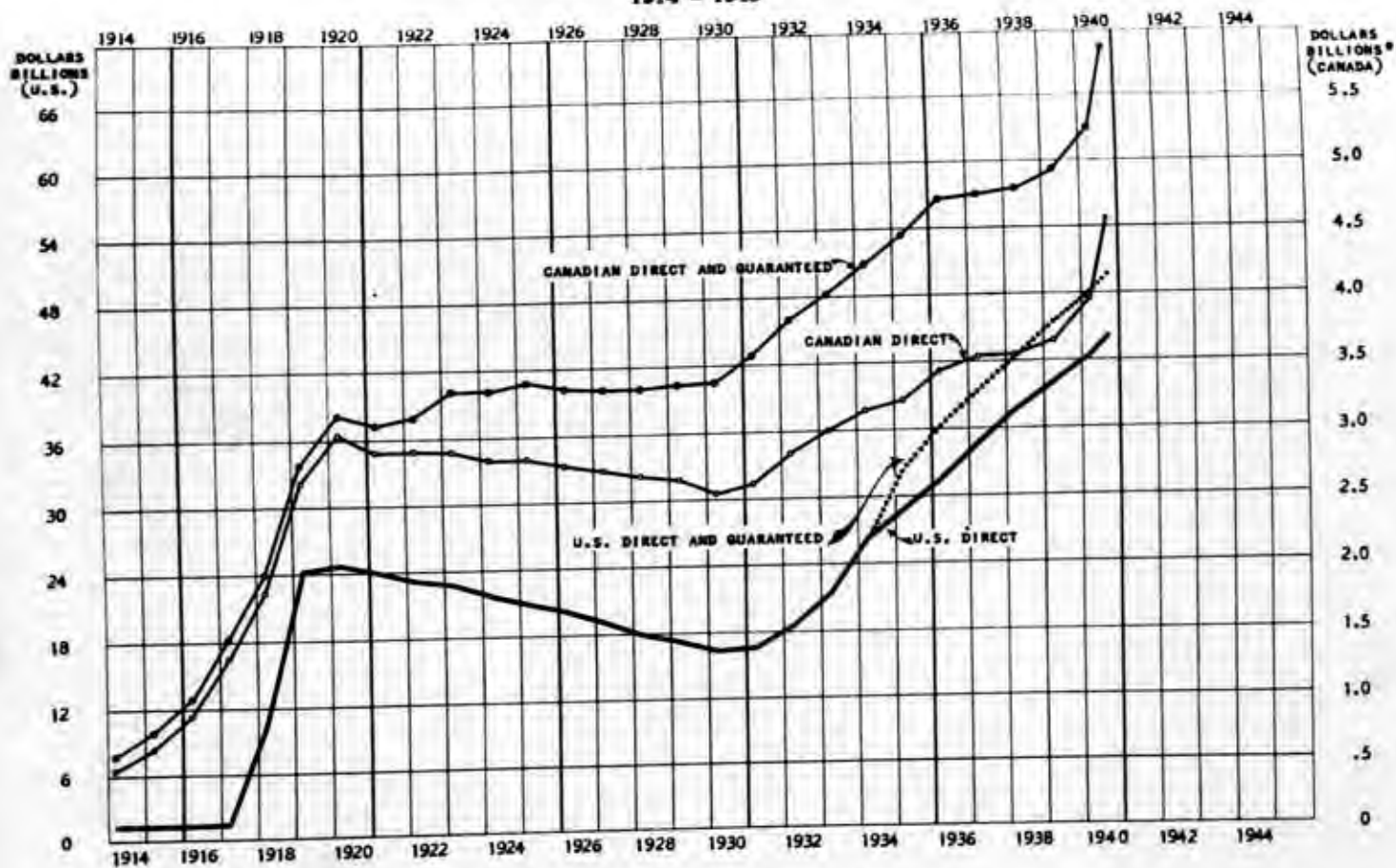








COMPARISON OF DIRECT AND GUARANTEED INVESTMENTS  
 IN UNITED STATES AND CANADA  
 1914 - 1940

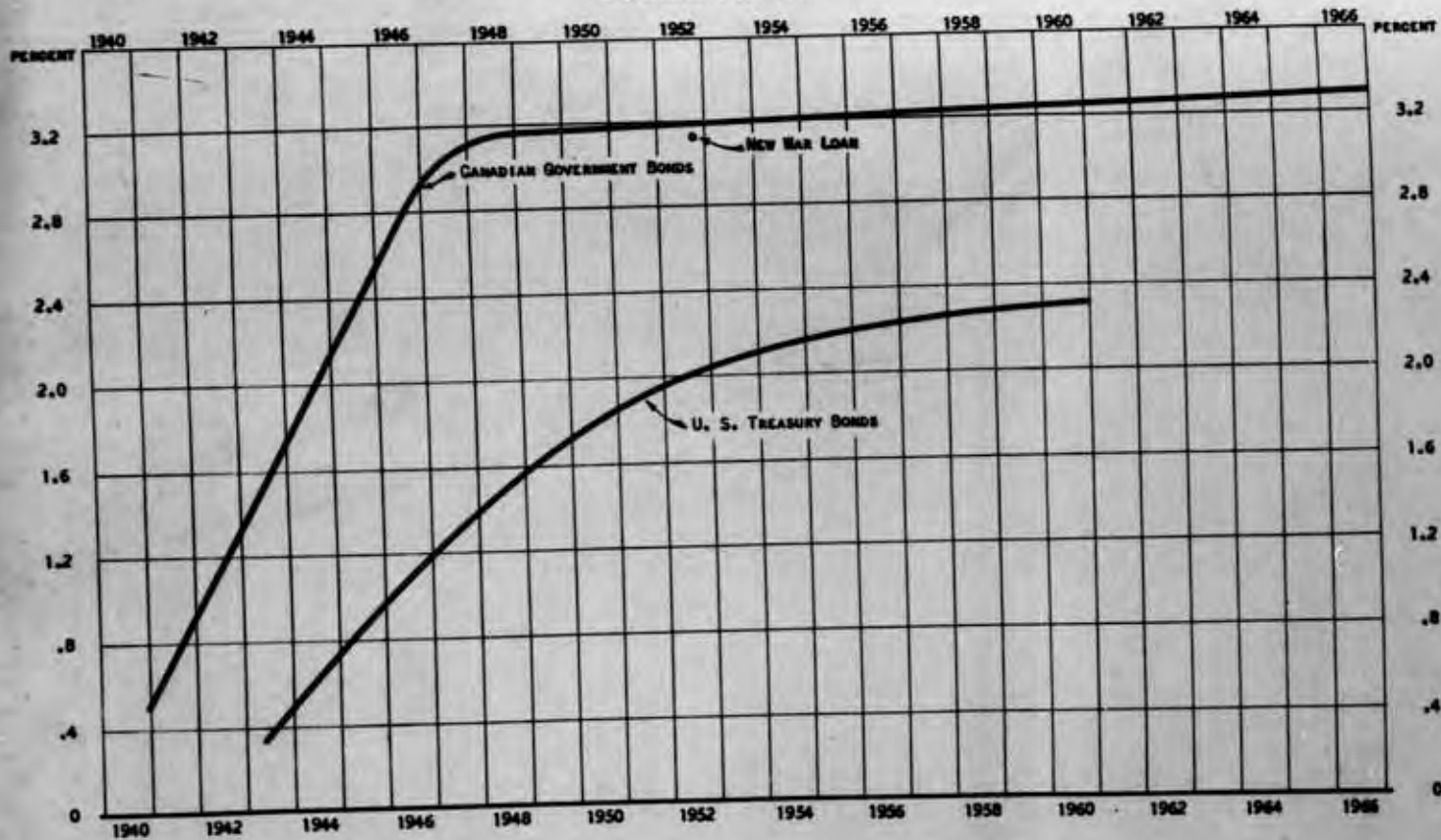


NOTE: THE FIGURES ARE AS OF MARCH 31, EXCEPT THE LAST PLOTTINGS WHICH ARE AS OF SEPTEMBER 30, 1940 AND WHICH ARE ESTIMATED FOR CANADA

\*THE CANADIAN SCALE HAS BEEN ENLARGED 12 TIMES TO CORRECT FOR DIFFERENCE IN POPULATION

Chart IV

COMPARATIVE YIELDS OF U.S. GOVERNMENT AND CANADIAN GOVERNMENT SECURITIES  
September 14, 1940



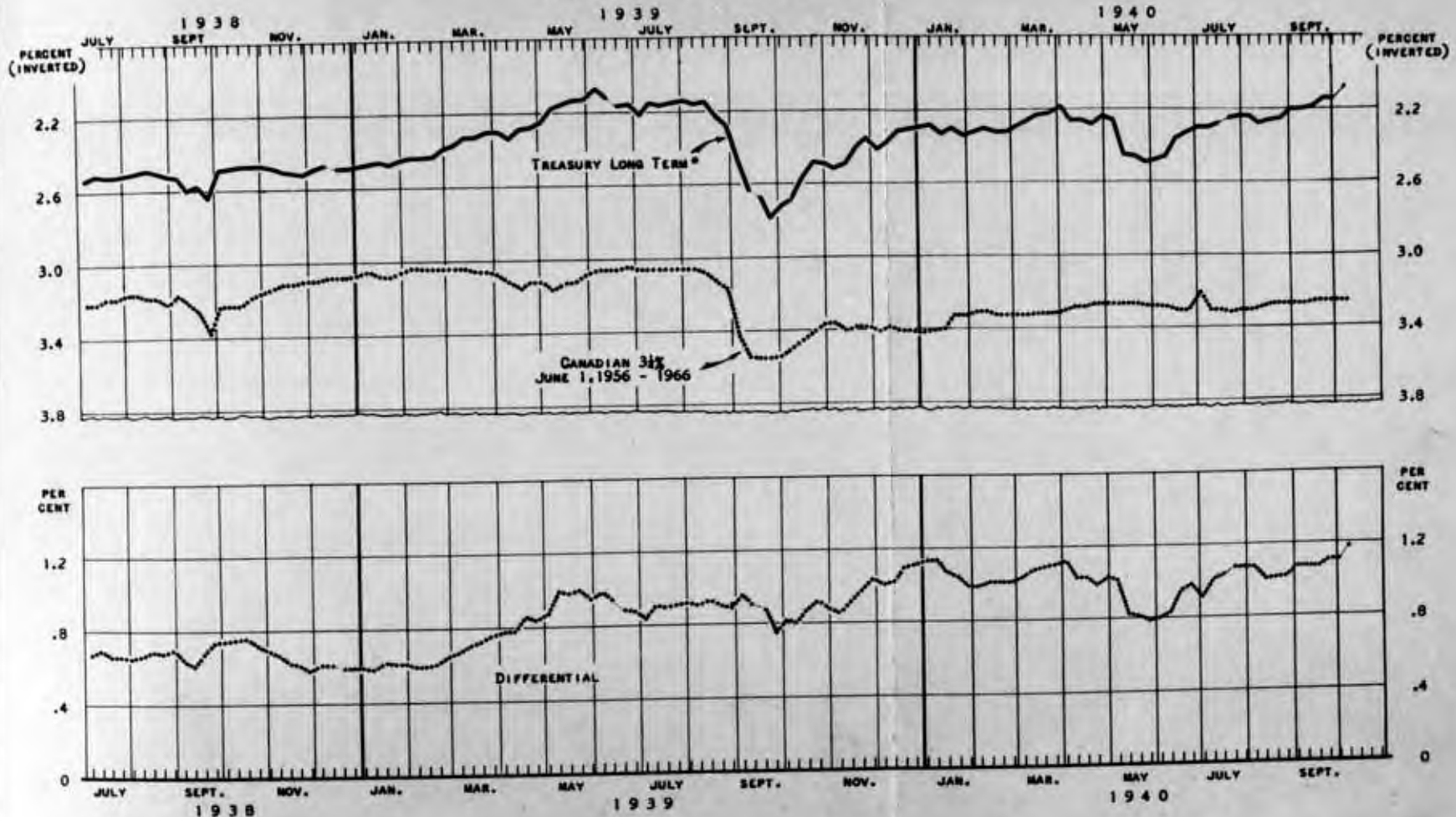
Office of the Secretary of the Treasury  
Division of Research and Statistics

FO - 135 - A

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Chart V

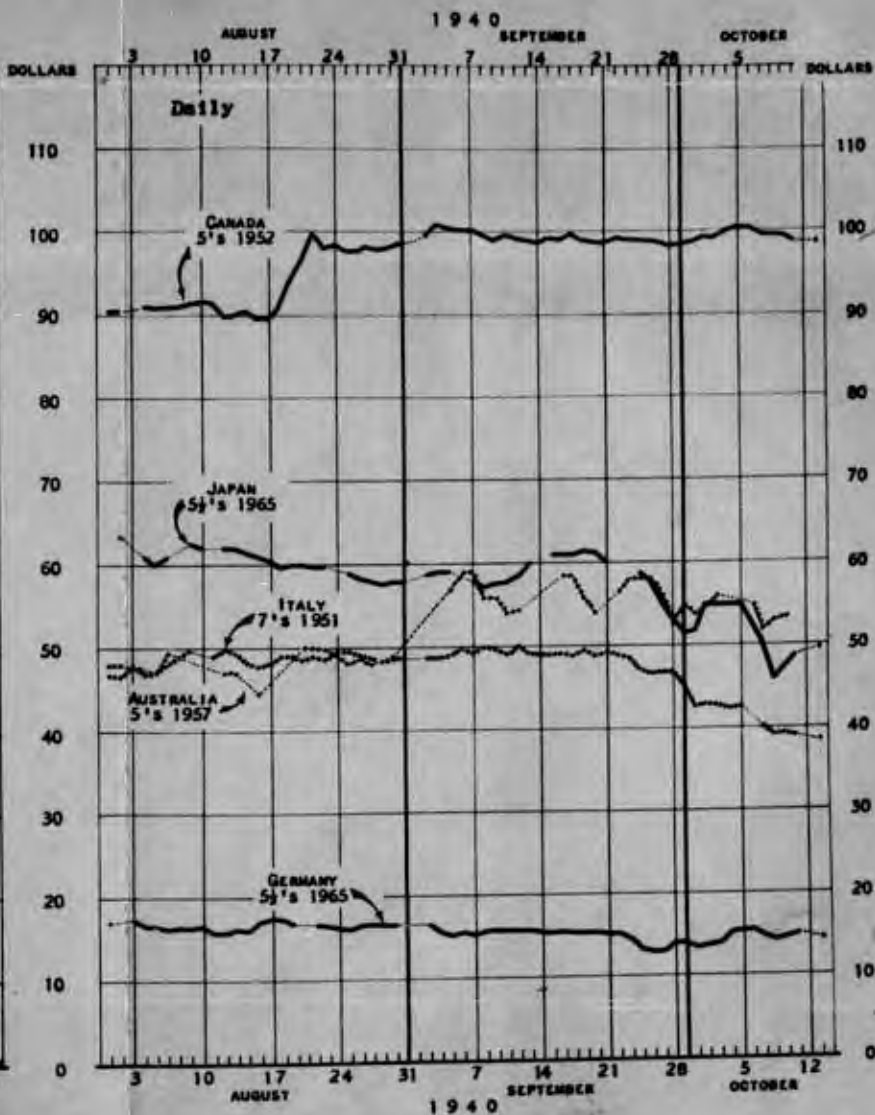
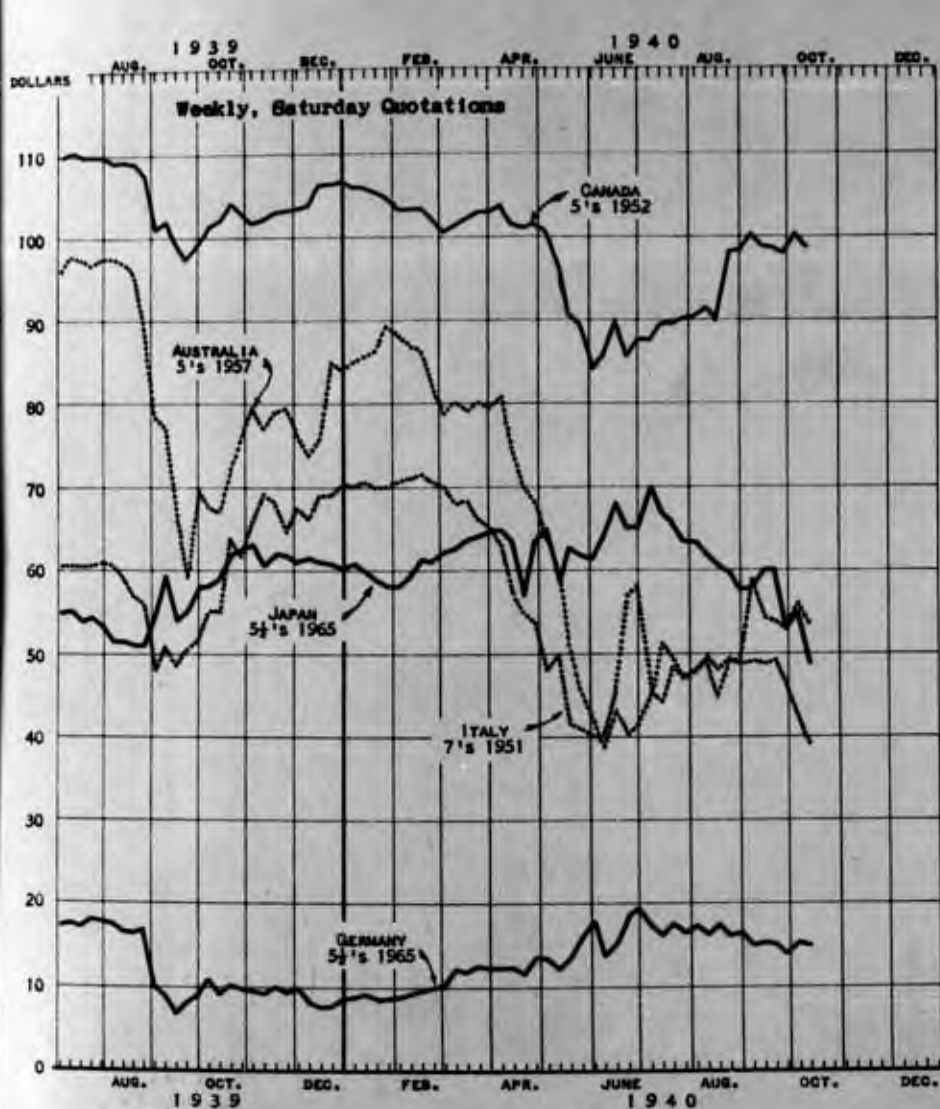
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG-TERM U.S. TREASURY BONDS  
AND CANADIAN GOVERNMENT 3½% BONDS OF 1956-'66  
Yields Based on Tuesday Quotations



\*BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF LONG TERM TREASURY AVERAGE



PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE October 15, 1940

TO Secretary Morgenthau  
FROM Mr. White

Memorandum for the Secretary of Commerce, a copy of which is appended, briefly reviews the Chilean situation, and states:

1. That the Chilean Government is asking that the United States Government:

- (a) Buy copper and nitrates for defense. (The Council of Defense, Department of Agriculture and the Department of State have, I believe, recommended an accumulation of a stock pile of 300 thousand tons of Chilean nitrates for fertilizer for possible agricultural needs in time of emergency. The acquisition of copper by the Council of Defense is still being studied but the prospects of the Council's taking favorable action as yet seems very remote.)
- (b) Lend \$25 million for exchange stabilization. (Presumably the Secretary of the Treasury is postponing further consideration of a stabilization loan until it is known what else can be done for Chile.)
- (c) A \$7 million credit for a hydro-electric iron and steel plant at Valdivia. (This is in addition to the \$12 million Export Import Bank Credit now available to Chile for developmental purposes.)
- (d) Up to \$2 million to be made available for the immediate importation of 100 thousand tons of coal from the United States. (According to a cable received from our Embassy at Santiago, October 11, a coal strike engineered by subversive elements threatens serious difficulties.

- 2 -

Division of Monetary  
Research

They are supposed to have only two weeks' supply on hand. This is the first we have heard of this item and it would seem to need further information.)

- (e) A \$500 thousand credit for a thorough geo-physical exploration of possible oil deposits for the firm of Herbert Hoover, Jr.

2. The memorandum from the State Department suggests that an Export Import Bank credit of \$17 million be extended to Chile to be used as follows:

- (a) \$5 million as an advance against the purchase of 300 thousand tons of nitrate.
- (b) \$2 million for imports of 100 thousand tons of United States coal.
- (c) The exchange arrears now owed U. S. exporters -- some \$6 million -- to be liquidated at once.
- (d) The remainder to be used for imports at the rate of not over \$1 million a month.



October 14, 1940

Memorandum for the Secretary of Commerce:

Chilean Request for Financial CooperationBackground

The Chilean mission headed by Mr. Oscar Schnake, Minister of Fomento, has been in Washington since the termination of the Habana meeting on July 30 discussing with officials of this Government the critical economic situation which confronts Chile as a result of the loss of international markets. Chile depends on copper and nitrates for three-quarters of its exports, Germany and the other blockaded nations having formerly absorbed about half of the exports of these commodities. The mainstay of the copper industry in recent months had been a French contract for 25,000 tons monthly; since this has become inoperative production has been reduced from 30,000 tons to 12,000 tons monthly. The British import copper from the Empire. The United States has not imported any important amount of copper for consumption since the imposition in 1932 of an import excise tax of four cents a pound. The only important remaining market for Chilean copper is Japan.

The

- 2 -

The United States has consumed about one-third of Chile's nitrates or some 600,000 tons annually. The British continue to acquire some nitrates under a sterling payments arrangement but it is anticipated that after a considerable decline in production and increased United States imports there will nevertheless remain a surplus of at least 300,000 tons of current production on June 30, 1941.

It is estimated that exchange arrears now amount to \$6,500,000 for goods already imported, and that an additional \$7,000,000 of merchandise remains in the customs houses awaiting exchange for entry. The Chilean mission states that imports, exclusive of those under the \$12,000,000 Fomento credit, must be maintained at \$7,000,000 per month to provide absolutely essential products. Many commodities formerly obtained in Europe must be imported from the United States at considerably increased prices, and, moreover, shipping costs have risen markedly. At the present time, the Chileans state they need \$25,000,000 to clear up the exchange situation and maintain essential imports from the United States. It is probable that imports could be reduced somewhat below these estimates.

#### Specific Chilean Requests

Minister Schnake has requested that the existing \$12,000,000 Fomento credit, which is now being drawn against  
for

- 3 -

for development purposes, be supplemented by:

1. United States purchases for defense stock-piles of copper and nitrates, 300,000 tons of nitrates a year having been mentioned.
2. Immediate exchange assistance of \$25,000,000 and further cooperation to maintain the exchange.
3. A \$7,000,000 credit for hydroelectric and iron and steel production at Valdivia.
4. A \$2,000,000 credit for the purchase of 100,000 tons of United States coal urgently needed.
5. A \$500,000 credit for a thorough geophysical exploration of possible oil deposits by the firm of Herbert Hoover, Jr.

The Defense Advisory Commission is continuing to study the questions of copper purchases for defense and the Commerce Department and our Embassy at Santiago are looking into the proposed steel plant.

#### Suggested Action

Minister Schnake has been away from Chile for over three months and is under great pressure to return. It is suggested that he be informed of agreement in principle to extend cooperation along the following lines, the details to be worked out subsequently with Senor Mardones of the Nitrate Sales Corporation and Dr. Maschke of the Central Bank, who are here with him:

An



- 4 -

An Export-Import Bank credit of \$17,000,000 to the Central Bank with the guarantee of the Government:

- a) \$5,000,000 to be an advance against proceeds to Chile of purchase of 300,000 tons of nitrates by an RFC defense corporation for agricultural fertilizer reserve.
- b) This \$5,000,000 plus whatever else is necessary to be applied to the immediate liquidation of existing exchange arrears owed to United States exporters.
- c) Up to \$2,000,000 to be made available for the immediate importation of 100,000 tons of coal from the United States.
- d) The remainder to be made available for payment for imports of necessities from the United States as needed at the rate of up to \$1,000,000 per month.

The Secretary of the Treasury has been considering with interest the Chilean monetary and exchange situation as a part of the broad Chilean picture, and has deferred any action pending decision with respect to nitrates and Export-Import Bank credits.

RA:Collado:mjc/1cn

American Consulate,  
Rangoon, Burma, October 15, 1940.

STRICTLY CONFIDENTIAL

SUBJECT

Statement of the Monthly Transit Trade in War Materials  
of the Principal Firms Engaged in This Trade Between  
Burma and China.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

Sir:

I have the honor to refer to this Consulate's strictly confidential despatch No. 365 of October 4, 1940, entitled "Statement of the Monthly Transit Trade in War Materials of the Principal Firms Engaged in This Trade Between Burma and China" and to refer also to previous despatches of a related character.

There is submitted herewith a statement of such trade conducted by the South West Transportation Company during the month of September, 1940. Statistics for this period relating to the other two principal firms engaged in trade are not yet available. Statistics appearing under the heading "Despatched this month" relate to goods despatched from Rangoon for eventual shipment across the border into China.

Respectfully yours,

Austin C. Brady  
American Consul

800  
WLP

In triplicate to the Department.  
A true copy of the  
signed original.

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STATEMENT OF THE MONTHLY TRANSIT TRADE IN  
WAR MATERIALS BETWEEN BURMA AND CHINA OF THE PRINCIPAL FIRMS  
ENGAGED IN THE TRADE

September 1940.

SOUTH WEST TRANSPORTATION COMPANY

Classification	On hand last month	Arrived this month		Despatched this month (Tons)	Balance (Tons)
		Tons	Port		
Arms & Acces.	* 55	6	New York	---	61
Ammunition	28	22	Hong Kong Shanghai	---	50
Explosives	---	---	---	---	---
Gasoline	2,286	2,909	San Francisco	1,243	3,952
General Cargo	36,303	11,748	Liverpool Singapore	8,783	#39,268
Totals	38,672 tons	14,685 tons		10,026	43,331 tons

\* This figure includes 36 units of Limbers weighing 52 tons.

# This figure includes 12,916 tons of steel rails.

mg

COPY





## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 15, 1940

TO Secretary Morgenthau  
FROM Mr. Klaus

STRICTLY CONFIDENTIAL

Among the communications received from the Federal Bureau of Investigation since Mr. Gaston's last memorandum to you are the following:

October 8. "Information has been obtained" that German influence in Brazil is being exerted on the government of Brazil to damage British and American interests and create ill feeling between Brazil and the United States and Britain through expropriation of important British and American companies in Brazil so that the Germans would thereafter be able to deal with Brazil separately. German firms are also said to be offering goods for early delivery and are talking a great deal about purchasing the whole of the cotton crop for early shipment--for propaganda purposes. Japan is said to be intending to circumvent the United States embargo by purchasing embargoed commodities through West Coast South American countries where special concessions are to be obtained permitting re-exportation of import goods within a period of thirty days. Japan is also said to be making purchases in Brazil, notably in castor seed, well above the normal scale.

October 8. "Confidential information" is to the effect that the Japanese N. Y. K. Lines serving South America through Honolulu and Pacific Coast ports intend, "quietly," to add the port of Acapulco, Mexico, as a port of call in addition to Manzanillo, Mexico, although there are no financial advantages to justify this additional stop; the suggestion is made that Acapulco is only six hours from Mexico City and would be more easily used by the Germans who go to and from South America and Mexico. Furthermore, Balboa is to be omitted as a port of call for the next two or three ships leaving Los Angeles in order to avoid the only American port at which search might be made on ships carrying material or information intended for South America.

October 9. The Japanese Consul in San Francisco is reported to have stated in a private conversation that the Japanese and the Germans were basing their plans upon the fall of England within four months which would leave Australia to Japan in view of the alleged fact that Australia has been stripped of troops.

October 10. Mitsubishi has sent a representative to Lima, Peru, to negotiate a contemplated purchase of Peruvian cotton which, it is said, would probably reach a total value of \$500,000, representing 3,000 to 5,000 tons at current prices, on six months' letter of credit; this sudden indication of interest coincides with an acute depression in Peruvian cotton arising from the loss of European markets, and cotton is said to be the most widely produced commodity



- 2 -

in Peru. The Banco Italiano at Lima recently opened credits for the Mitsui Cotton Company (Southern Cotton Company, Ltd.) secured by 90-day acceptances from the Chase National Bank.

October 10. Mr. Roy Shaffer, supposed to be related to the Attorney General of Mexico, has been approached by an official of the United Commercial Company Division of Hyman Michaels Company, which is the official purchasing agent for the Japanese for scrap iron, to go to Mexico and buy mercury for the Mitsubishi Company. Two retired United States Army officers, Sumner B. Morgan and one Gordon, are also said to be in Mexico attempting to buy mercury for the Japanese. Three hundred and seventy-seven flasks of mercury being held at the San Pedro Customshouse by United States Customs are said to have been part of orders of the Hyman Michaels Company for Japanese account. The El Paso Customs officials on September 28, 1940, arrested one Arthur E. Schuster for smuggling during the preceding twelve months a total of 159 flasks of mercury, but these shipments, apparently, were sent to Brooklyn, New York, and Wood-Ridge, New Jersey, where they went into production and were not reshipped. The Pacific Vegetable Oil Company of San Francisco still has an order to deliver 200 flasks of mercury to the Mitsui Company.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 15, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statement in Italian accounts maintained at the Chase National Bank.



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 15	\$500,000	Credito Italiano, New York	Bank of Naples Trust Co., New York	\$500,000	Banca Commerciale Italiano, New York	Credito Italiano, New York
	146,000	Banca Commerciale Italiano, New York (for account Banca Commerciale Italiano, Milan)	Union Bank of Lugano by order of Sebet	1,050,000	Credito Italiano, New York	Post and Flagg, New York
	500,000	Banca Commerciale Italiano, New York	Credito Italiano, New York			
	30,000	" "	Bank of America, San Francisco			
	100,000	" "	J. Henry Schreeder Banking Corporation, New York			
	40,000	" "	First National Bank, Boston			
	30,000	" "	Irving Trust Company, New York			
	50,000	" "	Mellon National Bank, Pittsburg			

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

The six reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£55,000
Purchased from commercial concerns	£ 2,000

The Federal Reserve Bank sold £2,000 in registered sterling to a non-reporting bank.

In the open market sterling was first quoted at 4.03-3/4. The closing rate was 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£18,000
Purchased from commercial concerns	£20,000

The Swiss franc weakened from .2321 at the opening to .2318-1/2 at the close. Today's decline represents the first reversal of the upward movement which began in the latter part of September. It will be recalled that the Swiss franc rose from .2278 on September 21 to a high of .2321 yesterday.

As for the other currencies, there were improvements in the Canadian dollar and Argentine free peso rates, while the Cuban peso had a slightly weaker tone. The closing quotations were as follows:

Canadian dollar	13-1/8% discount
Swedish krona	.2387
Reichsmark	.4005
Mexican peso	.2075
Argentine peso (free)	.2375
Brasilian milreis (free)	.0505
Cuban peso	8-11/16% discount
Lira	.0505

We purchased the following amounts of gold from earmarked accounts:

\$536,000	from the Bank of Venezuela
46,000	from the National Bank of Nicaragua
<u>\$582,000</u>	Total



## - 2 - CONFIDENTIAL

The Federal Reserve Bank made two three-months loans totaling \$72,000 to the Central Bank of El Salvador, setting aside as collateral \$70,901 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$722,000, secured by \$804,585 in gold.

There were no new gold engagements reported to us today.

The report of October 9, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$11,996,000, an increase of \$1,426,000 in the short position. The net changes in the positions are as follows:

Country	Short Position October 2	Short Position October 9	Increase in Short Position
England*	\$ 658,000	\$ 1,414,000	\$ 756,000
Europe	4,186,000	4,675,000	489,000
Canada	71,000 (Long)	62,000 (Long)	9,000 (Decrease in Long Position)
Latin America	438,000	489,000	51,000
Japan	4,395,000	4,357,000	38,000 (Decrease)
Other Asia	1,044,000	1,153,000	109,000
All others	80,000 (Long)	30,000 (Long)	50,000 (Decrease in Long Position)
Total	\$10,570,000	\$11,996,000	\$1,426,000

\*Combined position in registered and open market sterling.

The Bombay gold price was 1¢ lower at the equivalent of \$33.78. Silver was priced at the equivalent of 44.25¢, off 1/4¢.

In London, the prices fixed for spot and forward silver were both 1/16d higher, at 23-1/2d and 23-3/8d respectively. The dollar equivalents were 42.67¢ and 42.44¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made five purchases of silver totaling 567,107 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented a sale from inventory, and the remaining 417,107 ounces consisted of new production from foreign countries for forward delivery.

*B. M. S.*

G-2/2657-220

RESTRICTED

No. 220

SITUATION REPORTM.I.D., W.D.  
October 15, 1940.  
12:00 M.

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This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

The Germans executed daylight raids over southern England and the Midlands on the 14th. Single planes and small formations took advantage of cloud cover. German night bombing was directed against the London area and the Midlands. The attacks on London were unusually heavy.

R.A.F. offensive activities were confined to the night of the 14th-15th. Effort was divided between the Channel ports, rail facilities in German-held territory and western Germany. Berlin was attacked at about 2 A.M.

II. Mediterranean and African Theaters of War.

Minor ground operations. Aerial activity was somewhat intensified. The R.A.F. again raided Italian communications along the Mediterranean coast and made sporadic attacks in East Africa. The Italian Air Force bombed airdromes in Egypt and attacked naval targets.

RESTRICTED

Paraphrase of Code Radiogram Received at the  
War Department, 16:30 October 15, 1940.

London, filed 15:00, October 15, 1940.

1. During daylight hours of Monday, October 14th, the Bomber Command dispatched 12 planes against Channel ports and German factories. Results were unsatisfactory and one machine was lost. That night a total of 140 planes were dispatched, 23 of which attacked the Channel ports and the remainder operated against strategic targets in Germany. During the day the Coastal Command operated 47 planes on 30 patrols and 17 escort missions, losing one plane. That night six planes attacked the Lorient. During daylight hours the Fighter Command dispatched 81 patrols on 253 sorties.

2. Daylight activity by the German Air Force on the 14th was on a small scale. One attack was carried out by 34 Dornier bombers against the Portsmouth area and the rest were scattered raids by single planes. None of these reached London. That night attacks were on a reduced scale from 6:30 p.m. to 5:30 a.m. London was the primary and Birmingham the secondary objective. In all the Germans employed about 150 planes.

3. No British or German planes were lost, but three German planes were damaged.

4. Negligible damages only resulted from the daylight attacks, but considerable damage was done to London during the night. An anti-aircraft instrument factory and an optical factory were severely



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damaged by high explosives and production was suspended. A metal refinery, a radio factory, and a submarine engine factory were partly burnt. One electrical distribution station is temporarily out of commission and a gas works was hard hit by high explosive bombs. Bombs penetrated a railroad tunnel and a subway station, blocking them. Civilian casualties were heavy. In Grosvenor Square two high explosive bombs completely demolished the house next to General Scanlon's residence. No. 10 Downing Street was also damaged. Coventry was attacked by high explosive followed by incendiary and oil bombs and many fires were started. Industrial production will be affected by the damage to gas mains. Full reports are unavailable. Five airfields were attacked but none of them are unserviceable.

5. My observation of last night's bombing is that a considerable proportion of the bombs were dropped by fighters instead of bombers. However, all during the night there were some bombers cruising.

6. An armed merchant cruiser was damaged by a torpedo attack. One light merchant ship and a 10,000-ton oil tanker were sunk in convoy.

LHE.

**Distribution:**

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Intelligence Branch

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Russian

Paraphrase of Code Radiogram Received at the  
War Department at 4:03 A.M., October 15, 1940.

Chungking, Filed 04:00, October 15, 1940.

Russian Military Attache on the 14th requested an interview. In the course of a long talk he wanted my opinions on combat efficiency of Chinese Army, loyalty of Lung Yun, Japanese intentions in Indo China and probable United States reactions to new three-power pact and Japan's further advance southward. An of opinion Russian Military Attache's inquiries stem from his country's indecision over Russo-Japanese non-aggression pact.

BARRETT.

**Distribution:**

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Intelligence Branch.

RESTRICTED

October 15, 1940

11:15 a. m.

Present:

Mr. Purvis  
Mr. Pinsent  
Mr. Cochran  
Dr. White  
Mr. Bell  
Mr. Young  
Mr. Ballantyne  
Mrs. Klotz

HM, Jr: I asked you gentlemen to come down in view of two memoranda which I have been receiving, one from Sir Walter Layton, which gives me a list of materials, and the other one that Mr. Pinsent gave me last night on the gold and these new estimates as to expenditures, and, frankly, I don't know whether the two add up together, so I thought maybe you two gentlemen, I take it, see each other occasionally?

Mr. Purvis: Mr. Pinsent and I met yesterday, as soon as I arrived. He was in my office and we did our best with the figures, but it inspired me to do something else at six o'clock last night, getting worried that we still do not have that one picture, I have started a combined statement of numbers and value, including the fact that we shall have to price some things without knowing exactly what the value is -- Air, Army, Navy, divided very simply into trainers, bombers, in the Air, and miscellaneous, and engines; in the Army, field guns, other artillery, machine guns. I mean, just six headings. And then the same with the Navy. And then I am putting -- I hope to have this this afternoon -- I have really got to the point where I feel I have to do it myself and see how it works -- I thought there might be three columns: orders placed, orders to be placed, quantity. Deliveries, 1940; deliveries first half of 1941 and



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last half of 1941, and 1942. Value based on the same periodical division. Now, I hope to have that this afternoon. It will be partly based on values that we know and partly based on pricing values, and I am hoping to get hold of Mr. Pinsent as soon as he is done and tie it in with him, because yesterday he put it up to me. We discussed it a couple of days ago and agreed that as soon as we knew what Sir Walter wished to put on the table as his requirement, that we should put it on one sheet. Would that be of assistance? It could then be broken down into further subdivisions.

HM, Jr: If we could have a master sheet to start with and then I could ask for ....

Mr. Purvis: ..... such further breakdowns as you want .....

HM, Jr: ..... amplifications.

Mr. Purvis: Well, I came to the same conclusion myself last night and we got back our statistical people from New York -- telephoned and brought them back -- and they have been working since the crack of dawn this morning. I understand it's not a long job as long as we keep in simple form.

HM, Jr: You can have Haas. What's the name of the man that works with Haas?

Mr. Young: Lindow.

HM, Jr: Didn't he go to New York?

Mr. Young: I don't believe he has gone.

Mr. Purvis: In the meantime, I have filed a statement of forward deliveries. I really think we have just got to bring in one sheet.

HM, Jr: And then you will explain to Sir Walter Layton that I am waiting on the British mission?

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Mr. Purvis: I explained it to him on the telephone. He's very worried. However, I told him that we were putting in this sheet, in the meantime, as a master sheet and that we would have to work down from that. You see, I think, Mr. Secretary, in fairness to his angle, he is particularly worried on the question of type and getting orders placed. You have certain broader considerations in your mind in connection with the financial picture.

HM, Jr: I am, first, Secretary of the Treasury and then, second .....

Mr. Purvis: I will give it a name. (Laughter)

HM, Jr: I will tell you what I call myself.

(At this point, HM, Jr talked on the phone about Lindow not going to New York and said, "We don't want him to go to New York then, do we?" Mr. Purvis answered, "I would rather bring in further talent. We have it." Mr. Young said, "He can postpone his trip." Mr. Morgenthau said ~~said~~ on the phone, "Hold him here, please."

Mr. Purvis: We will bring in further people from New York and have it done right here where I think we have the necessary information.

HM, Jr: What I refer to myself is Nurse and he (Young) is Assistant Nurse. And I am thinking of getting Young a nurse's uniform for him. I think he will look very cute in it. One of these blue things with a white collar.

Mr. Purvis: And a touch of red.

Dr. White: Those purchases you contract for are only Government purchases?

Mr. Purvis: Yes and I have here, brought by Sir Walter and sent to me by Salter's committee, some estimates -- I don't know whether Mr. Pinsent has



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more than this -- but we have certain estimates of the timber purchases and pulp paper. I don't know whether you have them.

Mr. Pinsent: Not in detail, but I have from Phillips, by telegram, in a very summarized form, his revised estimates of our purchases, over-all, in the United States and that is in ~~one~~ of the documents, marked "C", but I have to confess at the outset that these figures do not add up and comparison of the various tables and comparison with the Purchasing Commission's figures is bound to show discrepancies. However, I think those discrepancies are probably not very serious.

HM, Jr: I think it's only fair if I ask that you people do the worrying and get them to add up and as soon as they are added up, let me know and I would like to see you two gentlemen again, but, I mean, they obviously don't add up.

Mr. Purvis: Would you be willing -- I think the last time you brought this point up was at lunch with Phillips here and you pointed out, or Mr. Bell pointed out, that our purchases were running 37% of the field. I think that was the figure. I have an idea, as we forecast into the future, there will be a larger percentage and that will be one difficulty in checking such data as we have on the controls. We may have to make an assumption to do something of that kind, don't you think, Mr. Pinsent?

Mr. Pinsent: Of course, the expenditure of the controls is not the whole story, because there are a lot of expenditures by private buyers under the controls.

Mr. Purvis: That's the difficulty.

Mr. Pinsent: And the third document, Document "C", gives the best figure, revised figures, which Phillips had sent here on which I hope to have more detail. That gives it for 12 months without break-



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ing it down month for month. The object of Document "D", imperfect as it is, was to try to give such indication as we could of the extent of this expenditure month by month. Here we could only do it for the Purchasing Commission's expenditures and we have to suppose that the rest of the expenditures is, roughly, regular. But this document "D" does, at all events, serve to show one conclusion, I think; that is, as the monthly liabilities under existing commitments level down, new ones under proposed programs are going to grow up and monthly expenditure of the Purchasing Commission is bound to be on a rising scale, so we anticipate our monthly loss of gold and dollars would also be on a rising scale.

HM, Jr: Of course, to me, it is very obvious that pretty soon you people are going to have to clear everything through the Purchasing Commission.

Mr. Pinsent: That would be a great advantage if we could.

HM, Jr: And I just can't understand why you don't. Take, for example, this thing you have raised about the cotton people. That's a private transaction, and as such there is nothing that I can do. I can't go to the banks and say, "Look, so-and-so." In the first place there is nothing I could do, but if it was something for the Purchasing Commission and was official it would be another question.

Mr. Pinsent: Yes.

HM, Jr: And Mr. Bell and I discussed this thing. I don't see what I can do with that kind of thing. It's a fairly private transaction and I can't dictate to the banks, even if I wanted to.

Mr. Pinsent: I suppose one of the most important reasons for making our purchases in that way is that there is the whole machinery in existence for trading in cotton and our people are reluctant to abandon

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that machinery and try to set up something entirely new.

HM, Jr: If they could put into cotton and things like that the same force and drive that they have into the R.A.F., maybe they will get somewhere. As I understand it, there if a fellow does not make good he's fired.

Mr. Purvis: I don't think that the Secretary is asking that existing buying methods be changed, but existing information be channelized and I don't think there is any necessity of changing the purchasing channel provided it comes into focus.

HM, Jr: I have something else in mind. I mean payment of funds. I don't say that Jones and Smith should not buy with Smith and Brown in the United States, but when it comes to clearing his funds it seems to me that, I don't know, but I should think that he would go to the same place in London and get an import license for so many pounds and that would be arranged and furnished by the British Treasury in dollars, but evidently they don't do it that way.

Mr. Bell: Wouldn't that go through the Exchange Control?

HM, Jr: No.

Mr. Pinsent: I don't know what the history is, but I believe the Board of Trade is responsible for issuing import licenses, but its policy in that respect has to agree with the Treasury because of exchange problems.

HM, Jr: But, my dear Mr. Pinsent, if it did these people would not be having their troubles in connection with their money. I am not thinking of channelizing, except funds, and evidently they are not doing that.

Dr. White: This is a problem of exchange risk and I take it that the matter is reaching that stage where all questions relating to the exchange



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risk and payments could be undertaken through the one authority, the Treasury. I think that is what the Secretary has in mind, without in any way interfering with the normal purchasing authority.

HM, Jr.: You have it, Harry. I mean, it's exchange and money, etc., and so on, because I imagine you have private concerns competing with each other seemingly for dollars, which is rather stupid.

Mr. Purvis: I don't understand its workings.

HM, Jr.: Well, evidently Mr. Pinsent doesn't either.

Mr. Pinsent: It is correct, Mr. Secretary, that the exchange side is cleared not actually through the Treasury, but under the supervision of the Treasury. All requests for exchange have to be put in through one of the banks who have certain -- who are allowed certain discretion themselves to approve or disapprove under certain rules, while certain classes of cases have to be referred to the Bank of England. The Bank of England does all the day-to-day decision of that kind, while questions of policy are discussed currently between the Bank of England and the Treasury and are settled and the bank proceeds on that basis.

HM, Jr.: There must be a gap somewhere.

Dr. White: Here is a case where apparently the American cotton exporters and banks who might finance and take over Sterling don't wish to take over certain exchange risks and as a consequence of that there are some obstacles in the path of the smooth transmission of cotton. That ought to be something that could be relatively simply handled if all such matters were channelled through the one organization, as the Secretary has in mind.

Mr. Pinsent: I think it is channelled through our Treasury working in consultation.



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HM, Jr: Might I suggest that if you could find out more why this question was raised and put up to me? You might say I don't understand it and if everything is working so smoothly, why do they have to raise it?

Mr. Pinsent: Yes. I only meant that these problems do reach our Treasury regulation. There is no gap in the sense of the Treasury not being acquainted with them, but how to solve this particular problem I don't know. It looks like it will have to be discussed between the Bank of England and banks here through the Exchange Commission in London.

Dr. White: But isn't there a question between means of payment and the ordinary run of transactions and I take it the Secretary is interested to an increasing extent in the means of payment.

Mr. Pinsent: Yes.

HM, Jr: May I drop that subject and may I say something, very frankly, and in the interest of both Governments. I have read your statement -- the message from Sir Frederick Phillips, dated October 5, in which he said "We are far advanced with a special and careful study of our direct investments and whilst the numbers are considerable we are not very hopeful that we can get any substantial amount of dollars from this source owing to the manifest difficulties of making sales to American investors," and I am going to say just as long as Mr. Gifford is here you never will.

Mr. Pinsent: I don't think this is being handled through Gifford, Mr. Secretary.

HM, Jr: The reason I say Mr. Gifford, just as long as Mr. Gifford is in charge you will never raise a dollar.

Mr. Pinsent: What I understand is this is being discussed in London between our Treasury and

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the holding companies in United Kingdom, but Phillips appears to have found that that was the the best approach to the matter.

HM, Jr: "Particulars of direct investments and suggestions for the sale of everything possible will be fully and frankly put before the Secretary of the Treasury for his advice and guidance." What I am saying is, "We have consulted Mr. Gifford who is returning shortly to U.S.A." I am saying just as long as Mr. Gifford is in charge of that, you are not going to raise a dollar.

Mr. Pinsent: I can assure you he is not in charge. He has been consulted and he has returned and I have talked to him, but the actual question is being explored in London between our Treasury and British holding companies, because it is believed they would have the best means of suggesting how the investments could be disposed of here. Whether Gifford will be asked in any future stage to take any further hand in the matter I think is entirely undecided.

HM, Jr: You understand me?

Mr. Pinsent: Yes.

HM, Jr: Pinsent and I talk very frankly. But these are serious times, you know.

Mr. Pinsent: Yes.

HM, Jr: And I am particularly saying this, at this time, in view of what Ambassador Lothian said that Mr. Phillips would like to come back to the United States and I told him I would be delighted and he's coming about the 20th of November, so I do hope if he's going to ask my advice at that time that he put in somebody, for lack of a better name, as liquidator, that it will be somebody other than Mr. Gifford. I have tried to advise Mr. Gifford



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two or three times and he never took my advice so there isn't much use in my talking with him.

Mr. Pinsent: Well, Mr. Secretary, I am very sorry to hear that. I hope you believe that if Mr. Gifford has not taken your advice it is not through any heedlessness or lack of thought.

HM, Jr: To make it plain, it is much easier for me to call up J. P. Morgan or his partners and tell them what I think rather than call Mr. Gifford and have him go around and ask Morgans what to do. If he would rather take Morgan's advice than mine, why bother me? That's what he's doing. I know a number of partners in Morgans. Mr. Leffingwell offered to come down any time. He said he would drop anything and if I want to ask Mr. Leffingwell's advice, whom I think is a very high-class citizen, I can get his advice and I can suggest to him what to do and I don't need Mr. Gifford. But Mr. Gifford has had ample time and opportunity to do something for the British Government along these lines and he has not done a thing and I don't think he ever will.

Mr. Pinsent: Frankly, I don't think he has been asked by the British Government. He was consulted while in London. I spoke to him on the telephone after his return and I understood then he had not been given any instructions to do anything. It was being explored and handled in London. So if he has not done anything about that, I don't think it's his responsibility, because he has not been given any mission to handle it.

HM, Jr: Well, I made the point, the time to do this thing is six months before you have to do it.

Mr. Pinsent: Yes.

HM, Jr: I have made that point right along



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The time is six months before you have to and not wait until the time comes when everybody knows you have to sell. I don't need anybody to advise me, I don't care whether it's a bushel of apples or a bushel of securities. The time to sell is when you are at ease and not when everybody knows that you have to raise some money and I have been trying to get that thing across to the British Government and the time is not when you need the money but when you don't, and that time is now, but I have made no headway on the thing, and in view of the message I got from Sir Frederick Phillips, last night, I think this thing is very much to the point and I think the thing about South American securities is very much to the point.

Mr. Pinsent: I hope very much, in fact I feel sure that Phillips will be sending something on South American securities.

HI, Jr: Frankly, this whole thing of Sir Walter Layton coming in and giving me one piece and then wanting an answer the next day and then in his letter not saying I am going to tell you about the Merchant Marine, something else, not having the thing in units of dollars, and where I spend over half of my time trying to be helpful, but I had a very bad week-end due to Sir Walter Layton's memorandum. It just worried me sick. And then this thing coming on top of it makes it that much worse.

We get the feeling -- we are talking in the Treasury family -- just get the feeling of lack of unity and drive and purpose, which is very upsetting to me. It's very upsetting. And, as I say, the things I say here are only in this room, but I do think it's time they pulled these loose ends together.

Mr. Pinsent: I entirely agree with that, Mr. Secretary.

Mr. Purvis: Perhaps we should try to put

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our heads together and see what we can do.

HM, Jr.: Don't burn yourself up this afternoon. I am all tied up. No use. You are always under 24-hour pressure so if it is ready tomorrow morning, tomorrow morning will be just as good because I can't do it this afternoon.

Mr. Purvis: I have just received word my end will be ready in an hour.

Mr. Pinsent: Inasmuch as these figures are -- I wasn't aware yesterday that Mr. Purvis could get an improved study so quickly and I particularly did not want to keep you waiting and I thought I did right to send you these figures until we get something more perfect.

HM, Jr.: No. I am not criticizing you. I want to get it over to you so you can, in turn, reflect it to your superiors. I am being forceful because I feel forceful.

Mr. Pinsent: I am very glad when you do that.

HM, Jr.: After all, you are my avenue of communication to the Treasury.

Mr. Pinsent: I always like to have a kick behind it when I send anything to the Treasury.

HM, Jr.: So I am only talking with you so if the cables reflect how I feel, you can get it back to the British Treasury, but I don't, as I say, want Purvis to burn himself out trying to get it this afternoon.

Mr. Purvis: No. I understand. And it's easier to get our munitions figures end. I got some data on Friday and some yesterday and I think we can now put ourselves on one sheet, but I say again that that has to be extended to give you the future.



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Mr. Pinsent: We are depending on London still for figures that have not been made through the Purchasing Commission.

HM, Jr.: Let me ask you. I am lunching today with Mr. Stimson to talk about Sir Walter Layton's memorandum. And where does it stand as far as the British Purchasing Commission is concerned as to purchases of kind of materiel on the lists.

Mr. Purvis: We go ahead, if permission were granted by the Defense Advisory Committee and the Secretary of War and yourself, to place orders for those types. It's the type question which has, of course, been holding up certain of these orders, but if permits were given today we would proceed to place orders working in, we hope, with the R.F.C. financing thing to the extent the type question would not, as you warned us, make it impossible in certain cases because a product was not suitable for U. S. defense.

HM, Jr.: Let me ask you this question. I take it Phil has got this message to you. The thing we were sending up to New York for was to get a list of things you already had on order.

Mr. Purvis: That I have already handed him in volume basis, the orders that we have placed, but they do not cover any items that are on the list that was in Layton's memorandum for the very good reason that all of those have been held up pending permission to place orders for such types. That is the position, isn't it?

Mr. Young: Yes. That's correct. All of these requests for clearance to negotiate for odd types of guns, British types of guns not standardized with ours, have been held up for study and attempt at standardization and the Army program, in order to find out what excess capacity might be available after our orders are placed, which conceivably could be placed for odd types.

Mr. Purvis: And our effort has been to come



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into the complementary field. I think, on the whole, some progress has been made. It still leaves us some problems of 25 pounders and .303 rifles and a certain amount of 2 pounders.

Mr. Young: I think Mr. Knudsen made it pretty clear to Sir Walter that probably the best that could be hoped for in that connection with that, we might be able to turn out forgings provided you could do the machine work on guns for odd types.

Mr. Purvis: I wasn't present at that, but actually no orders have been placed for that particular list. In order to bring it into focus, on my sheet that I am giving you today, I am hoping to show items for which orders have been placed although they are not the same types.

HM, Jr: The other thing Layton kept throwing back at us is "where you say you want this and we want 1,000,000 rifles! Oh, yes! If we give you those, you are going to ask for the ammunition." You be ready for the answer on that. That's why I ask how much powder and ammunition you have on order. That thing would be sort of synchronized. The whole thing would sort of follow by months. You know the ammunition is coming along; that you will not have to ask for additional ammunition.

Mr. Purvis: I think your men may need to work on it in order to produce exactly what the Secretary wants, but today Mr. Young has a list showing forward monthly deliveries through 1941 and 1942.

HM, Jr: If you could do it just the way I got the request in for pursuit ships, by types. What I have in mind, for instance, The Curtiss P-40 does 360 miles and you are going to get that from now to the first of July. Then Bell comes along, which does almost 400 miles an hour. Then the next order you want is something which is a little bit better. Now, I want the same thing on bombers. The same thing

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would be partly true with guns. If I could start and say, you have on order so many tanks.....

Mr. Purvis: That's right.

HM, Jr: .... and those begin to be delivered at such and such a date. Size. Then a tank sheet, let's say, and then guns for the tanks and the ammunition for the tanks. I don't know whether it's divided up that way, but you could get for me -- somebody has to say, if you are going to get 5 tanks a day you need so many 30 or 50 calibers; you need so much of this or that. If you had a sheet on that so you could follow the thing along, so when the time comes for delivery you can say either we are going to have machine guns and ammunition in this country or that country so that that unit or whatever goes with a tank corps unit would be complete. I am not a military man, but that's the orderly way and it's the same thing with the airplanes on order. Have you enough machine guns in this company and ammunition so that when they get over there, they will not need ammunition, machine guns or engines?

Mr. Purvis: That is all right. Our general instructions in regard to the program from July 1, (before that it was spasmodic buying) -- we have been authorized to build up as fast as possible complete units, balanced, of everything and that is our purpose. We did have to cable back to London and say where some things are easier to get than others, where it is possible to get a shell for a gun before we can get the gun, do you wish us to ship such shells as we can because it adds to factory production on the other side? We got there authority to ship them components, but not to deviate from the view point to arrive at the point where absolutely balanced units of everything are going across, and that is the dominating position behind our orders.

HM, Jr: After all, I can't tell you what goes into a mobile tank corps, but certainly the General of a tank corps knows. He knows he has to have so many of this and so many of that and the same thing would be true in an artillery unit. In these sheets



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which you could make up for me, which would be most useful when they come along and say "we need so many divisions for so many armies and we are asking for the 25-pounder to go into this army." "Now, we are very sorry, gentlemen, but we could give you this thing, just as an isolated piece, to make up a definite unit." And I think the sooner you can get that -- after all, when we set up so many orders and so many of this and that, it's all-around equipment to put an army into the field and just -- I mean that you want so many of this and so many of that, and then knowing what your production is we might say if you could take a little more of this, maybe we could do this, or vice versa, but that's what it gets down to and I still don't think we have enough information available.

Mr. Purvis: The difficulty of getting a balanced unit is due to the fact we have a certain amount of production in England and part is required here and those are the quantities that Layton has got down for the particular items he has stressed.

HM, Jr.: But I think he has to do it in terms of units. If it is a tank corps unit, all right. What does he want for a tank corps unit? If it is so many squadrons for the air, what do you need for so many squadrons? If it is mobile army or Home Guard, I think you have to do it in military terms and I can envisage the production schedule and there will be certain blank spaces. This thing would be fixed up as to what you can do in England and blank spaces of what can be done here.

Mr. Purvis: That is indicated on the first sheet.

HM, Jr.: But if I was the head of the Quartermaster Corps in this country and General Marshall was given this, I could not work from that any more than if I was in charge of an automobile factory and had to turn out so many cars....

Mr. Purvis: It's true we have not given the breakdown. Layton has given the net figure which is the result of all the calculations given to him before



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he left by the Army. He has arrived at the conclusion: so many field guns needed to balance up the field guns required ....

HM,Jr: I am not trying to make haste slowly and I think you will find a lot of the things he has there he can't get and it will get down to substitutes and in order to substitute I think we will need more information and I think one of the easiest things to start with is we use tanks to start with.

Mr. Purvis: On tanks we are endeavoring to make them a definitely balanced unit with guns, with ammunition, with radio, with everything in the tanks, and the tank crew are working on it.

HM,Jr: You have got people over here. Couldn't we use that as an example?

Mr. Purvis: All their orders are not placed yet and we don't have the blank spaces which the Secretary wants. What we have is what has been placed as distinguished from the blank spaces.

HM,Jr: I see a big blackboard and this thing is flowing through. You are going to have an assembled tank and whether your sub-assembly places are in a factory in the United States or England, when this thing is through you want a complete unit. The blank spaces are the ones where you say "we simply cannot fill those. It's up to you."

Mr. Purvis: Well, on ordnance, army ordnance, I think you can take it that those net figures are undoubtedly types, particular deficiencies, at the date given in the memorandum. We have not covered tanks because tanks were going along well. I think Layton has confined himself to articles which are held back by the question of standardization.

HM,Jr: I want to make it everything. What I am asking you is not in any way holding up Mr. Stimson and he got it on Friday and I am seeing him at lunch, but what I am talking here is my first duty as Secretary of the Treasury and I can see the

-18-

other things that will arise. Maybe Stimson has all the answers, but from the way he talked yesterday I don't think he has. He's just as bothered as I am and that's why we are having lunch together.

Mr. Purvis: Quite! May I in this master sheet, may I still put in at the beginning -- fill out, and fill out and fill out -- but I think at the beginning, figures to go on one sheet, the whole picture as far as we have it and then make it later as we go along.

HM, Jr.: I will give you a good laugh. Phil had this airplane thing in this morning. I said, "Step around behind my shoulder." He said, "No, because I can't explain it." So I said, "Well, let's just have a little fun at 11 o'clock and ask Mr. Purvis to explain it," and Phil said it wouldn't be fair. So he's your friend.

Mr. Purvis: I am afraid I would bog down.

HM, Jr.: So he sent it back and we have hopes.

Mr. Purvis: Well, certainly .....

HM, Jr.: I did not know that you were getting pursuit ships with Allison engines from North America.

Mr. Purvis: It's news to me.

HM, Jr.: I didn't know. So it just shows that much more on Allison.

Mr. Purvis: I flew up to New York and deliberately went into this motor show and ran into Mr. Sloan. He talked to me -- and he's most enthusiastic and spoke of his conversation with you most enthusiastically -- and he said within 90 days on Continental he believed it would be in excess and he said, "You need facts and the Secretary wants facts. I will have prepared how many Allison engines we shall have available in that time" and he's preparing something to develop this situation further.

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HM, Jr: They are coming along. They put engines into all the chassis they had under the tents.

Mr. Purvis: He said they had a lot of grief. He said, "I had to take 300 people to get that situation straight."

HM, Jr: Well, again they did it, but they should have done it a year ago. But it's coming along beautifully.

Mr. Purvis: He said he takes his hat off to every airplane engine he sees in the sky.

HM, Jr: Have you (Mr. Young) had any luck in getting that one engine for him?

Mr. Young: Mr. Bell, of Patterson, was working on it.

HM, Jr: Do you want to make a note to call up on it?

Mr. Young: Yes, sir.

HM, Jr: And another thing, Phil, when you see the British Purchasing Mission, I would love to have the results of the first flight in England of the P-40 -- when you see them -- or any other new American models that they have.

Mr. Purvis: Of course, the man who is coming out will bring something of that nature.

HM, Jr: Or if they have any other, but particularly the P-40, the first time they had a flight. I think it would be very interesting.

Mr. Purvis: Yes. Performance.

HM, Jr: Our people are particularly interested to know what the 60 caliber gun will do, because, as we understand it, your Spitfire Hurricanes only has 30 and they can't penetrate armor, and here is the



-20-

50 caliber thing on the P-40 and our people are anxious to know what success you have had.

Mr. Purvis: That machine gun situation is deserving of the greatest push we can put into it.

HM, Jr.: Now, when you have your master sheet, give me a ring and I will arrange my schedule so as to see it.

Mr. Pinsent: May I come back to something you said a minute before, when you said the time to sell is 6 months before you have to. I don't want to misunderstand it. I don't think you mean to imply that we were wrong to slow down our sales after the market dropped in May, or are you thinking of direct investments?

HM, Jr.: I am thinking of direct investments.

Mr. Pinsent: One other question, whether you have any suggestions as regards the method by which South American securities could possibly be disposed of here, because although I am a child in the matter I can see some of the technical difficulties. We will have to start recapitalizing the concerns on a dollar basis.

HM, Jr.: I don't think it's any secret that the Argentinians are sending up an important financial mission to come here, I think, the first week in November and one of the things on the agenda is the question of English securities and I saw a reference in the paper to a big meat and grain deal between England and the Argentine and it seems to me that if England is going to buy X millions of dollars of beef from the Argentines that they might pay for them with English securities of the Argentine Street Railways. You see?

Mr. Pinsent: I haven't got the particulars yet, but I believe something is being arranged, but I think it only covers Argentine Government securities.

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HM, Jr: Well, whatever it is. It might be a three-cornered deal. We might be helpful to the Argentines. I mean, I have even thrown out that suggestion that, for instance, use the figure 10,000,000 or 50,000,000 and they have to finance it through taking your securities. We might help them with a loan against the credit of the Argentine Government and give them time to pay for it.

Mr. Pinsent: That's very interesting.

HM, Jr: You get the idea?

Mr. Pinsent: Yes, I do. It's very interesting.

HM, Jr: "We will sell England \$50,000,000 worth of beef and we will take in payment \$50,000,000 of securities held by the British or Argentine public utilities." Then they come to us and say "Will you help us to finance this deal?" and we say "against the credit of the Argentine Government plus these securities, we will lend you the money and you pay us back over a period of time." And we have that in mind and I am glad to have this chance to tell you that.

Mr. Pinsent: I am very glad to hear it.

HM, Jr: I understand the thing runs into hundreds of millions of dollars and here's a chance for you people to make a three-cornered deal and if you have any securities in any other place in South America and you want to buy, we stand ready -- I am not making a commitment -- to look into the situation, but I have told Mr. Welles and I have told the Argentines that I had this in mind and that's one of the principal reasons they are coming up here. Doesn't it sound interesting?

Mr. Pinsent: Very interesting. I would like to send that to London at once, because I think they ought to be prepared to join in the discussion if the development justifies it.

HM, Jr: I read in the paper that there was something going on between the British and the Argentines.

-22-

Mr. Pinsent: We have not got particulars. If we bought more Argentine products, they should either take payment in the form of Sterling, Argentine securities or, what comes to the same thing, they should use their surplus Sterling to repurchase some of these securities. As far as I gathered, I think some arrangement has been made in which only the Argentine Government's securities are involved.

HM, Jr.: I think it is a rather neat one, because the loan is to the Argentine and not to you.

Mr. Bell: That's right.

HM, Jr.: What we call "a nifty".

Mr. Purvis: "A natural".

HM, Jr.: Yes. And, as I say, that's one way and in view of the Ambassador's message last night from Sir Frederick, I should think this should be very much up to the forefront.

Mr. Pinsent: Yes. I am very glad indeed to hear that.

HM, Jr.: As I say, this is not a commitment with me, on my part, and I have not discussed it with the President or with my people, but it's my own idea of a possible way. I would much rather make the Argentines a loan on that basis than I would on their wool, for instance.

Now, are your (Purvis') decks clear?

Mr. Purvis: That is all.

oOo-oOo



A

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 6 p.m., October 14, 1940.)

UNITED KINGDOM  
HOLDINGS OF GOLD AND EXCHANGE

There have been some discrepancies in the figures received regarding our holding of gold and dollars, and regarding the monthly drain. I have now received the following corrected statement from London, starting with 1st July, 1940 (the date of the tables handed in by Sir Frederick Phillips during his visit here).

<u>Monthly balance and loss</u>	<u>July</u>	<u>Aug.</u> (million \$)	<u>Sept.</u>	<u>Oct.</u>
Balance of gold and exchange at beginning of month	1572	1293	1062	897
Loss of gold and of U.S. and Canadian dollars	235	231	165	
Write-off of French francs etc.	44	--	--	
Balance of gold and exchange at end of month	1293	1062	897	

Resources utilised.

Gold, and U.S. and Canadian dollars (as above)	235	231	165
Proceeds of sale of securities	7	4	8
	242	235	173

In future the monthly loss of gold and exchange reported will represent gold, and United States and Canadian dollars, only.

BRITISH EMBASSY,

7th October, 1940.

*J.P.S.*

B

Message from Sir Frederick Phillips dated 5th

October 1940.

We are far advanced with a special and careful study of our direct investments and whilst the numbers are considerable we are not very hopeful that we can get any substantial amount of dollars from this source owing to the manifest difficulties of making sales to American investors. Examination has shown that many of these direct investments are in varying degrees dependent for their success on the parent business here and that their value would be greatly reduced if this connexion were severed. Particulars of direct investments and suggestions for the sale of everything possible will be fully and frankly put before the Secretary of the Treasury for his advice and guidance. We have consulted Mr. Gifford who is returning shortly to U.S.A.\*

*gwp*

BRITISH EMBASSY,

7th October 1940.

\* Mr Gifford is now back in New York.

C

BRITISH BALANCE OF PAYMENTS

JULY, 1940 TO JUNE, 1941

The development of the new aircraft and munitions programmes since Sir Frederick Phillips' visit will very materially alter the conjectural balance of payments given in <sup>paragraphs</sup> 2 and 3 of the Memorandum handed to the Secretary of the Treasury and to the President on July 17th, 1940.

The estimates of cost of the new programmes are still very rough, but have reached the point at which some attempt at a revised picture can be made, subject to all necessary reservations.

As regards the details (which were given in Sir Frederick Phillips' Memorandum of 16th July), the Air Ministry purchases have to be revised from \$716 million to \$2,410 million, the increase of \$1,694 million being accounted for mainly by:-

	\$mill.
(a) Repeat orders under the old aircraft programme	290
(b) Merlin engines	113
(c) The second aircraft programme (1,250 - 1,500 planes a month)	<u>1,153</u>
	1,556

The munitions item must be raised from \$340 million to \$759 million to allow for the new orders for tanks, guns, etc.

With some minor adjustments of which I have not yet got details, the total estimated United Kingdom purchases in United States of America are raised from \$1,692 million to some \$3,976 million.

As a result it is now thought that the adverse balance of the sterling area (including the United Kingdom)

with/



with the United States of America will be of the order of \$3,500 million instead of \$1,552 million (cf. para.2 of Memorandum of July 17th).

Allowing for a recent revision of the estimate of sterling area gold production, it appears that the net drain on exchange resources would be also of the order of \$3,500 million, instead of \$1,632 million (cf. para. 3 of Memorandum of July 17th).

BRITISH EMBASSY,

10th October, 1940.

*S. S.*

SECRET

D

I. COMMITMENTS OF BRITISH PURCHASING COMMISSION ON BRITISH AND FRENCH CONTRACTS

(\$ million)

1940							1941					After
<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>June</u>
											<u>1941</u>	
169	183	198	186	150	128	306			207		320	

II. NEW PROGRAMMES OF BRITISH PURCHASING COMMISSIONVery Rough Estimates

viz:- Repeat orders on First Aircraft Programme  
 Second Aircraft Programme (1500 planes a month)  
 (after June 1941:- Third Aircraft Programme.  
 Increase to 3,000 planes a month)  
 New Munitions Programme (Tanks, guns, shells, etc.)

Product	..	..	..	80	80	130	400	530	4,550
Capital	..	..	..	90	95	95	215	100	525
				—	—	—	—	—	—
				170	175	225	615	630	5,075

BRITISH EMBASSY,

14th October 1940.

SHP

(Handed by Mr. Pinseut of the British Embassy to Mr. Cochran in the Treasury at 6 p.m., October 14, 1940.)

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

On September 20th, 1940, a telegram was received by the British Embassy from the American Cotton Shippers' Association in the following terms:

"Number smaller members American Cotton Shippers' Association much concerned because English buyers state unable under exchange control rules provide dollar credits New York in accordance contracts for shipment cotton and also unable where contracts provided opening sterling continue to make dollar credits available shippers in New York prior to shipment as they have been doing and although buyers quite willing to continue to do so if permitted. Would appreciate your cabling British authorities our expense that Association feels provision certainly should be made for dollar credits where required by contract and hopes authorities will make possible buyers continue provide such credits on sales on sterling terms also as otherwise some small shippers unable negotiate documents due attitude banks."

This telegram was forwarded by the Embassy to His Majesty's Treasury in London with a request for advice as to the reply which should be made to the American Cotton Shippers' Association as the situation was not clear. We were subsequently informed that all members of the Association, large and small, were concerned.

The/



- 2 -

The British Embassy has now received the following telegram from His Majesty's Treasury:

"1. The exchange control regulations are not responsible for the difficulties met with in New York in connection with negotiation of sterling bills. The situation has developed during the last three months and is due to American banks attempting to avoid all normal commercial banking risks in connection with London business.

2. The American banks have been steadily reducing all normal facilities given to their London correspondents and at the same time have endeavoured to obtain larger sterling credit facilities in order to be permanently short of sterling. Since French collapse the problem has been aggravated as they now seek to avoid taking the normal share of responsibility of provision for banking facilities, even to the extent of refusing to take a risk on any sterling instrument in transit from New York to United Kingdom.

3. We are of the opinion that facilities granted to American banks through the system of registered accounts gives them all safeguards they should require and Bank of England have been carefully watching this situation."

- 3 -

The Embassy is instructed to seek Mr. Morgenthau's view as to whether a communication should be made to the American Cotton Shippers' Association in the above sense, or whether he would care to suggest any other method of handling the position.

The question is very much the same as that which was discussed shortly at Mr. Morgenthau's last meeting with Sir Frederick Phillips at 11 a.m. on July 19th 1940. The American Banks were already then showing a strong tendency to limit their commitments with British Banks to the amount of the possible cover they held. It was believed then that this attack of nerves would pass away when Great Britain could show the strength of her defence against the imminent German air attacks, but it does not appear that the attitude of the American Banks has changed.

*SMP*

BRITISH EMBASSY,

WASHINGTON, D.C.

October 12th 1940.

October 15, 1940

I just spoke to Pa Watson and he said that Leon Henderson had sent over a memorandum that Knudsen was very sore about the newspaper story in regard to my being Chairman of the Committee and wanted to see the President.

I told Watson that I had checked the story with Steve Early and that Steve had told me to go ahead and talk about it at my press conference and Watson told me that Henderson had said that the President should see Knudsen.

I told Watson that Henderson was running a campaign to make himself Chairman of National Defense and if he could get Knudsen out it would be in Henderson's interest.



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest.

DATE: October 15, 1940, 1 p.m.

NO.: 606.

Refer to your telegram 333 of October 11, 8 p.m.

I was asked by the Foreign Minister, Sturdza, to call on him, which I did late yesterday. He complained banteringly about the United States blocking of the "gold" of Rumania; he described our action as confiscation. In a short while we were joined by the Finance Minister, who stated in specific terms that \$10,000,000 would be needed immediately in order to pay Greece for tanning fluid and Turkey and Iran for wool and cotton which Rumania badly needed for the coming cold weather. Salary payments to Rumanian diplomats which had to be in dollars (Gafencu, for example) were also mentioned by him. He referred to the seeming "discrimination" in the decision of the United States; both said that there was no invasion or occupation of Rumania. However, I wasn't able to obtain exact figures on the number of soldiers, but I was assured that they would be given to me today by General Antonescu, who wishes to see me on this matter. Of course it was said that the German officers and soldiers had been invited here and that arrangements had been made for them.

In

-2-

In answer I said that I had not been consulted in the matter and knew very little about it. As I had anticipated such a discussion, I brought along to show them a paraphrase of your telegram no. 333 of October 11, 8 p.m., which is the only instruction I have received from the Department on this matter. Also I left with them one copy of Executive Order No. 8389 dated April 10, 1940, as amended by Executive Order No. 8405 dated May 10, 1940. They were informed by me that it might be possible to obtain licenses for specific payments in much the same manner as with the licensing system which here prevails.

They requested that I inform you of the true facts and I said that I already had done this to such an extent as I was able to ascertain them in view of the apparent mystery which veiled the presence of German soldiers. However, I assured them that I would also report this conversation, and I said that their representative in Washington ought to be contacted in regard to the matter. Just before I left, I added that it was very probable that the Treasury Department had taken an independent decision on this matter without consulting the State Department beforehand.

It was estimated by the Finance Minister that the total amount of Rumanian Government funds which were blocked in the United States was something under \$30,000,000; but he did not know how much was owned by private

-2-

private individuals in the United States over and above this figure. He also mentioned Jewish black bourse operations here to that end.

The following is confidential: I should like to be informed whether this decision was prompted mostly by reported instances of the increasing domination of the German party's Economic Central in the internal and foreign economic policy of Rumania.

GUNTHER.

EA:MSG

100-100000-100000  
100-100000-100000  
100-100000-100000



MHO

GRAY

Bucharest

Dated October 15, 1940

Rec'd 3:40 a.m., 16th.

Secretary of State,  
Washington.

609, October 15, 9 p.m.

The Rumanian memorandum concerning blocked funds mentioned in my number 608, October 15, 8 p.m., is given below in translation:

"Ministry of Finance, Office of the Minister,  
October 12, 1940.

Note concerning liquid assets of the National Bank of Rumania in banks of the United States of America. The National City Bank of Rumania has available in the Chase Nationals and the Federal Reserve Bank of New York about \$17,800,000 in the form of sight deposits.

It has likewise a deposit of 10,765 kilograms of gold in the Federal Reserve Bank of New York.

The nationals of Rumania requested a telegraphic transfer of \$15,000,000 as of the 8th of the current month in favor of the Banco Central de la Republica

Argentina

MHO

- 2 - 609, October 15, 9 p.m. from Bucharest.

Argentina but on various technical pretexts the American banks twice postponed the execution of this order. Finally the following telegram was received this morning by the nationals: 'Please inform all Rumanian banks that Presidential proclamation, October 10 as of October 9 blocks all Rumanian license (sic) issued by Treasury Department (sic) United States. Will gladly cooperate in obtaining necessary licenses.'

Meanwhile, the nationals of Rumania had cancelled the original order at the same time holding its correspondents responsible for the delay in the execution of its transfer order and requested a transfer of 15,000,000 to its account in the Banque Nationale de Suisse where it may operate freely and without difficulties.

In case that the later transfer order should not be executed, as is to be feared, the nationals of Rumania will be obliged, as appears from the above telegram, to address itself to the Treasury Department to obtain in each instance the necessary authorizations

for

MHO

- 3 - 609, October 15, 9 p.m. from Bucharest.

for its payments without waiving its rights of protest and the request for explanations which the Rumanian Government is justified in presenting on the subject of this general measure the hostile character it is to be observed that certain of the payments to be made exhibit an especially urgent and important character. It appears appropriate that the Legation of the United States of America at Bucharest immediately intervene at New York in order that these payments be authorized without delay.

The following payments of an emergency nature are involved:

One. The importation of cotton from Turkey and Iran are the subject of recent conventions by which the Rumanian Government has purchased quantities for the rural Rumanian population obligating itself to make payments in dollars.

The necessary authorizations should make provision for \$5,000,000 to be paid in Turkey and \$3,000,000 to be paid in Iran.

In case that these authorizations should be refused it would result in an immediate social danger

by



MHO

- 4 - 609, October 15, 9 p.m. from Bucharest.

by reason of the lack of clothing for the rural population which represents 80% of the total population of the country.

Furthermore, the quantities of wool and cotton purchased in Turkey and Iran being insufficient the Rumanian Government had considered acquiring other quantities in South America. The latter quantities might possibly be dispensed with but it is absolutely necessary to bring immediately the merchandise from Turkey and from Iran which is not possible unless payment in dollars in conformity with the conventions agreed upon is assured.

Two. Tanning materials indispensable for the preparation of leather for the footwear of the population have been ordered in Turkey and in Greece and their value reaches \$1,500,000 to be paid in Turkey and \$500,000 to be paid in Greece.

Three. The petroleum companies import normally from the United States of America materials and machinery indispensable for operating. The value of these orders reaches about two to three million

dollars

MHO

- 5 - 609, October 15, 9 p.m. from Bucharest.

dollars per annum. It is to be noted that one of the principal petroleum companies is the "Romano-Americana" of which the capital is entirely held in the United States.

Four. The Rumanian diplomatic personnel of certain Legations (New York, Buenos Aires, Moscow, Madrid, Lisbon, et cetera) is paid in dollars. The monthly total of these payments as well as the current expenses of the Legations absorbs about \$70,000 per month.

All of the sums indicated above reflect a situation of actuality which it is not possible to change without serious difficulties of every kind.

Besides these payments the Rumanian Government could continue to add to its accounts in American banks by the return from different exports which are made in dollars.

By adopting already some time ago a procedure of making exports payable in dollars the Rumanian Government considered that it was performing an act of foresight and of confidence in keeping its foreign exchange reserves in the United States believing that

its

MHO

- 6 - 609, October 15, 9 p.m. from Bucharest.

its accounts would always be free to permit the continuation of the economic life of the country.

To be prevented from having its resources in dollars available for its normal import needs would constitute for Rumania a most serious danger menacing the social peace and the existence of the population.

It is inconceivable that the Government of the United States take measures which would lead to that result. (END SECTION ONE)

GUNTHER

TFV



PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 809,  
DATED OCTOBER 18, 1940, 9 P.M., FROM THE  
AMERICAN LEGATION, BUCHAREST.

I wish to comment on the following points in the  
Rumanian memorandum:

(a) The effort on October 8th to transfer the whole  
account to Argentina is not explained, nor is the en-  
suing effort to transfer the account to Switzerland.  
It has been twice intimated to this Legation that such  
transfers were attempted.

(2) On cursory examination, the Rumanian claim  
that large dollar transfers are necessary in order to  
pay for imports from Turkey, etc., appears to be untenable.  
Take for example the Rumanian claim that five million  
dollars is required for the importation of cotton from  
Turkey: under the Rumanian agreement with Turkey of  
September 26, 11,000,000 pounds (Turkish) worth of  
petroleum will be purchased by Turkey and cotton valued  
at the same amount will be bought by Rumania. Although  
both the petroleum and the cotton are to be paid for in  
dollars, it is obvious that no big net dollar balance is  
being considered. Also, Rumanian statistics represent  
the value of imports from Turkey, for the period January-  
June 1940, at \$2,137,000; exports to Turkey for the  
same period are valued at \$3,399,000. Of these totals,  
\$2,901,000 was listed for oil exports and \$1,398,300  
was the amount for cotton imports. During the year 1939  
the total cotton imports <sup>of</sup> ~~in~~ Rumania from all sources  
amounted

-2-

amounted to 13,328 tons, the value being \$2,661,332. As soon as possible the Legation will cable a further report on these claims in detail.

If it is possible for the Department to indicate its views as to the best way to submit the applications of the National Bank for unblocking, I shall appreciate it. To be specific, I should like to be informed whether the applications should be submitted on behalf of the National Bank by this Legation, by the Chase Bank or by the Rumanian Legation in Washington; also, if this Legation is the one to submit the applications, should it act purely in a notarial capacity and ask the National Bank to make direct transmission of its affidavits and documents? It has been intimated by officials that this Legation may be asked to telegraph the affidavits. It is my firm conviction that this would not be a good procedure due to the fact that the burden on the Legation's coding facilities would be unwarranted; also, the documentation is not complete. However, any advice which the Department can send me regarding the application procedure will be greatly appreciated.

(END OF MESSAGE)

GUNTHER

EA:MSG



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: October 15, 1940, 6 p.m.

NO.: 752

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Today I had lunch with Rueff at Chatel Guyon. Rueff was in good spirits. For the moment, he said that Schaeffer is not bearing down too heavily on the Bank of France. Schaeffer's inquiries are confined to requests for information, and to matters such as disposing of Belgian franc accounts. However, only one-third of the 400 million francs received daily is being spent by the Germans (the amount Germany receives each day under pretext of army of occupation costs). Rueff is still worried about the potential threat and the ultimate utilization of the enormous balances being built up by the Germans. Reference: telegram of September 23, 5 p.m., No. 609 from the Embassy. On a much reduced scale the Germans are still issuing kreditkassenscheins.

There has been a rise to 204 billions in the circulation of the Bank of France, which increase Rueff described as quite moderate and not of a disturbing character.

In regions where the Alsatian exiles have been herded there have been some withdrawals of bank deposits for the purpose of hoarding of bank notes, because of previous experiences in Alsace. However, he said there has been no

general



- 2 -

general hoarding and up to the present no serious signs of any flight of money into goods other than that which is inspired by the growing scarcity of goods. He said that in the occupied region prices are still subject to strict control, and it seems to be the intention of the Germans to enforce such control for the time being.

Rueff said that through his office of bank supervision Schaeffer is showing an increasing interest in the operations of credit institutions. There is about to be set up a French organization of banking control under the leadership of Ardant of the Société Générale. Ardant has shown more energy and taken more initiative in the effort to bring order out of chaos than any French banker since last June's debacle. The purpose of the new organization is to have the German supervision exercised indirectly through it rather than to have German inspectors in individual banking institutions.

Confirming information I have received from other sources, Rueff finds that at Wiesbaden there is renewed German interest in German control - financial, customs, police, et cetera - over the geographical frontiers of France. There has been however a simultaneous stiffening of the French attitude against granting the concessions which are demanded.

Note: Personally I am not inclined to the view that the French will long maintain this stiffer attitude. Should

it

- 3 -

it be continued, it may well be that the Germans, taking matters in their own hands, will put an end to the present semblance of freedom which the unoccupied zone has.

Rueff said that Boisanger now spends the greater part of his time with Vidal at Wiesbaden. Vidal is the new first Under Governor residing in Paris. In a few days Rueff himself plans to make another visit to Paris. Apparently he does not experience any personal difficulties in Paris.

With an amused smile Rueff remarked that the United States is now becoming very tough in refusing transfers of French official funds in the United States. But he did not seem to be annoyed at all by this fact.

END OF MESSAGE.

MATTHEWS.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest.

DATE: October 15, 1940, 8 p.m.

NO.: 608.

Refer to Legation's telegram no. 605 of October 15, 1 p.m.

General Antonescu requested me to call on him, which I just did. The blocking of Rumania's funds was emphatically spoken of by the General, who said that he suspected that British pressure had had a lot to do with it. He said that there no longer was any reason for this attitude because a satisfactory solution of Great Britain's difficulties in Rumania had been reached between Rumania and Great Britain and ~~that~~ the British Minister and his staff were going to remain in the country; in addition, the General was going to release several of the British civil prisoners who had been charged with sabotage, for deportation.

A translation of the Finance Minister's memorandum (he was present at our interview and ~~was~~ handed the memorandum to the General) will be cabled to the Department. The General emphasized that the necessary funds should be released promptly. When he added that he was not going to retaliate by taking measures against United States telephone and oil interests in Rumania, although the Finance Minister had insisted otherwise,



-2-

I said I was very pleased and that it had never once occurred to me at least that such a retaliatory measure would be contemplated by him. Also I said that personally I was completely uninformed as to the reasons which prompted this decision, ~~which~~ and that I had explained this to the Finance Minister and to the Foreign Minister yesterday. I casually said that I thought that military reasons might not have been the only purpose of this decision but that the seemingly increasing pressure upon Rumania's internal economy of the economic centres of the German Legation might also have prompted it.

GUNTHER

EA:MSG

TO THE SECRETARY OF STATE  
FROM THE LEGATION OF BUCHAREST  
10 11 41

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 15, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
October 7	1,700	104,888	18,000	10,501
8	1,755	61,216	Nil	Nil
9	2,100	93,446	Nil	Nil
10	26,620	820,856	5,000	3,210
11	5,375	174,603	32,000	18,538
12				
	<u>37,550</u>	<u>1,255,009</u>	<u>55,000</u>	<u>32,249</u>

Sales from  
February 22 to  
October 5

<u>1,582,687</u>	<u>54,818,101</u>	<u>5,034,000</u>	<u>3,942,032</u>
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TOTAL FEBRUARY  
22 TO OCTOBER 12

1,620,237	56,073,110	5,089,000	3,974,281
-----------	------------	-----------	-----------

Mr. Pinsent reported sales of non-vested securities for the week ended October 5 totaled \$500,000.

October 15, 1940

Dear Mr. Stinson

I thought you might be interested in the attached correspondence I have had with Major Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

Attachments ✓  
MF:mp  
10/15 '40

S. W. 7h

By Messenger 8<sup>40</sup> on 10/16



October 15, 1940

Dear Mr. Stinson:

I thought you might be interested in the attached correspondence I have had with Major Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

Attachments  
EHF:mp  
10/15 '40

By Messenger

October 15, 1940

Dear Mr. Knuss

I thought you might be interested in the attached correspondence I have had with Major Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

\* Attachments ✓

HEF:mp  
10/15/40

I.N.H.

By Messenger 8:52 am 10/16

October 15, 1949

Dear Mr. King:

I thought you might be interested in the attached correspondence I have had with Major Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

Att: Bureau

HW:mp  
10/15/49

By Messinger



October 15, 1940

Dear Bill

I thought you might be interested in the attached correspondence I have had with Major R. E. Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

Hon. William S. Knudsen,  
Advisory Commission to the Council  
of National Defense,  
Federal Reserve Building,  
Washington, D.C.

+ Attachments ✓  
EM/emp  
10/15/40

SW 74

By Messenger 8<sup>55</sup> m h/

October 15, 1940

Dear Bills

I thought you might be interested in the attached correspondence I have had with Major E. H. Fleet in regard to the vocational training program for San Diego.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William S. Knudsen,  
Advisory Commission to the Council  
of National Defense,  
Federal Reserve Building,  
Washington, D.C.

Attachments  
EMF:mp  
10/15/40

By Messenger

C O P Y

107

1940 Oct 12 AM 8 33

San Diego Calif Oct 11 1940 124p

Secretary of the Treasury  
Attn Foley, Kades, Young, Buckley

Today's press reports President yesterday signed law which includes among other items an appropriation of \$60,500,000 for the office of Education for Vocational Training of Prospective National Defense Workers. For some time we have been employing an average of 100 new men per day and shall have to continue this for the next eleven months. While the quality of the vocational training done by San Diego's public schools is very high, the system is woefully inadequate in meeting this national defense problem. We have asked for fifteen hundred thousand dollars to augment this public school system for San Diego. Will sincerely appreciate your arranging immediate favorable action on this with Dr. Studebaker. The training of idle men and their employment as aircraft workers is something of immense advantage to the community and to the country at large. Regards all.

Consolidated Aircraft Corp

By R H Fleet.



C O P Y

October 14, 1940

5:05 p.m.

R. H. Fleet, President  
Consolidated Aircraft Corporation  
San Diego, California

Your telegram received Saturday and today Foley conferred with Commissioner of Education Studebaker and described your urgent need for trained personnel. Studebaker asking John Beswick California Director of Vocational Education to communicate with you and City school officials and after making survey to report San Diego vocational education requirements. Major difficulty is that Public No. 812 does not appropriate funds for school building construction or rental of space. Suggest you ascertain whether City could make available space in fair buildings at Balboa Park Federal government to supply funds for equipment and other costs.

H. Morgenthau, Jr.

Secretary of the Treasury

C O P Y

1940 OCT 15 AM 8 24

San Diego Calif Oct 14 1940

Hon Henry Morgenthau Jr  
Secretary of the Treasury

Your wire date received and deeply appreciated. Local school officials under date of October 11th transmitted survey of San Diego Vocational requirements together with estimate of expenses involved. \$1,500,000. to Commissioner of Education Studebaker air mail. Meanwhile I am contacting Beswick also local school authorities and city officials with a view to securing use of fair buildings at Balboa Park. Will keep you posted developments and reiterate our enthusiasm your whole hearted cooperation.

R. H. Fleet

Consolidated Aircraft Corp.

C O P Y

1940 OCT 15 AM 8 24

San Diego Calif Oct 14 1940

HON EDWARD H FOLEY JR  
GENERAL COUNSEL

Have just received wire from Secretary Morgenthau advising your conference with Commissioner Studebaker. We very much appreciate the interest you are showing and trust by now you have received my letter October eleventh transmitting copy report on San Diego Vocational School needs. Prepared by Superintendent Crawford and sent to Commissioner Studebaker. We are following up problem from every possible angle including use of Balboa Park buildings and contacting Beswick. Regards.

R. H. Fleet



**Treasury Department**

TELEGRAPH OFFICE

*It is said  
does not  
need ack 111*

SW

WAS M 74 NT

1940 OCT 15 AM 8 24

SAN DIEGO CALIF OCT 14 1940

HON HENRY MORGENTHAU JR  
SECRETARY OF THE TREASURY

YOUR WIRE DATE RECEIVED AND DEPLY APPRECIATED. LOCAL SCHOOL OFFICIALS  
UNDER DATE OF OCTOBER 11TH TRANSMITTED SURVEY OF SANDIEGO VOCATIONAL  
REQUIREMENTS TOGETHER WITH ESTIMATE OF EXPENSES INVOLVED. \$1,500,000.  
TO COMMISSIONER OF EDUCATION STUDEBAKER AIR MAIL. MEANWHILE I AM  
CONTACTING BESWICK ALSO LOCAL SCHOOL AUTHORITIES AND CITY OFFICIALS  
WITH A VIEW TO SECURING USE OF FAIR BUILDINGS AT BALBOA PARK. WILL KEEP  
YOU POSTED DEVELOPMENTS AND REITERATE OUR ENTHUSIASM YOUR WHOLE HEARTED  
COOPERATION..... R H FLEET CONSOLIDATED AIRCRAFT CORP .... 748A

Treasury Department

112

TELEGRAPH OFFICE

GW

WAG M 69 NT

1940 OCT 15 AM 8 24

SAN DIEGO CALIF OCT 14 1940

HON EDWARD H FOLEY JR  
GENERAL COUNSEL

HAVE JUST RECEIVED WIRE FROM SECRETARY MORGENTHAU ADVISING YOUR CONFERENCE WITH COMMISSIONER STUDEBAKER. WE VERY MUCH APPRECIATE THE INTEREST YOU ARE SHOWING AND TRUST BY NOW YOU HAVE RECEIVED MY LETTER OCTOBER ELEVENTH TRANSMITTING COPY REPORT ON SANDIEGO VOCATIONAL SCHOOL NEEDS. PREPARED BY SUPERINTENDED CRAWFORD AND SENT TO COMMISSIONER STUDEBAKER. WE ARE FOLLOWING UP PROBLEM FROM EVERY POSSIBLE ANGLE INCLUDING USE OF BALBOA PARK BUILDINGS AND CONTACTING BESWICK. REGARDS.

R H FLEET .... 752A

OCT 14 1940

**E. H. Fleet, President  
Consolidated Aircraft Corporation  
San Diego, California**

Your telegram received Saturday and today Foley conferred with Commissioner of Education Stutzaker and described your urgent need for trained personnel. Stutzaker asked John Dewick California Director of Vocational Education to communicate with you and City school officials and after making survey to report San Diego vocational education requirements. Major difficulty is that Public No. 612 does not appropriate funds for school building construction or rental of space. Suggest you ascertain whether City could make available space in fair buildings at Balboa Park Federal government to supply funds for equipment and other costs.

**E. WASHINGTON, JR.**

**Secretary of the Treasury**

(Initialed) E. H. F., Jr.

CLK:8  
10-14-40



OCT 14 1940

**E. H. Fleet, President  
Consolidated Aircraft Corporation  
San Diego, California**

Your telegram received Saturday and today Foley conferred with Commissioner of Education Stetshaker and described your urgent need for trained personnel. Stetshaker asking John Dewick California Director of Vocational Education to communicate with you and City school officials and after making survey to report San Diego vocational education requirements. Major difficulty is that Public L. 512 does not appropriate funds for school building construction or rental of space. Suggest you ascertain whether City could make available space in fair buildings at Balboa Park Federal government to supply funds for equipment and other costs.

**H. HENNINGSEN, JR.**

**Secretary of the Treasury**

(Initialed) E. H. F., Jr.

GLK:t  
10-14-40

Treasury Department

*Kades* 115

TELEGRAPH OFFICE

9W

WB9 M 139 DLC

1940 OCT 12 AM 8 33

SAN DIEGO CALIF OCT 11 1940 124p

SECRETARY OF THE TREASURY  
ATTN FOLEY KADES YOUNG BUCKLEY

TODAY'S PRESS REPORTS PRESIDENT YESTERDAY SIGNED LAW WHICH INCLUDES AMONG OTHER ITEMS AN APPROPRIATION OF \$60,500,000 FOR THE OFFICE OF EDUCATION FOR VOCATIONAL TRAINING OF PROSPECTIVE NATIONAL DEFENSE WORKERS. FOR SOME TIME WE HAVE BEEN EMPLOYING AN AVERAGE OF 100 NEW MEN PER DAY AND SHALL HAVE TO CONTINUE THIS FOR THE NEXT ELEVEN MONTHS. WHILE THE QUALITY OF THE VOCATIONAL TRAINING DONE BY SAN DIEGO'S PUBLIC SCHOOLS IS VERY HIGH, THE SYSTEM IS WOEFULLY INADEQUATE IN MEETING THIS NATIONAL DEFENSE PROBLEM. WE HAVE

**Treasury Department**

**116**

TELEGRAPH OFFICE

9W..WB9/2

ASKED FOR FIFTEEN HUNDRED THOUSAND DOLLARS TO AUGMENT THIS PUBLIC  
SCHOOL SYSTEM FOR SANDIEGO. WILL SINCERELY APPRECIATE YOUR  
ARRANGING IMMEDIATE FAVORABLE ACTION ON THIS WITH DR. STUDEBAKER.  
THE TRAINING OF IDLE MEN AND THEIR EMPLOYMENT AS AIRCRAFT WORKERS  
IS SOMETHING OF IMMENSE ADVANTAGE TO THE COMMUNITY AND TO THE  
COUNTRY AT LARGE. REGARDS ALL.

CONSOLIDATED AIRCRAFT CORP  
BY R H FLEET.

830A



1940 Oct 12 AM 8 35

W9 139 MB

San Diego Calif Oct 11 1940 124p

Secretary of the Treasury  
Attn Foley Kades Young Buckley

Today's press reports President yesterday signed law which includes among other items an appropriation of \$60,500,000 for the office of Education for Vocational Training of Prospective National Defense Workers. For some time we have been employing an average of 100 new men per day and shall have to continue this for the next eleven months. While the quality of the vocational training done by San Diego's public schools is very high, the system is woefully inadequate in meeting this national defense problem. We have asked for fifteen hundred thousand dollars to augment this public school system for San Diego. Will sincerely appreciate your arranging immediate favorable action on this with Dr. Stuebaker. The training of idle men and their employment as aircraft workers is something of immense advantage to the community and to the country at large. Regards all.

Consolidated Aircraft Corp  
By R H Fleet.

8304

DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
no. 840.51 Frozen Credits/684

October 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for the latter's information a copy of a telegram no. 481 of October 11, 1940, 7 p.m. from the Embassy at Buenos Aires regarding relief supplies purchased there for French prisoners of war in occupied France and Germany.

Enclosure:

From Buenos Aires  
no. 481, October 11, 1940.

RDS

GRAY

BUENOS AIRES

Dated October 11, 1940

Rec'd 6:50 p.m.

Secretary of State,

Washington.

481, October 11, 7 p.m.

The International Red Cross has obtained navicerts from the British for relief supplies to be purchased in Argentina and destined for French prisoners of war in occupied France and Germany. The local representative of the International Red Cross, Jacques de Chambrier requests Embassy's good offices in supporting request already made through French Embassy in Washington for unblocking the \$1,500,000 of French Government funds urgently needed for purchasing a portion of these relief supplies to be shipped on the steamship MENDOZA flying French flag and now in port of Buenos Aires. Remaining portion of supplies are to be purchased by the Argentine Red Cross.

TUCK

EMB

mg



PARAPHRASE of telegram from Copenhagen, October 15, 1940  
No. 542

Secretary of State,

Washington.

STRICTLY CONFIDENTIAL

A superabundance of idle money is now in possession of Danish banks due to a great decrease in industrial production, considerable decreases in goods imported, and the high prices paid for agricultural products by Germany. Yesterday the discount rate was reduced to 4% from 4-1/2% by the National Bank. The reduction of the interest paid on deposits is expected soon. It continues to be rumored that the Danish bonded debt will be converted to the Government's benefit and to the benefit of the over-mortgaged agricultural industry. The cash holdings of banks on September 1 were three hundred eight million kroner; in March they were one hundred thirty million kroner. An increase of two hundred ninety-eight million kroner since the occupation is shown in the net foreign exchange holdings of the National Bank and private banks, but these are all included within the official clearing agreement with Germany. There have already been approved new wage increases, which doubtless will be reflected in further increases in prices, despite the effort of the Government to control prices and the consumption of goods in order to check inflationary trends. An increase of 40% has taken place in the cost of living during the past year. There has been a constant extension of rationing, and it is not unlikely that the system now in operation in Germany will be adopted here by the end of the year.

A decline in industrial production from 109 to 89 has taken place from March to August. In the building, textile, clothing and leather industries this contraction is noticeable, but better resistance is shown in certain foodstuffs industries and in the shipbuilding, stone and iron industries. For a time after April 9 there was a rapid increase in consumer buying, purchasers wishing to put their money into commodities. A recent decline, however, has taken place. Stocks nearing depletion are cotton, wool, rubber, yarns, certain fertilizers, and petroleum products. There are

- 2 -

no longer obtainable feedstuffs from abroad, stocks at free ports being practically used up.

For the purpose of alleviating unemployment for fifty thousand men there has been passed legislation granting an additional two hundred million kroner for public works. Internal loans are to be floated through Treasury notes.

Because butter, meat and cattle command very high prices, Danish exports have been remarkably well maintained. While before the occupation 25% of exports went to Germany, now 92% are shipped to that country. 22% of Denmark's imports came from Germany last March, now 84%. There have been heavy price increases in German goods which have recently arrived. No real shortage of foodstuffs is apparent up to now, and barring an unusually severe winter the fuel supply may be sufficient. Germany's debt to Denmark by December 31 will be, it is estimated, around one billion kroner, a portion of this debt will be charged off to the protection of Denmark.

PERKINS

DCA:GHK:BLS 1 0/17/40

sh

COPY

WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
MILITARY INTELLIGENCE DIVISION, G-2  
WASHINGTON, D. C.

G-2/2078-163

October 15, 1940.

The Honorable

The Secretary of the Treasury.

Dear Mr. Secretary:

With reference to your recent request for information concerning Mr. Charles H. Day, the Assistant Military Attache, Chungking, China, reported to me by radiogram this date that from his personal acquaintance with Mr. Day, personal observation of Mr. Day's work, and as the result of investigation and inquiry among informed quarters, he is of the opinion that Mr. Day has great technical ability and is of high personal integrity.

Sincerely,



SHERMAN MILES,

Brigadier General, U. S. Army,  
Acting Assistant Chief of Staff, G-2.



G-2/2078-163

October 15, 1940.

The Honorable

The Secretary of the Treasury.

Dear Mr. Secretary:

With reference to your recent request for information concerning Mr. Charles H. Day, the Assistant Military Attache, Chungking, China, reported to me by radiogram this date that from his personal acquaintance with Mr. Day, personal observation of Mr. Day's work, and as the result of investigation and inquiry among informed quarters, he is of the opinion that Mr. Day has great technical ability and is of high personal integrity.

Sincerely,

SHERMAN MILES,  
Brigadier General, U. S. Army,  
Acting Assistant Chief of Staff, G-2.

October 15, 1940  
3:56 p.m.

H.M.Jr: Hello.

James  
Forrestal: Henry?

H.M.Jr: How are you?

F: Fine. I've been doing a little checking into this Brewster crowd and nothing particularly conclusive except that I find the opinion of the people that did his financing for him, raised him some money, feel that he's gotten rather fat-headed and got a lot of contracts and now doesn't want to talk to anybody.

H.M.Jr: I see. That kind of a fellow.

F: Yeah, so we may have to give him a little of the same treatment as we gave Fleet, but I'll know more - I'm going to stop by there, I hope, on Thursday.

H.M.Jr: Good.

F: O. K.

H.M.Jr; Thank you.

F: Right.

October 15, 1940  
3:58 p.m.

H.M.Jr: Hello.

Operator: Stimson.

H.M.Jr: Hello.

Henry  
Stimson: Hello. When I got back I found your inquiry about an appointment tomorrow at 10 o'clock.

H.M.Jr: Yes.

S: I've been talking with General Marshall and he thinks that's a little too soon.

H.M.Jr: All right.

S: Now he's got to not only thrash it out in detail with his own subordinates here but he's got to consult with the Defense Commission who has the allotment of productive capacity, you see, so he suggests that it had better be probably--possibly tomorrow afternoon late - but probably the next morning.

H.M.Jr: Well, then why not - would you set a time for Thursday?

S: All right. Let's see, you see it's also complicated a little by the fact that those confounded representatives from South America are here and are taking up all of General Marshall's time. Let's see, no, I'm all right Thursday. (Aside - what time, General, would you prefer?) Well, could you tell Purvis that we'll communicate with him through you just as quickly as the General has time to turn/tomorrow and see what progress he's making.

H.M.Jr: If you'll have your office just call up here, see, and just say whenever they're ready, we'll get word to Purvis.

S: You'll produce him, will you?



- 2 -

H.M.Jr: I'll produce him, and I'll tell him it's apt to be some time Thursday.

S: All right. Have to be some time on Thursday.

H.M.Jr: Right, and General Marshall .....

S: I know that the General will do it just as quickly as he can.

H.M.Jr: Fine. Well, the General is going to carry the ball as far as the Defense Council is concerned. Is that it?

S: He's ready to do that. He seems to think that's his job.

H.M.Jr: Well, I think that's wonderful. I think that's wonderful that he's willing to do that.

S: All right. We'll try to do that. We may holler for some help if we get - but I don't think so. The question is there, I've assumed, that they've been rather fair in this matter, haven't they?

H.M.Jr: Yes, they have. It's just as we said at lunch that they're too many of them.

S: Yes, they're too many of them. Knudsen is away, I think, just now, but I don't know whether he would have to do with this - he has only airplane production.

H.M.Jr: He's supposed to have all of it.

S: He has all Ordnance production.

H.M.Jr: Well, I mean, I just think that production comes under him not .....

S: Yes, all right. Well, then I don't know whether he's here or not.

H.M.Jr: I don't know either. Well, thank you.

S: Well, the General thinks he can do business even if he isn't here so we'll try it anyhow.

- 3 -

H.M.Jr: Well, I'll tell them to look for .....

S: All right. We'll let you know - we'll let you know what time Thursday it can be and you'll produce the defendant.

H.M.Jr: That's right. We have a club member - I don't know I guess you know it - Admiral Leahy.

S: Oh.

H.M.Jr: He belongs to our club.

S: Does he?

H.M.Jr: Oh, I'll say he does. (Laughs).

S: (Laughs). Well, I didn't know whether there was any truth in the rumor that has been going around about it.

H.M.Jr: Well, I thought I'd find out so he left here a few minutes ago.

S: Oh, he's coming up is he?

H.M.Jr: Oh, he's in our club.

S: (Laughs).

H.M.Jr: He's like a breath of fresh air.

S: (Laughs). All right.

H.M.Jr: I thought you'd like to know that.

S: I've never met him.

H.M.Jr: Oh, he's a fine fellow - you'd like him.

S: Yes.

H.M.Jr: He said if he had to just tell them - we could lick them, and he says all of this nonsense of scrap No. 1 and scrap No. 2, he says, why don't you stop giving them everything.

S: Well, I'm delighted to hear that.

- 4 -

H.M.Jr: He says it's all silly - as soon as you stop one thing they take another.

S: (Laughs). Well, I guess he knows them then.

H.M.Jr: So I thought you'd like to know our club is growing.

S: Well, that's good. Thank you very much.

H.M.Jr: All right.

S: We'll let you know.

H.M.Jr: Thank you.



October 15, 1940  
4:00 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis  
Mr. Young  
Mr. Buckley  
Mr. Bell  
Mr. Ballantyne  
Mrs. Klotz

H.M.Jr: I have got good news. I really was discouraged about that thing. I thought it was impossible and I think the easiest way - have you got the paper?

Purvis: Yes.

H.M.Jr: This is the Chief of Staff's own memo.

Purvis: My heavens.

H.M.Jr: That is amazing, isn't it?

Purvis: I think it is 100%. That really releases it?

H.M.Jr: I want to give you the background on this thing, so I think you had better handle it a little carefully. This is, as he put it, what Marshall thinks he can do, you see.

Purvis: It isn't signed, sealed and delivered.

H.M.Jr: No, it is not. Stimson just called me up this minute - he is personally going to take - to sell this to the National Defense Council. He is going to do this himself, tell them to make room for this, you see.

Purvis: Exactly.

H.M.Jr: Now, they can't see you tomorrow at ten because

- 2 -

Marshall hasn't got the time, but Stimson during Thursday - I will call you. I find Stimson wants to do this himself, you see.

Furvis: Yes, quite.

H.M.Jr: But Marshall, on account of all these South American generals being here - but he, Marshall, is going to take this thing up with the National Defense Council himself. To me it is - the reason I didn't let on, I was so upset about this whole thing, because I didn't think we could get it, did you?

Furvis: No, definitely not.

H.M.Jr: I thought they were reaching for the moon.  
Now, are you still ready for some good news?

Furvis: I don't know whether I can stand any more, but I will try.

H.M.Jr: Here are your light tanks.

Furvis: Well! Now, can I make a copy of this?

H.M.Jr: Yes. The point is that when you see Mr. Stimson, I'm going to let you tell him yes on the things that he is asking for. I think that would be a nice way, to let you do it, you see.

Furvis: Yes, I see. It is splendid.

H.M.Jr: I mean, I will let you say yes to him.

Furvis: Thank you.

H.M.Jr: Now, that is very difficult, you see, and the reason that these things take this form is, this isn't a form in which the Chief of Staff can certify it. He has to sign a certification, you see. Now, there is another shift in this Consolidated thing, and if I am right - I will read it to you. This is what they have on the thing:

- 3 -

"Due to the failure of the manufacture -" you see, this is the way the certificate is going to read.

Purvis: I see.

H.M.Jr: I will do it slowly.

"Due to the failure of the manufacture to meet the delivery schedule which was used as a basis for the agreement of October 1, 1940, a modification of that agreement is necessary in order to make certain that the British will have the 26 available by May 1, 1941."

Now, how does that check?

Purvis: That is right.

H.M.Jr: To have 26 available --

Purvis: By May 1st, '41, that is correct.

H.M.Jr: Was that the original proposal?

Purvis: That was the one we cabled after seeing you, 26.

H.M.Jr: Now, "I - We defer to the British: Delivery of 6 B-24's."

Purvis: Yes.

H.M.Jr: "We get from the British: 120 Wright R-1820-65 engines."

Purvis: Yes.

H.M.Jr: 1820's.

Purvis: Yes.

H.M.Jr: "120 Wright R-1820-65 engines with which we can power approximately 20 B-17's."

Purvis: Yes.



- 4 -

- H.M.Jr: "..... which would otherwise be in storage due to engine shortage."
- Purvis: Yes. Is that a second item, 120 Wright's?
- H.M.Jr: No, this is the first 120 that you gave me.
- Purvis: Yes, and that is what they are used for.
- H.M.Jr: Yes, they are going to ask for something else, too, which isn't too bad. They are applying this 120 Wrights which you have already given them for the six B-24's. I mean, they say that in turn for giving you six B-24's, they are going to get 120 Wrights. That deal already went through once, didn't it?
- Buckley: Weren't they to get the six plus 20 in exchange for those engines?
- Purvis: That is what I understood.
- H.M.Jr: Well, now wait. I thought so, but Mr. Stimson doesn't think so. He thinks he is giving you something additional, he honestly does.
- "We further defer to the British: Delivery of 20 additional B-24's."
- Purvis: Yes.
- H.M.Jr: Now, the point that he is making is, you see, he is giving you 26 - not one, but 26 before they get anything. I went over this thing. He seems to think that you are getting 26 before we get anything.
- Buckley: That is definitely an additional contribution. Originally they were to get six plus 20, but not necessarily the first 20 after the 6.
- H.M.Jr: Well now, they are going to get the first 20 after the 6.
- Purvis: That is probably the answer.
- H.M.Jr: And they want something for this.

- 5 -

Purvis: Yes, and I was slightly wrong also. I wonder whether that 26 was before the end of April or before the end of June?

H.M.Jr: Well, he has got it right there.

Purvis: Yes.

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

McKay: Mr. Stimson just called and said that meeting for tomorrow on B-17's, tanks, and so on, is impossible and it will have to be Thursday.

H.M.Jr: We don't expect any meeting tomorrow.

McKay: That is what I thought, but I didn't want to contradict him. I just let it go at that.

H.M.Jr: He said that? Was Stimson on the wire himself?

McKay: He was on the wire himself.

Young: Want me to tell him?

McKay: Just now.

H.M.Jr: What did he say?

McKay: He said that General Marshall had just come to him and said there was to be a conference at ten o'clock tomorrow morning about B-17's, tanks, and so on and that he couldn't meet tomorrow, it would have to be Thursday some time and that he had just talked to you about another matter.

H.M.Jr: The old boy is --

Purvis: It is out.

H.M.Jr: You have heard?

Klotz: I have heard, yes.

McKay: I was sure that was what it was, but it is for Thursday sometime.

- 6 -

- H.M.Jr: He hasn't set the time yet?
- McKay: No, sir, he will call you and give you the time.
- H.M.Jr: Thank you. You (Purvis) see what your English are doing to me.
- (Discussion off the record.)
- Young: Do you want me to call him up?
- H.M.Jr: No, he is just a little mixed, that is all.
- Purvis: Yes, it is Thursday, isn't it?
- H.M.Jr: It is Thursday. I don't know what he is talking about. He is mixed up on something.
- Buckley: The thing I talked with Lyon about out in San Diego was for the British to get the first 6 and then the Army would get one, because that takes care of the B-24's. They want one for experimental purposes. Then the British would get the next 20, which would be B-24-A's, and if they do it that way, which is the way the agreement indicates, the British will have their whole 26 by the end of March.
- H.M.Jr: That isn't what I told Mr. - but to go back to the thing, it is very important. What we told you (Purvis) was that you were to get the first 6 and then we were to go one and one.
- Purvis: That is right. Certainly that was the original idea. Now the idea is, we get the first 26 except for perhaps an odd one that they need for designing.
- H.M.Jr: He didn't even mention that.
- Buckley: They will want that. He probably didn't mention that.
- Purvis: Yes. Well, that is really a detail.
- H.M.Jr: But the way it was before, he blushed when I



- 7 -

sort of questioned him on it. He was embarrassed. I said, "Well, you are asking for something additional after we have made the promise to them," and he said, "Now wait a minute -"

Purvis: Well, let's try it.

H.M.Jr: No, he says, "We will give them the 20 instead of the one and one and for giving the 20, one and one -" I asked him for 154. They are asking for 154 additional Wrights, 1820's.

Purvis: Yes. There is just one thing I am not quite clear on. That is the mention of the 65 engines.

H.M.Jr: No, the 65 engines --

Young: Of the 120.

H.M.Jr: I mean, they are going to go into the B-17's.

Purvis: I see.

H.M.Jr: 120 engines and they are going into the B-17's and these other additional 154 are going into the B-17's. The certificate will read that if we don't get those engines, these things will have to go in storage, so by giving you up 26 of these, they are able to put 22 - 44 B-17's in the air and that is what the certificate will be, you see.

Purvis: Yes, I see.

H.M.Jr: Which is a matter which I wouldn't wire, of course.

Purvis: Oh no, but that is a justification.

H.M.Jr: They want 154 additional Wright 1820's, and that is the justification. And they get the improved B-24's, but the deal is, as it is now, which is a better deal - now, here in his own handwriting he has written, "Under this we could get (1) only 10 B-24's by May 1, '41.

- 8 -

(2) 20 better B-24's after May 1, '41, without extra charge. (3) Engines for 42 B-17's, which otherwise would be grounded."

I think I am right, am I not, that this gives the English a straight 26, but before they were going to get 6 and then get one and one. Is that right?

Buckley: This improves the time in which they will get that next 20.

H.M.Jr: Oh yes, for which they give up 15<sup>4</sup> Wrights, which I believe you can do.

Purvis: Is there any type question involved in this, do you know? The B-24's, are they A or B?

Young: These are the ones we don't want.

Buckley: This doesn't improve over the delivery indicated by the schedule which you and Secretary Stimson worked on, but that improves considerably over what the British would get if we followed that theory in line with the lower Consolidated production.

H.M.Jr: Which came in this morning.

Buckley: That is right.

H.M.Jr: But the thing I want to make very clear in my own mind, we said we would give them 6 and then we would go one and one. Now, the War Department says we will give them the first 26.

Young: Although they may snatch out one or two themselves.

H.M.Jr: Yes, which he didn't know. Which evidently Marshall didn't know.

Buckley: If we gave them one and one on this decreased production, they would be considerably longer getting their 20 out.

Purvis: The advantage to the Army is that they get

- 9 -

B-24's with the supercharger, which gives the additional speed at higher altitudes.

H.M.Jr: That is what the certificate will say, but they have turned themselves inside out for this.

Purvis: Yes. And that is the B-24-A, isn't it?

Buckley: The 20 are B-24-A's.

H.M.Jr: Have you got that (War Department memorandum Re Deferment of Light Tanks, October 15, 1940)?

Purvis: I think so.

Buckley: Is there any discussion of the 28 B-24-A's?

H.M.Jr: No, and I don't want any discussion. I will tell you in a minute why I don't want any discussion.

I gave him a copy of this memorandum here of Beaverbrook's, and we read it. He said, "Please take it back." He said, "If I gave this to General Marshall -" He says, "My God, nothing satisfies the English." He said, "I wouldn't have the nerve to show it to him." So I wouldn't fool around. I really think they have absolutely turned themselves inside out.

Purvis: Yes, quite. We should let it go.

H.M.Jr: I would. I mean, that was his reaction - he handed this back. He wouldn't keep it. He tells me about getting you 10 or 12 bombers to go over Berlin that we haven't got anything. He said, "If there is, I don't know of it."

Purvis: The only thing is the unimproved ships.

H.M.Jr: Now, if you want me to, I am perfectly willing to call up the Prime Minister, Mackenzie King, and tell him personally to get word to Beaverbrook, to stop this sort of thing and this idea of giving Morris Wilson additional this



- 10 -

and that, that it is just upsetting to me. I can't do business with more than one representative - one diplomatic representative and one purchasing mission representative.

Purvis: And especially when the other one isn't here.

H.M.Jr: When the other one isn't here. I was thinking of a way to do it. The way to do it would be through Mackenzie King. You can get word over there.

Purvis: That would be very clever.

H.M.Jr: I mean --

Purvis: It just goes against - it is an illustration of the very thing you mentioned this morning.

H.M.Jr: Well, just sleep on it, because the thing is getting - just make a note when I gave this (Memorandum from Beaverbrook to Morris Wilson) to the Secretary of War he wouldn't accept it.

Purvis: I think myself we have got to get away from this business of asking for the odd thing. I think it is a very poor thing. As you say, putting the situation on the table we will gradually get rid of that.

H.M.Jr: Well look, there is no use sending any more representatives to me. I can't work that way. This thing of asking for this special thing is - I can't describe it any better than that the Secretary of War wouldn't accept it. He just wouldn't take it. He said, "Don't give it to me." And I think, as I say, it would be to your distinct advantage to let you see him Thursday and that gives you plenty of time to get the word over about an extra 154 engines, so when you walk in you can do the thing in a grand manner. But I never thought you would get the 70 tanks. I never even thought you would get this.

Purvis: I might say this is very good.

- 11 -

- H.M.Jr: What is the arrangement over the Hispano Suizas?
- Purvis: It was some machine tool situation that was finally ironed out after a good deal of mess. I finally read the riot act.
- H.M.Jr: He says, "We are now happy, contented, and certain with all the assistance we have received from the United States that we will in the end prevail and the end is not far off."
- Well, you know Beaverbrook better - if I sent word to Mackenzie King, it might only irritate him and if it wasn't Morris Wilson, who is your friend, it might be somebody who is not, so it may be better to let him have Morris Wilson, who is your friend.
- Purvis: I think there might be some other way, however, of carrying out what I believe to be a good suggestion, if I can give it a little thought.
- H.M.Jr: Well, if it doesn't irritate you, it won't irritate me.
- Purvis: No. On the other hand, it does at times get a little difficult when you get these cross orders.
- H.M.Jr: You might end up with somebody that you couldn't work with.
- Purvis: That is what I have always thought. That was merely a matter of information to you. You can tear it up. That last word, "The end is not far off," I don't know what that means. Perhaps it doesn't mean anything at all.
- H.M.Jr: Now, if they need something, they are going to get six of these Consolidated. Why not equip them with the Sperry bomb sight as well as the other thing and use them for fighting purposes?
- Purvis: Yes. I wouldn't be surprised if that is what happens.

- 12 -

- H.M.Jr: I don't know where they were going to use them for ferrying purposes, but if they need these six, why not take the first six for fighting purposes and take some other for --
- Buckley: They don't have a tail turret, Mr. Secretary, and they don't have a power turret of any kind.
- H.M.Jr: How many are there of that group?
- Buckley: Six.
- H.M.Jr: I thought there were nine.
- Buckley: No, there were seven all together and six go to the British and one to the Army. Major Fleet characterized them as "clay pigeons".
- Purvis: That is the answer, I think. They are just to keep communications between North America and England in good order, but not for fighting machines.
- H.M.Jr: I think any more requests, after this, you can just pigeon-hole.
- Purvis: Yes, let's get onto a broader basis.
- H.M.Jr: Yes, because you can't do any --
- Buckley: That is what Major Fleet does.
- Purvis: I do not like the comparison.
- H.M.Jr: Neither do I.
- Buckley: I take it that this decision by the Army won't be implemented, then, until after the Thursday conference, so that the British won't have anything to do until then.
- H.M.Jr: They don't have to do anything until Mr. Purvis and whoever of you gentlemen are here on Thursday go with him, but I would just sit tight until we hear from the Army that this is what it is.
- Purvis: Yes. In the meantime, I can develop my points



- 13 -

as to whether this - these extra engines, however, I should get that well in hand from our people.

H.M.Jr: Well, you mean the extra engines? When you go in there, I hope you can say yes.

Purvis: Yes, exactly. That is what I mean. I must get busy on my side.

H.M.Jr: Because that will - if the situation is as it is, and I am sure they wouldn't say it is if it isn't, and these four-engine bombers are going to be grounded, you can do that. You have got those surplus engines. I don't know of a better place to put them.

Purvis: No, that is right.

H.M.Jr: Now, just a minute. There is one thing that they asked for. In Mr. Stimson's handwriting on the side, he says here, "Our 4.7 inch gun production has not advanced far enough to prevent our being willing to standardize on this."

Purvis: That is in regard to the 4.5, the adoption by the U. S. of the 4.5.

H.M.Jr: Now, they have been asking for a 4.5 and if you could get one on a boat and send it over here --

Purvis: I have marked, "unable to get one."

H.M.Jr: Where did I see that?

Purvis: We have cabled many weeks ago for those. It is in the body of the memorandum. I struck it and have it marked down here that they are unable to get one.

H.M.Jr: He stressed that. Those things, you know - here they are asking for this and the people say, "If we could only see one, maybe we could do it."

Purvis: There is still a six pounder to come. There

is a pom pom on the way. We have asked for each one of these types. It takes a long time to get them across, apparently.

H.M.Jr: Well, I think this is a good day.

Purvis: Are we able - I mean, if this clears in the way that it looks as if it would clear, where the types are similar, do you think the RFC financing situation can now - you said to work on the assumption that that would work, which is to get letters ready in effect for those of these weapons which are useful to the United States, to get - try to get letters which will make the RFC think it will help.

H.M.Jr: I think so. Be sure and mention that to Stimson. Be sure and mention that to him.

Purvis: Because that is now - if that was settled, I would be winging my way toward --

H.M.Jr: I think I would just mention it. I don't think you are going to be able to get it, for instance, on the 25 pounder, which is entirely for you. You don't expect that.

Purvis: I have marked there that it is not a useful weapon from their view.

H.M.Jr: No, I mean on the financing.

Purvis: That is what I mean. You can't get the financing where it is not a useful weapon.

H.M.Jr: I don't think I would ask for it.

Purvis: No. But there are one or two cases, in fact, two or three cases.

H.M.Jr: Where he said it would increase our production and make more production in this country, then they can certify it.

Purvis: That applies to the anti-aircraft guns and possibly the six pounder and possibly the 4.5

- 15 -

- Young: We are in the process now of attempting to stretch that to include plant as well where it is a standardized gun.
- H.M.Jr: That is all right, where it is the base of the production --
- Young: We are taking a draft of a letter down to the War Department tonight to see if they will approve it.
- Purvis: It is very important.
- H.M.Jr: You spoke to me about that this morning. That is all right. But where there is something that we can't use, I wouldn't ask for it.
- Purvis: No. I think that is down, because after all, the main consideration - one consideration outweighs the other for us or we wouldn't be taking that view.
- H.M.Jr: Mr. Stimson says, "Will they be able to pay for all this?" So I said, "You had better not ask me, it might discourage you." I said, "I have got a memo on that." He said, "All right, I won't ask you."
- Purvis: As a matter of fact, I can't over-emphasize the importance, as far as I know the picture, and I am not sure that I know it all, of the rolling over of that capital commitment in these last few months, because the product lengthens out very comfortably. It gives us time to get our house in order.
- H.M.Jr: Jones was in today, and for the first time I mentioned this idea of helping the Argentine, and he is crazy about the idea, crazy about it.
- Purvis: Very good.
- H.M.Jr: So we might even help the street railways, direct them to buy. We might do it that way.
- Purvis: Good. Well, it certainly might mean a very



- 16 -

useful extension there, very useful.

H.M.Jr: Yes, on beef particularly, of which you eat a lot.

Purvis: Yes, we do.

H.M.Jr: I think this is all right. What is the date, today? The 15th? It is payday, isn't it?

Purvis: We got safely past the 13th. It was a moonlight night, but we got safely past it.

I have one other minor thing which I don't think will give any difficulty. We have one end of our mission who has just arrived and who have been tying in very well, and that is the merchant ship-building mission. They are in the position where they want to get the right to use the capacity of the Bethlehem. Bethlehem are prepared to open up an old yard which is not open. Otherwise, they have got a great deal of the stuff. Can I go to Knox?

H.M.Jr: That isn't the place to go. They mentioned Knox, so I just assumed it.

Purvis: Oh, then it is Admiral Land, is it?

H.M.Jr: I've just been through this, trying to buy - get the President to okay out of his special-special fund three Coast Guard Cutters for us, so we want to land on the spare shipyards. There are at least three of these - either three or four yards on the West Coast and all of them could have taken this business on this 327,000 ton boats and could have taken all three at one time. Admiral Land has a man who just specializes in where there are shipyards available, and Knox has nothing to do with that.

Purvis: So that --

H.M.Jr: So the person to see is Land.

Purvis: I see.

- 17 -

H.M.Jr: This isn't - I mean, it would be definitely Admiral Land.

Purvis: Very good. What they put to me was, when we saw Admiral Land in Washington he was anxious for us to get in touch with Todd Shipyards Corporation. Though we have not yet got far on the technical side, it is clear that they are prepared to take the whole of the program of 160 ships a year. Yesterday we saw the president of the Bethlehem Company. Bethlehem are interested in the idea of opening a new yard or extending their present merchant shipbuilding to its farthest point to undertake the program. If the United States refuses to allow them to undertake the work for us, that is the end of the matter.

Now, if I understand it, the only object was not to go away from the first company, but so as not to be entirely in the hands of one man for bidding purposes.

H.M.Jr: I don't understand why they didn't give you these three or four West Coast yards, and I wouldn't fool around with Bethlehem and if you want - ask them to give you the names of some West Coast yards.

Purvis: Yes, that is the answer.

H.M.Jr: And I think that you will find that the costs are quite different on the West Coast. I think you will find they are lower. There is this terrific glut of business on the East Coast and very little on the West Coast.

Purvis: Yes. Well now, the competitive angle that we want to develop, as far as you can tell, is better developed on the West Coast rather than to go to Bethlehem?

H.M.Jr: Well, my suggestion is this: Ask them to give you the names of some yards and my three little cutters are going to suffer by this, but ask them to give you the names of some yards that have ways available to do business and that

- 18 -

will give you your competitive bidders.

Purvis: And Admiral Land is the man?

H.M.Jr: Yes. Let me ask him who the person is.

Purvis: How does it tie in with the Navy? What is the connection with the Navy Department that made our people get so tied up there?

H.M.Jr: Look at the president of any of the shipyards and see where they went to school.

(Laughter.)

H.M.Jr: They are all graduates of Annapolis.

Purvis: I see.

H.M.Jr: But they don't seem to have graduated from Annapolis on the West Coast. Okay? You ask the most embarrassing questions.

Purvis: I believe I do. I generally get a very amusing answer.

Well, do you think we had better go now? I will take my pencil, too, even though the point is broken.

H.M.Jr: I don't know why Forrestal called me, but he said he had been in touch with some of his friends in wall street and they said the head of the Brewster was a fathead and he had so many orders that he just didn't want to pay any attention to anybody and he thought we wouldn't have to treat them the way we treated Major Fleet, give them the strong-arm, for whatever it is worth. It was meaningless to me, but you people are doing business.



WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

7-14  
147  
photostat to  
Mr. Young 10/16  
9 am

October 15, 1940.

MEMORANDUM for the Secretary of War:

With reference to the attached lists, and on the basis of a very hurried examination into the involvements:

1. Field guns - 25 pounders - The placing of orders for 1800 of these guns in this country should not interfere with our production if the allocation of plants for this purpose is controlled by the Advisory Committee. The gun itself could not later be converted for our use.

2. Medium Artillery - 300 - The placing of contracts for these two weapons, 4.5" and 5.5" gun Howitzer, should not interfere with our production, carried out on the foregoing basis. However, there is a probability that we may be able to accept the British 4.5" gun, which would help matters. We have so far been unable to get one of these guns on this side of the Atlantic for our artillery people to see.

One 4.7" gun  
production here  
not advanced far  
enough to permit  
manufacturing  
in this

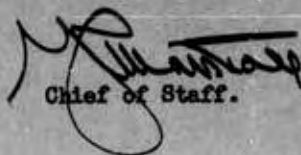
3. Anti-aircraft guns, heavy and light - As the British apparently will accept our models (namely the 90mm and 37mm) there should be no complication regarding this matter, and it would materially broaden our base of production.

4. Tank guns and Anti-tank equipment. The placing of these orders should not complicate our situation if allocated in the proper manner. It is probable that we will accept the 6-pounder gun and carriage as our model of this type. The British evidently are preparing to accept our 37mm gun and 75 mm gun for the M-3 tanks, which further simplified the problem.

5. Rifles - 303 Enfields - I am told this order could be placed without serious interference with our production. The gun cannot be adapted to our use without a major operation involving the manufacture of an entire new barrel.

If we put our Rock Island .30 caliber Springfield plant into operation, we will be turning out 1000 guns a day in about eight months. This might be done on the basis of

releasing to the British our Enfields at the same rate  
as the production of the Springfield, and at the same price.

  
Chief of Staff.

For Morgenthau Lunch mtg Oct 15 149

**CONFIDENTIAL.**

gene photostated  
to me young  
10/16

October 14, 1940.

9 am

### DEFERMENT OF PLANES

Due to the failure of the manufacture to meet the delivery schedule which was used as a basis for the agreement of October 1, 1940, a modification of that agreement is necessary in order to make certain that the British will have the 26 available by May 1, 1941.

#### I - We defer to the British:

Delivery of 6 B-24's.

#### We get from the British:

120 Wright R-1820-65 engines with which we can power approximately 20 B-17's which would otherwise be in storage due to engine shortage.

#### II - We further defer to the British:

Delivery of 20 additional B-24's.

#### We get from the British:

154 additional Wright R-1820-65 engines with which we can power approximately 22 B-17's which would otherwise be in storage due to engine shortage.

#### We get from the Manufacturer:

20 improved B-24's with Turbo Supercharger and complete armament installed.

**CONFIDENTIAL**

Under this we should get

- 1 Only 10 B 24's by May 1/41
- 2 20 better B 24's after May 1/41 without extra cost
- 3 Engines for 42 B 17's which otherwise wd be grounded  
we should get these engines in time for the planes



**CONFIDENTIAL**

→ T. Ry  
 gave photostat  
 to me young  
 10/16 9 a.

October 15, 1940.

DEFERMENT OF LIGHT TANKS

The British want 70 Model M2A4 (Light) tanks.

We defer:

Delivery of our light tanks, without armament,  
 for approximately six weeks,  
 until 70 have been delivered to the British.

30. m.g out on acct of engine shortage

In return we get from the British:

- 63 Pratt & Whitney R-1830 - 31,41 engines with which we can power approximately 9 B-24's,
- 53 Pratt & Whitney R-1830 engines with which we can power approximately 15 C-47's,
- 224 Pratt & Whitney R-2800-5 engines with which we can power approximately 70 B-26's, all of which would otherwise be in storage due to engine shortage.

**CONFIDENTIAL**

10/15/40

151

HM, Jr gave this memorandum from Lord Beaverbrook to Secretary Stimson at lunch today and Mr. Stimson refused to take it.

→ 7. Py  
gave photostat  
to Mr Young  
10/16  
9 am.

COPY

London,

October 11, 1940

To: Morris Wilson  
From: Beaverbrook

It is imperative that we should have an increased flow of aircraft from the United States. In particular we want bombing machines capable of reaching Berlin at night with a ton or more of bombs.

We want very much the Consolidated LB 30 and the Boeing B 17.

We would be well satisfied with the PBY flying boat.

Can you persuade the Administration and Morgenthau to send us forthwith 10 or 12 of these aircraft as a special claim by us to enable us to defend ourselves more completely. It would appear desirable that you should undertake on behalf of our Government a drive for more production in the aircraft factories for more assistance in suitable aircraft for the American Government and for a speeding up of production of Wright 2600 engines which are essential for our Stirling programme here.

If you would consider pressing forward with a programme to give us the aircraft and accessories we need, I would ask the Ministry to confer on you special powers and authority.





discussed on 10/17 at 330 pm

BRITISH PURCHASING COMMISSION

October 15, 1940.

Dear Mr Secretary

Following my letter of the 10th of October, I now inclose the following memoranda relating to the extended Aircraft Programme:

1. A short covering explanatory note for your own information including a table of the forecast of deliveries of the orders now in production for the U. K. in the U.S.A. and of the orders we wish to place under the new extended Aircraft Programme.

2. An historical and financial review of the present and proposed programmes: this memorandum I suggest for your and the Treasury's information.

3. A memorandum explaining the proposed joint Anglo-American Aircraft Production and Capacity. This is for the information of the various Departments concerned.

Yours sincerely,

W. L. Layton

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

NEW PROPOSALS FOR CREATION OF FURTHERAIRCRAFT PRODUCTION CAPACITY

Covering explanatory note for the information  
of Mr. Morgenthau.

1. Existing programmes, including contracts taken over from the French, show that aggregate aircraft and engine programmes now in progress or negotiation for the U.K. represent a total cost of approximately \$1,750,000,000 and provide for deliveries of complete aircraft at approximately 250 per month from July last, increasing progressively to upwards of 750 (mainly combat types) by July 1941 and continuing at such level until March 1942. (The previous estimate was 700 per month.) Also, under these programmes, combined with supplementary engine schemes now being negotiated with the U.S. Administration, additional engines for export to England which now total approximately 400 per month should rise to about 950 per month by the end of 1941. This figure corresponds to approximately 550 combat planes. The aggregate yield under present arrangements thus covers a peak figure during 1941 of 1300 aircraft per month, of which 550 <sup>airframes</sup> would be built in England but provided with engines from the U.S.A.

2. At the instance of Secretary Morgenthau, discussions were opened with Secretaries Morgenthau, Knox and Stimson and the President's Liaison Committee in July last as to the possibility of creating increased production capacity in the U.S. to yield a further 3000 aircraft per month for the U.K. in addition to the U.S. requirements. A plan was subsequently drawn up by the National Advisory Council on Defense to give effect to this suggestion. This is in two stages, viz, an initial or "Part I" scheme for production

of 1250 aircraft per month (deemed practicable of execution by end 1941) and an extended, or "Part II", scheme enlarging the initial production to 3000 aircraft per month. On the assumption that satisfactory arrangements can be made for the financing of the capital expenditure involved, the United Kingdom desires to proceed with the plan but suggests provision for additional production of 250 Harvard Trainers per month in Part I scheme, thus bringing it up to 1500 aircraft per month.

3. The new plan in its main financial and production features is as follows:-

- (a) The total capital cost of Part I scheme would be about \$500,000,000.
- (b) Initial production orders under Part I scheme for 9000 aircraft would cover deliveries to the end of June 1942 at a total cost of \$900,000,000. These orders would be coupled with suitable options to cover subsequent production at peak capacity.
- (c) Part II scheme would be initiated about mid-1941 with deliveries starting in Spring 1942 and reaching peak output by the end of 1942. The position as to capital costs and production orders duplicates the figures of Part I scheme eight months later.
- (d) A table is attached hereto giving a speculative forecast of delivery schedules under the two parts of the Plan.

4. Paragraph (3) of Sir Walter Layton's letter to Mr. Morgenthau dated October 2nd, 1940 suggests that the plan should be regarded as complementary to those already in train for U.S. Defense and as such merits application of the principle recognised in July last by the President that, where the orders of the U.S. and U.K. Governments are



complementary, the initial capital expenditure would be advanced in the first instance from the funds of the U.S. Administration.

5. The best approach to the plan would seem to be the appointment of a joint Anglo-American Committee to supervise the formulation, initiation and execution of the scheme aided by appropriate joint committees to pursue the several aspects, e.g. (a) Finance (b) Planning (c) Technical.

6. In this connection, it is desired to draw attention to the danger of certain "bottlenecks", especially in connection with:-

(a) The production of raw materials and their fabrication;

(b) The manufacture of machine tools and

(c) The production of engines and guns.

Considerable time would be saved if anticipatory action could be taken to clear these bottlenecks ahead of the main features of the scheme which do not take so long in execution.

7. Special mention is also necessary of the request of the U.K. Government that the initial production orders covering 9000 aircraft for delivery between July 1941 and June 1942 should be placed for 1941 aircraft types. To await 1942 types would involve loss of deliveries during 1941 and risk of postponement of deliveries of the new types until late in 1942. Such a programme would be too late for effectiveness during the critical war period. It is further submitted that it is essential in any case to build up organizations and train labor, etc., on standardised 1941 types in order to ensure effective full scale production of 1942 types later.

8. As a first step the U.K. Government seek the approval of the U.S. Government for:-

(a) The immediate prosecution of Part I  
(1500 aircraft per month) Scheme as

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a first instalment of Part II  
(3000 aircraft per month) Scheme,  
subject to suitable arrangements  
for capital finance as indicated in  
paragraph (4) above: and

- (b) The setting up forthwith of Joint  
Committees as indicated in paragraph  
(5) above to implement the scheme within  
terms of reference to be defined by mutual  
agreement.

British Purchasing Commission  
Washington, D.C.  
October 16, 1940

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TENTATIVE FORECAST OF AIRCRAFT DELIVERIES  
FROM THE U.S.A. FOR THE U.K. GOVERNMENT.

MONTH	Current Pro- grammes	New Scheme Part I	TOTAL	COMPRISING ROUGHLY				
				Fly- ing Boats	Bom- bers	Dive Bombers & Recon- naissance	Fight- ers	Train- ers
July 1941	750	50	800	15	215	200	300	70
August 1941	750	100	850	15	230	215	310	80
Sept. 1941	750	200	950	20	255	240	335	100
Oct. 1941	750	300	1050	20	280	270	360	120
Nov. 1941	750	400	1150	20	300	300	380	150
Dec. 1941	750	550	1300	25	340	340	415	180
Jan. 1942	750	750	1500	30	400	400	460	210
Feb. 1942	750	950	1700	35	460	460	505	240
Mar. 1942	750	1200	1950	40	535	535	570	270
April 1942	750	1500	2250	50	630	630	640	300

- Notes:
1. In addition engines would be exported to U.K. rising from 400 engines per month to 950 per month in December 1941 and possibly to 1500 per month in the Spring of 1942.
  2. If Part II of the New Scheme is initiated about the middle of 1941 it should yield a fresh increase of aircraft deliveries starting in April, 1942.



HISTORICAL AND FINANCIAL REVIEW OF PRESENT AND PROPOSED  
AIRCRAFT PROGRAMMES FOR THE U.K. GOVERNMENT.

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I. INTRODUCTION.

1. It may be of assistance to consideration of the proposals discussed in this paper to give a preliminary review of the arrangements already in train for aircraft production in the U.S.A. on behalf of the U.K. Government. Prior to the arrival of Anglo-French representatives in March, 1940, to implement a new programme, there were in existence certain orders for the U.K. Government whilst the French Government had already in train a considerable volume of production, of which the outstanding balance was taken over by the U.K. Government following the French collapse. These orders have proceeded satisfactorily and a large part of the deliveries due under them have already been made. The total value of these programmes accruing to the U.K. Government is roughly \$450,000,000.

2. The Anglo-French air representatives were authorised at the beginning of April 1940, to implement a new joint programme valued at \$600,000,000. This programme involved the creation of new manufacturing capacity, principally for engines, and the delivery schedules extend from October, 1940, to October, 1941, on a rising scale. Action has proceeded satisfactorily on this joint programme which has now been taken over entirely by the U.K. Government. This programme combined with parallel French and British programmes should result in the creation of a balanced potential

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by the middle of 1941, yielding roughly 750 complete aircraft per month, mainly combat types, and thus constitutes a considerable measure of supplemental reinsurance of the U.K. air programme for production in England. The plan is proceeding satisfactorily and deliveries should be substantially achieved in accordance with schedule. There is some difficulty in regard to gun supplies for this programme but representations have already been made to the U.S. Administration for assistance whereby it is hoped this will be overcome.

3. Over and above the programmes mentioned above for manufacture of complete aircraft, the French Government had in train as from November, 1939, a programme for production of air engines for delivery to France to be installed in aircraft manufactured there. Following the French collapse, these contracts were taken over on behalf of the U.K. Government, and the engines are being utilised for -

- (a) providing engines for an additional programme of aircraft orders since placed in the U.S.A. valued at approximately \$100,000,000 and
- (b) for delivery to the U.K. for installation in aircraft being manufactured there.

4. It is still not possible, even with the arrangements referred to above to meet current engine requirements and discussions are now proceeding with the U.S. Administration for supplementary engine schemes which will balance up production with the requirements including those of the U.S. defence programme and also those for the export of engines to England and Canada to balance U.K. and Canadian airframe production.

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5. As a specific instance, the U.K. Government arranged recently a joint scheme with the U.S. Government whereby the Packard Company will produce 9,000 Merlin Rolls-Royce engines, of which 6,000 are for U.K. account and will be exported to England. These supplies should start in May, 1941, and work up to the peak of roughly 534 engines per month by the end of 1941. The cost of the U.K. share of this scheme is roughly \$120,000,000.

6. It is hoped that the U.S. Administration will similarly be interested in proposals which are being tentatively prepared for the production in the U.S.A. of the Sabre, a new in-line 2,000 h.p. engine of outstanding quality.

7. Aggregating the programmes already in progress, there are now in train in the U.S.A. on account of the U.K. Government programmes for aircraft and engines estimated to cost roughly \$1,750,000,000 including a supplementary programme valued at approximately \$500,000,000 which is now being released to cover production over the period of October, 1941, to March, 1942. They thus ensure -

- (a) a programme of deliveries of complete aircraft which has yielded an average of approximately 250 a month since July, 1940, and will steadily rise to 750\* per month by July, 1941, continuing at that level until March 1942; and
- (b) the export of engines to England for installation in aircraft built there, totalling roughly 400 engines per month, rising to about 950 engines per month by the end of 1941.

\* Note: This estimate assumes that intensification of production will enable a monthly figure of 750 to be achieved somewhat earlier than the date of Aug. 1941 shown in current schedules and also enable subsequent output to be maintained at this level within the capacity at present allotted for U.K. use and previously estimated to yield a total of 700 aircraft per month.



The supply of engines under (b) assumes successful conclusion of arrangements as in sub-paragraph (4) above. It will be roughly equivalent to 550 combat planes - so that the arrangements, as a whole, cover a total ultimate yield of approximately 1,300 aircraft per month. This assumes continuation of the existing situation in England whereby airframe production exceeds engine production and that any damage to factories will not vitiate the existing excess of airframe as against engine production.

II. THE NEW PLAN

1. In recent months it has become increasingly clear that even the programmes outlined above will not enable the U.K. Government adequately to re-insure the growth of their air strength on the scale necessary to guarantee the successful conclusion of the war with Germany. They accordingly desire to proceed as a matter of first urgency with the further plan reviewed in the supplementary memorandum which is submitted herewith.
2. If the initial scheme prepared by Mr. Knudsen as explained therein is implemented as now desired, it will entail the creation of new capacity for airframes, engines, propellers, material supplies, accessories, armament, ammunition, bombs, radio and special equipment involving a total capital expenditure of approximately say \$500,000,000.
3. The initial production orders will cover 9,000 aircraft for delivery by June 30, 1942 and costing approximately \$900,000,000. These orders will represent half a year's output at peak production rates.

4. The second half of the scheme would involve similar capital expenditure and initial production orders approximately eight months later in each case, assuming it could be initiated about the middle of 1941.

## III

FINANCIAL TREATMENT OF CAPITAL EXPENDITURE

1. The U.K. Government submit that this scheme is complementary to the proposals already in train for the creation of additional capacity for the purposes of U.S. defence and as such comes within the terms of paragraph (3) of the letter to the Secretary of the Treasury from Sir Walter Layton, dated October 2, 1940. It is suggested that the scheme would bring into being capacity required as a further instalment towards the full requirements for the defence of America, having regard to the scale upon which the totalitarian powers will be able to produce aircraft aided by the supplementary capacity now available to them in occupied countries.

2. It is accordingly desired to secure for this scheme the application of the principle recognised in June by the President and Secretary Morgenthau, that where the orders of the U.S. and U.K. Governments are complementary, the initial capital expenditure would be advanced in the first instance from the funds of the U.S. Administration.

3. In particular, it is desired to draw attention to the particular difficulty entailed in the creation of capacity for aircraft production in that the initial orders are comparatively small in relation to the capital cost involved. It is hoped that amortisation of the loan

expenditure might be considered over a reasonably long period of production covering not only the initial production orders but also a period during which the output of the factories would be under option to the United States and United Kingdom Governments. In other words, it is requested that amortisation of capital charges may be spread over the initial production orders together with the production secured under long term options.

#### IV APPROACH TO THE PLAN

1. In order that this plan may be pursued with full energy so as to secure aircraft deliveries at the shortest possible date, it is suggested that a joint Anglo-American Committee should be appointed to supervise the formulation, initiation and execution of the scheme. Such a Joint Supervisory Committee would exercise control of the progress of suitable joint committees appointed to pursue the scheme in its detailed aspects, such as -

- (a) Finance
- (b) Planning
- (c) Technical.

This joint supervisory committee would include U.K. representatives empowered to take decisions on behalf of their Government so as to avoid the delay involved by reference back.

2. The Joint Finance Committee might, it is suggested, actively pursue the precise form of the capital arrangements suggested above with special reference to the adaptations necessary to meet the peculiar circumstances



of aircraft and ancillary production.

3. The Joint Planning and Technical Committees proposed in the supplementary memorandum outlining the scheme in detail would function under the control of the main Joint Supervisory Committee.

4. The proposed committees would work concurrently on their respective problems so as to avoid delay.

5. Special consideration is requested of the need for urgent treatment of "bottlenecks" on the lines discussed in Section V of the supplementary memorandum.

V. CONCLUSION

1. The United Kingdom Government seek the approval of the United States Government to the immediate prosecution of a new scheme for the creation of additional capacity and production on U.K. account of 1,500 aircraft per month as a first instalment of a larger scheme for 3,000 aircraft per month and subject to arrangements for the finance of the capital expenditures as discussed herein.

2. They ask that immediate approval may be given for the setting up of Joint Committees, as indicated in Section IV above, with powers to take decisions and implement action within terms of reference to be defined by mutual agreement.

October 16th 1940.

PROPOSED JOINT ANGLO AMERICAN SCHEME FOR CREATION OF  
FURTHER AIRCRAFT PRODUCTION CAPACITY.

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I. INTRODUCTION.

During the course of July 1940, it became clear that aircraft programmes already in train in the United States of America would not yield a sufficient complement to aircraft production in the United Kingdom to re-ensure the growth of U.K. air strength on the scale necessary to guarantee the successful conclusion of the war with Germany. Arising out of a meeting held by Secretary Morgenthau on Tuesday, July 23rd, representations were accordingly made to the U.S. Administration as to the possibility of creating further capacity in the U.S.A. which would yield a programme of additional deliveries during the course of 1941 and work up to a production peak during the course of 1942. The situation was further reviewed in consultation with Secretaries Morgenthau, Knox, and Stimson, and with the President's Liaison Committee, on Wednesday, July 24th 1940, and specific application was made for allocation of additional capacity for an output of 3,000 aircraft per month. The possibility of such a scheme was welcomed and Mr. Knudsen, of the National Advisory Council on Defence, was requested to prepare a scheme to give effect to the proposal.

II THE NEW PLAN

1. Mr. Knudsen accordingly prepared the plan reviewed in Annexure I to this paper, basing it upon a provisional distribution of the total of 3,000 aircraft given by the U.K. representatives at the meeting in question.

In preparing these proposals, Mr. Knudsen indicated that he would prefer to approach the problem in two stages, and he accordingly formulated a smaller scheme for 1,250 aircraft per month, which he deemed practicable of execution by the end of 1941, leaving the expansion of such a scheme into one for the larger total of 3,000 aircraft per month for subsequent initiation and development as progress with the first instalment might warrant.

2. In examining the proposals, the U.K. Government consider that there are certain modifications which it is desirable to make, such as -

- (a) Sufficient capacity is not included for provision of spare parts and spare engines and they would propose to increase the capacity allocated to such production so as to ensure the availability of 20% airframe parts, 20% spare engines and 15% spare engine parts, with corresponding provision for spares for ancillary equipment.
- (b) They desire to revise the number of aircraft in each category with principal reference to a possible reduction in the number of Flying Boats and an increase in the number of heavy bombers. The precise determination of these revisions would seem to be a matter for joint technical discussion, in the first place. Meanwhile, it is suggested that the framework of Mr. Knudsen's proposals adequately covers the situation in terms of financial cost since any adjustments of types or increased allocation of capacity under sub-paragraph (a) above would be by way of substitution within the existing cost estimates.



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- (c) Mr. Knudsen's initial scheme does not include provision for trainers, whereas the larger scheme includes 300 twin engine trainers per month and 200 single engine trainers per month. The U.K. Government are prepared to rely upon U.K. and British Commonwealth production of current British twin engine trainer types during the initial scheme, but they desire to include provision for 250 single engine Harvard trainers in the initial scheme, thus making the total of aircraft envisaged by that scheme 1,500 per month.
- (d) The plan does not cover the cost of provision for additional capacity for armament, ammunition, bombs, radios and special equipment which would be needed to balance up such a scheme. It is suggested that allowance for these items would involve an additional capital expenditure of roughly \$60,000,000 to the initial scheme and a similar sum as and when the second half of the 3,000 per month scheme is implemented.

### III INITIATION OF NEW PLAN

1. The U.K. Government are anxious that the proposed scheme should be initiated as soon as possible in two stages as contemplated by Mr. Knudsen.
2. If the initial scheme for 1,500 per month (including 250 Harvard trainers) were started forthwith, it might permit production deliveries to commence in the summer of 1941, and work to the peak of 1,500 aircraft per month by the spring of 1942.
3. It is suggested that a time programme of this order would involve initial production orders equivalent to 9,000 aircraft complete with all equipment and associated

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supplies. This production programme would cover deliveries to be achieved by the end of June 1942, and in total would be equal to half the total output which would thereafter be achieved from the capacity so created, working at peak production over a period of 12 months. It is suggested that such an initial order would be adequate for implementing the scheme, provided it could be coupled with suitable options to cover subsequent production.

4. Subsequent maintenance of production of this initial capacity would involve orders for 18,000 aircraft per annum.

5. It is no doubt premature to attempt any forecast of the stage when the fuller scheme might be implemented, but it might be practicable to release the second half of the scheme about the middle of 1941, with a view to production deliveries starting in the spring of 1942, working up to peak output by the end of that year. In that event, the second half of the scheme would involve capital expenditure and initial production orders approximately eight months later than those for the first half.

6. Annexure II attached hereto attempts a speculative forecast of the delivery schedules envisaged under the programmes discussed above.

IV

#### JOINT PLANNING AND TECHNICAL COMMITTEES

1. To facilitate progress with the scheme it is suggested that joint planning and technical committees should be established analogous to those already functioning in connection with current programmes.

2. The Joint Planning Committee will be actively concerned -

- (a) with the planning of the scheme in co-ordination with arrangements already in train on behalf of the two Governments under their respective air programmes; and
- (b) to crystallize out the phases of the scheme in their order of urgency for implementation.

3. The Joint Technical Committee would be especially concerned with standardisation of aircraft and equipment types so as to ensure the full advantages of production on common types as well as the employment of the new capacity upon the production of aircraft not only competent for employment under war conditions in Europe but also fully efficient for purposes of U.S. defence.

V. ELIMINATION OF BOTTLE-NECKS

1. If Joint Committees could be brought into being as indicated in the previous section, it is thought that they would quickly reveal the fundamental need for clearing certain bottlenecks which are extremely urgent under the time programme. These especially concern -

- (a) the production of raw materials and their fabrication;
- (b) the manufacture of machine tools; and
- (c) the production of engines and guns.

2. The problems under paragraph 1(a) above are of the first importance. For example, U.K. experience since 1934 has demonstrated the urgent necessity for ensuring adequate supplies of aluminium and their fabrication into light alloys. The necessity for this is recognised in Mr. Knudsen's proposals which cover, inter alia, the creation of new capacity for light alloy fabrication. It is assumed that, as no proposals were included in his plan for creation



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of new capacity for the production of the virgin metal, U.S.A. capacity in that direction will be adequate for the scheme. But the creation of fabricating capacity has been found, in England, to be a lengthy process with special reference to the time required for manufacture of heavy extrusion presses. Until this fabricating capacity is in existence the supply of materials to the aircraft manufacturing firms cannot commence. The construction of new aircraft factories can thus follow some months after the initiation of the creation of new fabricating capacity for these materials. It is probable that U.S. technique will improve, for example, upon the period of nine months found necessary in England for the manufacture of extrusion presses, but even so the time factor will be governed by the speed with which capacity can be brought into operation for supply of light alloys and other materials to the aircraft plants.

3. Mr. Knudsen's initial scheme envisages an expenditure of \$310,000,000 on machine tools. The total will be increased to roughly \$350,000,000 by the inclusion of machine tools for guns and ancillary equipment. A corresponding figure would be involved as and when the initiation of the second half of the full 3,000 per month scheme becomes practicable. It would seem that these schemes will involve a serious drain upon the resources of the machine tool industry in the U.S.A. and thus call for special action to expand the capacity of the machine tool manufacturers. If this proves to be the case, the time factor again is seriously affected and the elimination of this bottle-neck on the provision of machine tools for the aircraft factories becomes a matter of first importance.

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4. The third bottle-neck is the creation of new capacity for engine and gun production. In general, the time required for bringing new engine and gun factories into production is found to be roughly three months longer than that required for airframe factories. It would thus be of real advantage to the scheme if a first authority could be given for the creation of new capacity for engines, guns and other similar supplies which require longer periods before they can come into production, as compared with airframe production.

5. It is suggested that the Joint Planning Committee should address themselves actively to these bottle-necks in the first instance, realising that the products from such capacity are common to whatever types of aircraft may ultimately be adopted under the scheme. If action could be taken to clear these bottle-necks first, it would leave a breathing space for starting up the rest of the scheme as and when the technical problems are cleared.

VI

INITIAL BLOCK OF ORDERS FOR U.K. GOVERNMENT

1. In U.K. experience, it is always difficult to forecast accurately the date of introduction of new aircraft types. Unforeseen design difficulties have almost invariably involved substantial delays in the entry of these types into full production.

2. It is realised that very promising new types of U.S. design are now emerging and that they are expected to come into production during 1942. Normally the scheme under discussion herein would most appropriately be related

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to such new types. The U.K. Government nevertheless desires the initial block of orders for 9,000 aircraft, discussed in Section III(3) above to be ordered to 1941 types, seeing that it is hoped to achieve delivery between July 1941, and June 1942. In this way they would secure a substantial contribution to their war effort during the critical period, whereas postponement of production to achieve 1942 types would not only involve loss on initial deliveries but also serious risk of not obtaining actual deliveries of the new types until the second half of 1942.

3. Apart from the impracticability of accepting this risk as also of waiving the possibility of deliveries before the end of 1941, the U.K. Government represent that it is impracticable to bring new capacity into existence for full-scale production of new types without the organisation being built up and new labour effectively trained on preliminary orders for current standardised types. They thus submit that the placing of the proposed initial block of orders for 1941 types would enable the training of labour and the building up of the new capacity to be effectively achieved with subsequent real advantage to the production of 1942 types. The U.K. Government request that the Joint Committees may be guided in their activities by this fundamental desideratum.

## VII

CONCLUSION.

The U.K. Government seek the approval of the U.S. Government for the setting up of Joint Committees as proposed above with a view to the immediate prosecution of the proposed scheme on the lines indicated.

October 16th 1940.



MR. KNUDSEN'S ESTIMATES  
FOR THE  
3,000 PLANES PER MONTH PROGRAM

1. REQUIREMENTS

Type	No. of Engines per Plane	No. of Planes per mo.	No. of Engines per mo.
a. Heavy Bombers	4	250	1,000
b. Medium Bombers	2	600	1,200
c. Patrol Boats	2	250	500
d. Dive Bombers	1	400	400
e. Pursuit	2	400	800
f. Pursuit	1	600	600
g. Trainers - Adv.	2	300	600
h. Trainers - Adv.	1	200	200
TOTALS		3,000	5,300
Spare Parts (10%) in terms of complete units		300	530
TOTAL		3,300	5,830

2. FACILITIES

	Delivery Units per Month	No. of Plants	Total Floor Area Million sq.ft.	Total Em- ployees Thous- ands	Total Cost of Facilities in \$1,000,000		
					Build- ings	Machine Tools	Total
a. Airframes	3,300	15	33.2	332	116	266	382.
b. Engines	5,830	6	15.0	75	52.5	240	292.5
c. Propellers	5,830	2	1.8	14.4	6.3	27.0	33.3
d. Miscellane- ous	-	23	18.6	130.6	58.5	113.8	172.3
TOTAL		46	68.6	552.0	233.3	646.8	880.1

3. FACILITY COST

Airframes	\$382,000,000
Engines	292,500,000
Propellers	33,300,000
Miscellaneous Parts	<u>172,300,000</u>
GRAND TOTAL	\$880,100,000

Prepared by Aeronautical Section,  
National Defense Advisory Commission, T.P.W., A.E.L.  
July 25, 1940.

## 3,000 PLANES PER MONTH PROGRAM

## FACILITIES

	Delivery Units per Month	No. of Plants	Total Floor Area sq. ft.	Total em- ployees Thous- ands	Cost of Facilities Millions of Dollars			
					Build- ings	Machine Tools	TOTAL	
<u>Airframes</u>								
Heavy Bomber	4 eng.	275	2	8	80.	28.0	64.	92.0
Medium "	2 eng.	660	3	9	90.	31.4	72.	103.4
Flying Boats		275	2	6	60.	21.0	48.	69.0
Five Bombers		440	2	2.7	27.	9.4	22.	31.4
Pursuit Planes	2 eng.	440	2	3.6	36.	12.5	29.	41.5
Pursuit Planes	1 eng.	660	2	2.4	24.	8.4	19.	27.4
Adv. Trainers	2 eng.	330	1	1.	10.	3.5	8.	11.5
"	1 eng.	220	1	0.5	5.	1.8	4.	5.8
<b>Total Airframes</b>		<b>3,300</b>	<b>15</b>	<b>33.2</b>	<b>332.</b>	<b>116.</b>	<b>266.</b>	<b>382.0</b>
<u>Engines</u>								
Wright Aero.		2,090	2	6.	30.	21.0	96.0	117.0
P Pratt & Whitney		2,420	2	6.	30.	21.0	96.0	117.0
Allison		660	1	2.	10.	7.0	32.0	39.0
Lycoming		660	1	1.	5.	3.5	16.0	19.5
<b>Total Engines</b>		<b>5,830</b>	<b>6</b>	<b>15.</b>	<b>75.</b>	<b>52.5</b>	<b>240.</b>	<b>292.5</b>
<u>Propellers</u>								
Hamilton-Standard		3,200	1	0.9	7.2	3.2	13.5	16.7
Curtiss-Wright		2,630	1	0.9	7.2	3.1	13.5	16.6
<b>Total Propellers</b>		<b>5,830</b>	<b>2</b>	<b>1.8</b>	<b>14.4</b>	<b>6.3</b>	<b>27.</b>	<b>33.3</b>
<u>Miscellaneous</u>								
Aluminum Sheet	12,000 tons	1)		10.0	30.0	30.0	50.0	80.0
" Cast. & Forg.	3,000	2)		*	*	*	*	*
Magnesium Castings		*		*	*	*	*	*
Steel Forg. (Rods, Shafts, Gears)		2		0.6	3.5	3.5	8.5	12.0
" Forg. (Cylinders)	88,000	**		**	**	**	**	**
Propeller Hub Forg.	-	1		0.2	0.9	1.0	2.0	3.0
Bearings C/L	-	1		0.2	3.0	0.6	1.1	1.7
Wolves	5,000 sets	1		0.3	4.5	1.2	3.8	5.0
Carburetors	5,830)							
Magnetos	11,860)	2		2.	27.0	6.0	14.	20.0
Starter & Gener- ator	5,830)							
Shielding Harness	5,200	1		0.4	5.3	1.2	1.6	2.8
Exhaust Manifolds	4,600	2		0.6	4.0	2.1	3.0	5.1
Radiators & Oil Coolers	3,300	1		0.2	2.0	0.6	0.8	1.4
Hydraulic pumps, etc.	12,000	2		0.2	2.7	0.6	1.4	2.0
Turbo Superchargers	2,000	2		1.0	13.5	3.0	7.0	10.0
Landing Gear Struts	3,300 prs	2		0.8	6.4	2.4	6.4	8.8
Wheels & Brakes	6,600	1		0.1	0.8	0.3	0.2	0.5
Instruments & Auto Pilots	3,000 sets	4		2.0	27.0	6.0	14.0	20.0
<b>Total Misc.</b>			<b>25</b>	<b>18.6</b>	<b>130.6</b>	<b>58.5</b>	<b>113.8</b>	<b>172.3</b>
<b>GRAND TOTAL</b>			<b>48</b>	<b>68.6</b>	<b>552.0</b>	<b>233.3</b>	<b>646.8</b>	<b>880.1</b>

\* No data available. Use of magnesium insignificant.

† Cost of facilities (approx. \$5,000,000) not included in totals.

Prepared by Aeronautical Section, National Defense Advisory Commission,  
T.P.W.A.E.L.

MR. KNUDSEN'S ESTIMATES FOR AN  
INITIAL SCHEME COVERING A  
1,250 PLANES PER MONTH PROGRAM

REQUIREMENTS

Type	No. of Engines per plane	No. of Planes per mo.	No. of Engines per mo.
a. Heavy Bombers	4	125	500
b. Medium Bombers	2	300	600
c. Patrol Boats	2	125	250
d. Dive Bombers	1	200	200
e. Pursuit	2	200	400
f. Pursuit	1	300	300
Totals		1,250	2,250
Spare Parts (10%) in terms of complete units		125	225
TOTAL		1,375	2,475

SUMMARY OF FACILITIES

	De- livery Units per Month	Total Floor Area Mill. sq. ft.	Total Em- ployees Thous- ands	Cost of Facilities Millions of Dollars		
				Build- ings	Machine Tools	TOTAL
a. Airframes	1,375	15.9	159.0	47.7	127.0	174.7
b. Engines	2,475	7.0	35.0	24.5	112.0	136.5
c. Propellers	2,475	1.0	7.0	3.4	15.0	18.4
d. Miscellaneous	-	9.4	57.3	28.9	56.5	85.4
TOTAL		33.3	258.3	104.5	310.	415.0

July 29, 1940.



1,250 PLANES PER MONTH PROGRAMDETAILS OF FACILITIES

	De- livery Units per Month	Total Floor Area Mill. sq.ft.	Total Em- ployees Thous- ands	Cost of Facilities Millions of Dollars		
				Build- ings	Machine Tools	TOTAL
<u>Airframes</u>						
Heavy Bomber 4 eng.	138	4.0	40.	12.0	32.0	44.0
Medium " 2 eng.	330	4.5	45.	13.5	36.0	49.5
Flying Boats	137	3.0	30.	9.0	24.0	33.0
Dive Bombers	220	1.4	14.	4.2	11.0	15.2
Pursuit Planes 2 eng.	220	1.8	18.	5.4	14.5	19.9
" " 1 eng.	330	1.2	12.	3.6	9.5	13.1
Total Airframes	<u>1,375</u>	<u>15.9</u>	<u>159.</u>	<u>47.7</u>	<u>127.0</u>	<u>174.7</u>
<u>Engines</u>						
Wright Aero.	1,045	3.0	15.0	10.5	48.0	58.5
Pratt & Whitney	1,100	3.0	15.0	10.5	48.0	58.5
Allison	330	1.0	5.0	3.5	16.0	19.5
Total Engines	<u>2,475</u>	<u>7.0</u>	<u>35.0</u>	<u>24.5</u>	<u>112.0</u>	<u>136.5</u>
<u>Propellers</u>						
Hamilton Standard	1,275	0.4	3.0	1.4	6.0	7.4
Curtiss-Wright	1,200	0.6	4.0	2.0	9.0	11.0
Total Propellers	<u>2,475</u>	<u>1.0</u>	<u>7.0</u>	<u>3.4</u>	<u>15.0</u>	<u>18.4</u>
<u>Miscellaneous</u>						
Aluminum Sheet	6,000 tons	5.0	15.0	15.0	25.0	40.0
" Cast. & Forg.	1,500 "					
Magnesium Castings	60	0.1	0.3	0.3	0.5	0.8
Steel Forg. (Rods, Shafts, Gears)		0.3	1.8	1.7	4.3	6.0
Steel Forg. (Cylinders)	40,000	0.2	0.3	0.7	1.4	2.1
Propeller Hub Forg	-	0.1	0.4	0.5	1.0	1.5
Bearings C/L	-	0.1	1.5	0.3	0.5	0.8
Valves	2,500 sets	0.2	2.2	0.6	1.9	2.5
Carburetors	2,500)					
Magnetos	5,000)	1.0	13.5	3.0	7.0	10.0
Starter & Generator	2,500)					
Shielding Harness	2,500	0.2	2.5	0.6	0.8	1.4
Exhaust Manifolds	2,500	0.2	1.8	0.8	1.2	2.0
Oil Coolers & Radiators	2,500	0.1	1.0	0.3	0.4	0.7
Hydraulic pumps, etc.	6,000	0.1	1.3	0.3	0.7	1.0
Turbo Superchargers	1,000	0.5	3.0	1.5	3.5	5.0
Landing Gear Struts	1,375 prs	0.4	3.2	1.2	3.2	4.4
Wheels & Brakes	2,750	0.1	0.5	0.1	0.1	0.2
Instruments & Auto Pilots	1,375 sets	0.8	9.0	2.0	5.0	7.0
Total Miscellaneous		<u>9.4</u>	<u>57.3</u>	<u>28.9</u>	<u>56.5</u>	<u>85.4</u>
GRAND TOTAL		<u>33.3</u>	<u>258.3</u>	<u>104.5</u>	<u>310.5</u>	<u>415.0</u>

ANNEXURE IITENTATIVE FORECAST OF AIRCRAFT DELIVERIES  
FROM THE U.S.A. FOR THE U.K. GOVERNMENT

MONTH	CURRENT PROGRAMMES	NEW SCHEME (1ST INSTALMENT)	TOTAL
July 1941	750	50	800
Aug. "	750	100	850
Sept. "	750	200	950
Oct. "	750	300	1,050
Nov. "	750	400	1,150
Dec. "	750	550	1,300
Jan. 1942	750	750	1,500
Feb. "	750	950	1,700
Mar. "	750	1,200	1,950
Apr. "	750	1,500	2,250

- NOTES: (1) Deliveries under the First Instalment of the New Scheme would total 9,000 aircraft by end of June 1942, and this would represent the first production order to be placed.
- (2) In addition to the aircraft deliveries shown above, engines would be exported to the U.K. at a rate of 400 per month rising to 950 by the end of 1941 and possibly to 1500 by the middle of 1942.

MEMORANDUM

October 15, 1940.

TO: Secretary Morgenthau  
FROM: Mr. Sullivan

The form of contract for Emergency Plant Facilities has been completed by the National Defense Commission and a copy is attached. This has not been checked by the General Counsel's office or by the Chief Counsel's office of the Bureau, — we having no authority relating to the form of the contract. Mr. Ginsburg of Mr. Leon Henderson's office this morning advised me that he will have this published in the Federal Register if I recommend it. I told him I would call him back, thinking that perhaps you might believe it more desirable for the President to release the form of contract himself.

The Navy Department acting upon a suggestion of the President will publish a summary of each contract as it is executed. They hope to start publication late this week or early next week in the Federal Register. ||

The War Department seemed rather vague as to what they would do but Colonel Rice acting for Assistant Secretary Patterson agreed to publish summaries in the Federal Register just as the Navy Department is doing. They are today working on a summary of two contracts which they hope to be able to publish late this week.

JLS

(see Eichholz)  
memo of 10/18/40  
that draft has  
been published  
in Federal Register.



Draft of October 10, 1940

Note: Changes indicated are those made since September 20th draft.

EMERGENCY PLANT FACILITIES CONTRACT

THIS CONTRACT entered into this        day of        ,  
1940, by the UNITED STATES OF AMERICA, hereinafter called the Govern-  
ment, represented by the Contracting Officer executing this contract,  
and \* \_\_\_\_\_, a corporation organized and existing under  
the laws of the State of \_\_\_\_\_ \*a partnership consisting  
of \_\_\_\_\_  
\*an individual trading as \_\_\_\_\_ of the City of \_\_\_\_\_  
in the State of \_\_\_\_\_ hereinafter called the Contractor,  
WITNESSETH that:

WHEREAS, the Government and the Contractor are entering into  
Contract No. \_\_\_\_\_, hereinafter called the Contract for Supplies, for  
the sale by the Contractor to the Government of certain supplies con-  
sisting of \_\_\_\_\_, and

WHEREAS, in order for the Contractor to be able to manufac-  
ture and deliver said supplies in accordance with the terms of the Con-  
tract for Supplies and within the time therein specified it is necessary  
for the Contractor to acquire or construct certain additional facilities,  
which include items making up a Separate Complete Plant (as hereafter  
indicated) and items designated collectively as one or more Complete  
Additions to an Existing Plant (as hereafter indicated), all of such  
\_\_\_\_\_

\* Delete all lines which do not apply.

items being herein collectively referred to as Emergency Plant Facilities; and

WHEREAS, the Government and the Contractor propose in the negotiation of the price charged to the Government for the manufacture and delivery of said supplies to eliminate so far as is practicable, charges for amortization and depreciation of Emergency Plant Facilities; and

WHEREAS, the Contractor is willing to undertake the acquisition or construction of the Emergency Plant Facilities hereinafter described in consideration of the execution by the Government of the Contract for Supplies and of the further agreements by the Government contained in this contract; and

WHEREAS, the Government, in view of the present emergency and the necessity of making possible the manufacture and delivery by the Contractor of the said supplies in accordance with the terms of the Contract for Supplies and within the time therein specified, in order to expedite production and in accordance with provisions of law enacted to provide for national defense in connection with said emergency, is willing in consideration of the execution by the Contractor of the said Contract for Supplies and of the further agreement by the Contractor herein contained, to provide the Contractor with funds in reimbursement of expenditures to be made for the acquisition or construction by the Contractor of Emergency Plant Facilities to the extent herein set forth and on the terms and conditions hereinafter set forth;

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NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained to be performed by the parties hereto respectively it is agreed as follows:

ARTICLE I - EMERGENCY PLANT FACILITIES  
TO BE ACQUIRED OR CONSTRUCTED

1. The Contractor shall, with due expedition by contract with others or otherwise, acquire or construct the Emergency Plant Facilities generally described below and set forth in further detail in Appendix A hereto annexed, furnishing or causing to be furnished the labor, materials, tools, machinery, equipment, facilities, supplies and services, and doing or causing to be done all other things necessary for the acquisition or construction thereof. The Emergency Plant Facilities are designated as constituting Separate Complete Plant and one or more complete Additions to an Existing Plant or Plants. All of said Emergency Plant Facilities shall be in general accordance with the drawings, specifications and instructions, if any, set forth in Appendix A.\* (Appendix A, in so far as practicable should contain a full description of each principal item or group of items of Emergency Plant Facilities; should allocate actual or estimated cost to each item or group of items; should designate which of the Emergency Plant Facilities constitute a Separate Complete Plant and which constitute one or more complete

\* When Government supervision of construction is contemplated, an appropriate clause may be inserted which will provide for the issuance by the Contracting Officer of periodical certificates stating that the Contractor has satisfactorily complied with the provisions of Section 1 of this Article during the period covered by such certificate.



Additions to Existing Plant or Plants; should indicate if, and the extent to which, any item or group of items of the facilities replace other facilities of the Contractor and are necessary to enable it to conduct its normal operations, the price at which the Government shall be entitled to purchase the Contractor's land upon which any Complete Separate Plant is located unless the land on which the facilities are to be located is to be acquired by the Contractor and to be included as a part of the Emergency Plant Facilities, and should specify the rate or rates of depreciation, obsolescence and loss of value to be applied under section 2 of Article III hereof.)

It is estimated that the total cost of the acquisition or construction of the Emergency Plant Facilities will be approximately \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), and that such Facilities will be ready for utilization by the Contractor within \_\_\_\_\_ months from the date of this contract. It is expressly understood, however, that the Contractor does not guarantee the correctness of either of these estimates but will use its best efforts to acquire and construct said Emergency Plant Facilities in accordance with the estimates herein.

2. The Contractor may at any time make changes in or additions to the drawings and specifications, provided, however, if any such change will cause delay or a material alteration in the character of the work to be done under this contract, or will result in an estimated increase in the cost of the Emergency Plant Facilities of more than \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), the written consent of the Contracting Officer to such change shall be first obtained.

3. The title to all the Emergency Plant Facilities shall be in the Contractor. The Contractor shall, however, allow no mortgage or other lien to be an encumbrance upon the Emergency Plant Facilities (including the lien of any mortgage now existing upon property of the Contractor and any lien existing upon the Facilities prior to their acquisition), and shall make no conveyance or transfer of such Facilities or of any item thereof, unless the written consent thereto of the Head of the Department concerned is first obtained; provided that in the event of the assignment of claims arising out of this contract in accordance with the provisions of Article VII hereof, the Government will not, because a mortgage or other lien has become an encumbrance upon the Emergency Plant Facilities in violation of the provisions of this section, refuse payment of sums due as Government Reimbursement for Plant Costs in excess of the indebtedness secured by such mortgage or other lien. The restriction of this section prohibiting liens shall not apply to liens of contractors, laborers, supply men, tax liens, and other similar liens or charges created or incurred in the ordinary course of the Contractor's business, but all such liens shall be promptly removed unless contested in good faith. The Contractor shall, in respect of each of the Emergency Plant Facilities carry, until the same shall be transferred or tendered for transfer to the Government pursuant to any provision of Article III hereof, such fire insurance and other forms of insurance customarily carried in connection with similar facilities located in the same area, and of such kinds and in such

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amount not exceeding as to any risk the cost of such facility to the Contractor, as the Contracting Officer shall specify by notice in writing.

4. The Contractor shall, not later than the 15th day of each full calendar month after the date hereof, furnish the Contracting Officer a monthly statement, certified as correct by the Contractor, and within 30\* days after the close of each calendar year an annual statement certified as correct by an independent public accountant approved by the Contracting Officer, showing in detail the amount, if any, expended during the preceding calendar month or year, respectively, in connection with the acquisition or construction of the Emergency Plant Facilities which amount shall not include the cost of obtaining and furnishing such annual statement or any profit to the Contractor but may include an amount to cover the costs of the services performed by the Contractor's organization and other carrying charges during construction to the extent set forth in Appendix A and interest on funds expended as provided in Section 5 of this Article; and shall promptly after its completion of the acquisition and construction thereof, or as promptly as practicable after the giving or receiving by it of the Termination Notice provided in Section 1 of Article III prior to such completion, file with the Contracting Officer a statement in detail, similarly certified by the independent public accountant theretofore approved, and verified by the Contractor, setting

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\* The Contracting Officer may find it advisable in some instances to provide in the Contract a longer period of time for the preparation of these statements.



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forth the total amounts expended in connection with each item of such acquisition or construction, including amounts, if any, expended by the Contractor in connection with the termination of this contract in accordance with Section 4 of Article II through the cancellation of contracts or commitments, or otherwise (which statement is hereinafter called the Final Cost Certificate).

5. Except as provided in Section 4 of this Article and specifically set forth in Appendix A, no salaries of the Contractor's executive officers, no part of the expense incurred in conducting the Contractor's main office or regularly established branch offices, and no overhead expenses of the Contractor of any kind shall be included in the cost of the work as set forth in the Final Cost Certificate. Interest on funds expended shall be included in such cost. Such interest shall be computed at the annual rate of \_\_\_ per cent\* on funds expended from month to month less payments or advances, if any, made by the Government in connection with the acquisition or construction of the Emergency Plant Facilities. Such computation of interest shall cease with the completion of the acquisition and construction of the Emergency Plant Facilities.

6. In the event that, after the filing of the Final Cost Certificate in connection with the Emergency Plant Facilities described in

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\* This percentage should equal as nearly as possible the interest costs incurred by the Contractor in raising funds to carry out this contract and to the extent that the Contractor uses his own capital the fair interest return on such capital, but in no case should this percentage exceed \_\_\_\_\_ per cent.

Appendix A the Contracting Officer shall determine that further Emergency Plant Facilities, either in connection with a Complete Separate Plant or an Addition to an Existing Plant are required for the purpose contemplated in this contract, he may enter into a contract amending this contract and Appendix A and the additional cost of such further Emergency Plant Facilities shall be determined by the filing of an amendment to the Final Cost Certificate in the same manner as hereinbefore provided in respect of the Final Cost Certificate.

7. The Contractor shall, to the extent of its ability, take all cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications available to the Contractor, and when unable to take advantage of such benefits it shall promptly notify the Contracting Officer in writing to that effect and the reason therefor. In determining the actual net cost of articles and materials of every kind required for the purpose of this contract, there shall be deducted from the gross cost thereof all such cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications which have accrued to the benefit of the Contractor or would have so accrued except for the fault or neglect of the Contractor. Such benefits lost through no fault or neglect on the part of the Contractor shall not be deducted from gross costs.

#### ARTICLE II - PAYMENTS TO CONTRACTOR BY GOVERNMENT

1. The amount to be paid by the Government to the Contractor under this contract in respect of the Emergency Plant Facilities set forth

in Appendix A, as from time to time amended, shall be the total amount set forth in the Final Cost Certificate. In the event that changes or additions shall be made in respect of the Emergency Plant Facilities with the written consent of the Contracting Officer in accordance with the provisions of Section 2 of Article I or in the event that this contract and Appendix A shall be amended as provided in Section 6 of Article I or an Additional Final Cost Certificate shall be filed pursuant to Section 1 of Article IV, the amount to be paid by the Government shall be the total of the amounts set forth in the Final Cost Certificate and any and all amendments thereto and any Additional Final Cost Certificate. In no event shall the total amount to be paid by the Government pursuant to this Section exceed \$ \_\_\_\_\_, or such larger sum as the Head of the Department concerned may from time to time approve. The amount to be paid by the Government is herein sometimes referred to as the Government Reimbursement for Plant Costs.

New Subject to the obligation of the Government to anticipate any unpaid balance of the Government Reimbursement for Plant Costs remaining unpaid at the time of the termination of this contract as provided in this Article and in Article III hereof, the contractor shall be entitled to receive from the Government the amount of the Government Reimbursement for Plant Costs as established by the Final Cost Certificate, over a period of sixty (60) consecutive calendar months beginning with the first calendar month following the completion of the acquisition, construction and installation of the Emergency Plant Facilities in the following manner and pursuant to the following terms:



There shall become due by the Government to the contractor as Government Reimbursement for Plant Costs, on the last day of each of sixty (60) consecutive calendar months beginning with such first calendar month, 1/60th of the Government Reimbursement for Plant Costs so determined and the Government shall pay such amounts to the Contractor when and as the same become due; provided that if the Final Cost Certificate is not filed with the Government until after the calendar month in which the acquisition, construction and installation of the Emergency Plant Facilities are completed, then the Government shall pay to the contractor on the last day of the calendar month succeeding the month in which the Final Cost Certificate is delivered to the Government the amount then payable in respect of the calendar months then elapsed beginning with the calendar month following the completion of the acquisition, construction and installation of the Emergency Plant Facilities; and thereafter the Government shall pay to the contractor on the last day of each month 1/60th of the Government's Reimbursement for Plant Costs, as established by the Final Cost Certificate until the entire amount thereof shall have been paid. That part of the Government Reimbursement for Plant Costs as established by any amendment to the Final Cost Certificate or the Additional Final Cost Certificate, if any, shall become due and payable by the Government at such time and upon such terms as the contracting officer and the contractor shall agree at the time that the changes or additions to the Emergency Plant Facilities shall be consented to as hereinabove in this Section provided.

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2. In the event that, on the date 90 days preceding the close of each of the fiscal years which shall be wholly or in part included in the period between the date of this contract and the date of full payment by the Government of the Government Reimbursement for Plant Costs hereunder, there shall not have been theretofore appropriated by the Congress and validly obligated by the Government to the performance of this contract funds, the appropriation and obligation of which will not lapse and which will not revert to the Treasury or be carried to the surplus fund prior to the close of the next succeeding fiscal year, in an amount sufficient to provide for the payment when due of the balance of the Government Reimbursement for Plant Costs then remaining unpaid, this contract shall terminate and the amount of such balance shall on said date become due and shall, promptly after said date and before the close of the fiscal year then current, be paid by the Government to the Contractor out of the appropriations or contract authorizations originally or thereafter specified in connection with this contract.

3. If any claim arising out of this contract is assigned pursuant to the provisions of Article VII hereof, payments to be made by the Government to such assignee on account of the Government Reimbursement for Plant Costs under this contract shall not be subject to reduction or set-off for any indebtedness of the Contractor to the United States arising independently of this Contract.

4. In the event of the termination of this contract pursuant to Section 1 of Article III hereof, prior to the completion of the acquisition and construction of the Emergency Plant Facilities, the Contractor shall, as promptly as possible, deliver to the Head of the Department a



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a complete schedule of all contracts and commitments entered into by the Contractor for the acquisition and construction of the Emergency Plant Facilities. The Government shall promptly instruct the Contractor in writing as to the extent, if any, to which it desires to assume such contracts and commitments and upon receipt of such instructions the Contractor shall promptly assign all such contracts and commitments which the Government desires to assume and which may be so assignable to the Government and the Government shall, and does hereby, indemnify and save harmless the Contractor from any and all liability arising out of or in respect thereof. The Contractor shall thereupon cease all work on the acquisition and construction of the Emergency Plant Facilities and shall, where possible, terminate without cost to it all contracts and commitments not so assigned and where the Contractor is unable to terminate any such contract or commitment without cost, it shall to the extent possible follow the instructions of the Head of the Department with reference thereto. All costs incurred and all payments made by the Contractor prior to and in connection with such termination of this contract and with the termination of any contracts or commitments entered into by the Contractor for the purposes of this contract and with the performance in whole or in part of any such contracts or commitments which shall not be terminated or until the same are terminated shall be a part of the Government Reimbursement for Plant Costs and included in the Final Cost Certificate provided to be filed under Section 4 of Article I hereof in the event of termination prior to completion of the acquisition and construction. In the event of such termination of this contract, payment to the Contractor of the Government Reimbursement for Plant Costs shall be made promptly and in any event not later than 60 days following the date of filing of the Final Cost Certificate.



ARTICLE III - DISPOSITION OF EMERGENCY PLANT FACILITIES  
ON TERMINATION OR COMPLETION OF CONTRACT

1. Notice of Termination. The Contracting Officer may at any time give written notice (hereinafter called the Termination Notice) to the Contractor terminating this contract; and upon receipt of the Termination Notice the Contractor shall, in the event that the acquisition and construction of the Emergency Plant Facilities shall not have been completed, proceed with the steps to be taken by it under Section 4 of Article II. If, during any 90-day period after the completion or the acquisition and construction of the Emergency Plant Facilities the same are not used to a substantial extent by the Contractor for furnishing the Government with supplies, or if, prior to such completion, the Government shall terminate in substantial part the existing contract for supplies between the Contractor and the Government, or if the Government shall fail, the contractor not being in default hereunder, to make to the contractor payment of any installment of the Government reimbursement for plant costs within ninety days after the same shall have become due, the Contractor may give a similar termination notice to the Contracting Officer after the expiration of such 90-day period or after such termination of contracts for supplies, as the case may be. If the contracting Officer shall disagree with the Contractor as to whether or not the Emergency Plant Facilities have not been so used to a substantial extent for the 90-day period or whether contracts for supplies have been terminated in substantial part, he shall so notify the Contractor, in

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writing or by telegraph, within five days from the receipt of the Termination Notice; and the Contractor may forthwith, by written or telegraphic notice, require the question to be submitted for determination by arbitrators, one appointed by the Contracting Officer and one by the Contractor within five days of the Contractor's arbitration notice, and an additional arbitrator appointed by the Senior Judge of the Circuit Court of Appeals of the circuit in which the Emergency Plant Facilities in question are located. If the additional arbitrator shall not be so appointed within five days after application by either party therefor, he shall be selected by the arbitrators appointed by the parties or, if one of the parties shall have failed to appoint its arbitrator within the time hereinbefore provided, by the sole arbitrator so appointed. The question shall be so determined by the three, or if either party shall have failed to appoint its arbitrator, the two arbitrators so appointed, the decision of any two arbitrators to be final and binding upon the parties for all purposes, unless no two arbitrators agree, in which event the decision of the additional arbitrator shall be final and binding. The cost of arbitration, except the cost of the arbitrator appointed by the Contracting Officer, shall be paid by the Contractor and shall not be included in the Government Reimbursement for Plant Costs.

## 2. Rights of the Contractor

(a) The Contractor shall have the right, exercisable by a written notice (hereinafter referred to as the Retention Notice), given within 90 days after giving of the Termination Notice, by either party,

New or within ninety (90) days after the termination of this contract under Section 2 of Article II hereof, to retain under this paragraph for its own use outright, free of any interest of the Government, and/or to negotiate under paragraph (b) hereof for such retention of any Separate Complete Plant and/or of any item or group of items constituting a Complete Addition to an Existing Plant or of the entire Emergency Plant Facilities. With respect to any such Separate Complete Plant and/or to any such item or group of items constituting a complete Addition to an Existing Plant, or with respect to the entire Emergency Plant Facilities which are designated for retention by the Contractor, the Contractor shall, subject to the provisions of paragraph (d) of this Section, if a less amount shall not have been agreed upon and approved as representing the fair value under paragraph (b) of this Section, pay to the Govern-  
ment an amount equal to the cost thereof as established by the Final  
ew Cost Certificate, and the Final Cost Certificate as amended, and by any Additional Final Cost Certificates, reduced to the extent appropriate for the application or payment of excess insurance proceeds, if any, under Section 1 of Article IV, (or, if the acquisition and construction of the Emergency Plant Facilities shall not have been completed, as established as of the date of the Retention Notice by the approved public accountant), less an amount representing depreciation, obsolescence and loss of value due to use for national defense purposes for each year or portion of a year elapsed from the date of acquisition or completion of construction thereof to the date of the Termination Notice at the rate



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or rates specified as applicable in Appendix A. Upon payment or tender to the Contracting Officer, at \_\_\_\_\_ of the amount so payable in respect of any such item designated for retention by the Contractor, or upon settlement of the balance, if any, due to or from the Government under paragraph (d) of this Section, any and all interest therein and right in respect thereof of the Government shall forthwith terminate, and the Contracting Officer shall execute and deliver to the Contractor a valid release of any and all such interest and right.

(b) In respect of any Complete Separate Plant and/or of any item or group of items constituting a Complete Addition to an Existing Plant, or of the entire Emergency Plant Facilities which the Contractor shall have designated in the Retention Notice for negotiation under this paragraph, the Contractor shall have the right to negotiate with the Contracting Officer with reference to the retention of the same free of any interest of the Government upon the payment to the Government of an amount less than the amount determined under paragraph (a) above representing the fair value thereof as of the date of the Retention Notice; and upon the establishment between the Contractor and the Contracting Officer of such fair value and approval of the same by the Head of the Department, the Contractor shall, upon payment or tender of the amount or upon settlement of the balance due to or from the Government under paragraph (d) of this Section have the right to retain for its own use outright free of any interest of the Government any Separate Complete Plant and/or any item or group of items constituting a Complete Addition to an

Existing Plant or the entire Emergency Plant Facilities. In the event that, within a period of 90 days from the date of Retention Notice the Contractor and Contracting Officer are unable to agree upon the fair value of any such Separate Complete Plant or of any such item or group of items constituting a Complete Addition to an Existing Plant, or, of the entire Emergency Plant Facilities, or in the event that the fair value thereof so agreed upon shall not be approved by the Head of the Department, the Contractor shall, upon the expiration of said period or earlier at the election of the Contractor, either pay to the Government in respect of the retention of any such group of facilities, the applicable amount under Paragraph (a) of this section, or

- (1) as to any such Separate Complete Plant, transfer the same promptly to the Government free and clear of all mortgages or liens not theretofore consented to by the Head of the Department concerned; or
- (2) as to any such facilities constituting a Complete Addition to an Existing Plant transfer the same promptly to the Government free and clear of all mortgages or liens not theretofore consented to by the Head of the Department concerned, and, at the Contractor's election, require the removal of all or any part thereof by the Government from the premises altogether, which removal shall forthwith be effected by the Government in neat and workmanlike fashion and the Contractor's premises and facilities, including Emergency Plant Facilities retained by the Contractor, as affected by such removal shall be by the Government restored so as to leave the same in as good condition as immediately prior to the acquisition or construction of such facilities, (in as good condition as before such removal without defects or obstructions caused by such removal).

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(c) In respect of any of the Emergency Plant Facilities not designated in the Retention Notice for either retention by the Contractor or for negotiation, the Contractor shall promptly after the giving of the Retention Notice transfer the same to the Government free and clear of all mortgages and liens not theretofore consented to by the Head of the Department concerned. If no Retention Notice be given within the time allowed for such notice under Section 2 of this Article, the Contractor shall promptly upon the termination of the time allowed for such notice transfer the entire Emergency Plant Facilities to the Government free and clear of all mortgages and liens not theretofore consented to by the Head of the Department concerned.

(d) Any sums to be paid by the Contractor to the Government under paragraph (a) and/or paragraph (b) of this Section shall be reduced by the amount of any sums to be paid by the Government to the Contractor on account of Government Reimbursement for Plant Costs under Article II hereof and not theretofore paid by the Government, and, if the sum so to be paid by the Government to the Contractor and then remaining unpaid shall exceed the amount to be paid by the Contractor under both of said paragraphs, the Government shall promptly pay to the Contractor the amount of such excess; provided, however, that in the event that the Contractor shall retain under paragraphs (a) or (b) any facility the acquisition or construction of which is not complete at the date of the Retention Notice and in respect of which therefore no payment has been made by the Government, the Contractor shall retain

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the same without payment and the amount of the Government Reimbursement for Plant Costs shall be reduced by the cost thereof, determined as hereinbefore provided in Section 1 of Article II hereof. In the event that the Contractor shall elect to retain none of the Emergency Plant Facilities under either paragraph (a) or paragraph (b) above, upon transfer thereof to the Government, there shall become due, and the Government shall promptly pay to the Contractor, the entire balance of the sum to be paid by the Government to the Contractor on account of the Government Reimbursement for Plant Costs not theretofore paid.

(c) The Contractor shall have the right, with respect to any facilities not retained by the Contractor under paragraphs (a) or (b) of this Section, to negotiate with the Contracting Officer with reference to the leasing of all or any part thereof for such period and upon such terms which may include provision for renewal and an option to purchase the same as the Contractor and the Contracting Officer may agree upon, subject to the approval of the Head of the Department.

3. Rights of the Government

(a) In respect of any item or group of items of the Emergency Plant Facilities constituting an Addition to an Existing Plant which are transferred to the Government under any provision of Section 2 of this Article and the removal of which is not required by the Contractor, the Contractor shall have the right to use the same, without cost, if and to the extent that such facilities have replaced other facilities of the Contractor and are necessary to enable it to conduct its normal operations.

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The Contractor shall at its expense, care for, maintain, and insure, to the extent approved or required by the Head of the Department, such facilities left in place by the Government which the Contractor is entitled under this Section to use without cost, so long as the Contractor so uses the same under this paragraph; and shall further care for and maintain to the extent above provided, all similar facilities the removal of which shall not have been required by the Contractor and which may be left in place by the Government as standby capacity for the account of the Government so long, subject to the provisions of paragraph (c) of this Section, as the Government shall duly and promptly pay the Contractor monthly, upon the submission of duly certified invoices therefor, any and all expense incurred and paid by the Contractor in the preceding calendar month for the maintenance, care, protection, and repair of such facilities, including any and all taxes assessed thereon or in respect thereof, and all costs of insurance carried for the protection thereof and any and all other expenses and cost of every sort incident thereto provided, however, that the Contractor may at any time on 90 days' written notice terminate the obligation to care for and maintain such facilities and require the removal of the same upon the same terms as under sub-paragraph (2) of paragraph (b) of Section 2 of this Article. Such facilities, the removal of which shall not have been required by the Contractor and which shall have been left in place by the Government, which the Contractor is not entitled to use without cost under this Section, or which shall not have been leased to the Contractor, may be

removed by the Government at any time regardless of such notice from the Contractor; and facilities left in place which the Contractor is so entitled to use without cost and which are in use for or required by commitments theretofore undertaken by the Contractor, may be removed by the Government regardless of such notice from the Contractor, at any subsequent time when such removal will not impede or interfere with the Contractor's performance of such commitments. Such removal shall be accomplished in a neat and workmanlike manner and the Contractor's premises and facilities, including Emergency Plant Facilities retained by the Contractor, as affected by such removal, shall be by the Government restored so as to leave the same in as good condition as immediately prior to the acquisition or construction of such facilities (in as good condition as before such removal without defects and obstructions caused by such removal).

(b) In the event that the Government shall fail, after 90 days' notice from the Contractor of such failure, to pay any of the sums to be paid or to perform any of the things to be performed by it under this Section with respect to any item or group of items constituting an Addition to an Existing Plant or to remove the same when required thereto in accordance with any provision of this Article, the Contractor shall have the right to remove the same from the premises entirely and to receive from the Government promptly after such removal the amount of the reasonable cost of such removal and of any sums to be paid by the Government in respect thereof under this Article and not theretofore paid.



(c) The Government agrees, so far as it lawfully may, with respect to any facilities transferred to it or removed by it pursuant to this Article III that it will at no time use the same or any of them for business or commercial purposes, provided that the Government may at any time use any such facilities for national defense or for any purpose incident to the conduct or execution of any act of Congress or any order of the President of the United States, and the Government further agrees that if the Government desires to sell or lease such facilities or any part thereof, it will not do so without giving the Contractor, to the extent permitted by law, a reasonable opportunity to purchase or lease the facilities proposed to be sold or leased on the same terms and at the same price or rental at which it is proposed to sell or lease them to any other party.

(d) If any Complete Separate Plant located in whole or in part on premises which are the property of the Contractor and which have not been designated in Appendix A as a part of the Emergency Plant Facilities, are transferred to the Government under any provision of Section 2 of this Article, the Government, upon written notice given to the Contractor not later than 90 days following the transfer of such facilities to it, shall have the right to purchase from the Contractor the land on which such facilities are located at the predetermined price set forth in Appendix A.

ARTICLE IV - LOSS OR DESTRUCTION OF FACILITIES AND MAINTENANCE

1. In the event that all of the Emergency Plant Facilities or

any item or group of items thereof shall, prior to the transfer by the Contractor to the Government, be destroyed or damaged by the operation of any risk required to be covered in respect of such facilities by insurance under Section 3 of Article I hereof, or of any risk in respect thereof actually covered by insurance carried by the Contractor, the Contractor shall immediately notify in writing the Contracting Officer and may on its own initiative, and the Government may by written notice given within 60 days require the Contractor to apply the proceeds of the insurance coverage in respect of such facilities to the restoration, reconditioning or replacement thereof. In the event that the proceeds of the insurance coverage shall be insufficient to provide for the restoration, reconditioning or replacement, initiated by the Contractor or required by the Government, the amount of the additional sums required therefor as certified by the Final Cost Certificate as amended or by an Additional Final Cost Certificate in form similar to that provided in Section 4 of Article I hereof, shall be added to the balance of Government Reimbursement for Plant Costs; provided that nothing contained in the foregoing sentence shall prejudice or affect the right of the Government to terminate this contract upon the terms provided in Article III by giving the Termination Notice therein provided. In the event that the proceeds of the insurance coverage shall exceed the amount required for the restoration, reconditioning or replacement, the amount of such excess or in the event that restoration, reconditioning or replacement is not initiated by either party, the amount of the proceeds of insurance, shall be retained by the

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Contractor and applied in reduction of the then balance of Government Reimbursement for Plant Costs, any excess of such proceeds over and above the amount of such balance to be promptly paid by the Contractor to the Government. Any excess so applied by the Contractor or paid by the Contractor to the Government shall be deemed to reduce pro tanto the cost of the facility for the purposes of paragraph (a) of Section 2 of Article III. In the event that the destruction or damage shall be caused by the operation of any risk not required to be covered and not covered by insurance carried by the Contractor, the Government shall within 60 days after receipt of notice of such destruction or damage either

- (a) require the Contractor to restore, recondition or replace all facilities necessary to continuous and efficient operation of all facilities in which event the amount of the cost thereof as certified by a Final Cost Certificate shall be added to the balance of Government Reimbursement for Plant Costs, or
- (b) terminate this contract subject to the terms provided in Article III by giving the termination notice therein provided.

2. The Contractor shall be responsible, prior to the transfer thereof to the Government, for the care and maintenance of such facilities; and all items of the Emergency Plant Facilities transferred by the Contractor to the Government under Article III hereof shall be in a good



state of maintenance and repair except for destruction, or wear or damage normally incident to the production carried on by the Contractor and for such destruction or damage arising out of causes or risks not normally incident to such production which shall not be or have been provided for by restoration, reconditioning or replacement pursuant to paragraph (a) above, and except that the Contractor shall be under no obligation to maintain or repair items from time to time determined by the Contracting Officer to be obsolete or no longer used or useful in connection with the production by the Contractor of the supplies to be produced for the Government in or by the use of the Emergency Plant Facilities, provided that such items no longer used and useful, and also items requiring modification for what the Contractor deems to be improved productive efficiency may, at any time, in the discretion of the Contractor, be reworked, readjusted or adapted to the then requirements of the production of supplies for the Government, or may, with the approval of the Contracting Officer, be sold, the net proceeds of sale to be credited by the Contractor upon the balance of Government Reimbursement for Plant Costs then remaining unpaid.

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During the continuance of this contract at the end of each twelve-month period following the completion of the Emergency Plant Facilities the Contracting Officer shall within 90 days, if not so satisfied, notify the Contractor in writing that the care and maintenance of the Emergency Plant Facilities has failed to meet requirements of this section and the respects in which it has so failed. The Contractor shall

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forthwith comply with the directions of the Contracting Officer in this regard. Failure to give any such notice by the Contracting Officer shall be a conclusive admission that the care and maintenance of the Emergency Plant Facilities by the Contractor for the period involved has been proper.

ARTICLE V - RECORDS AND ACCOUNTS--INSPECTION THEREOF

1. The Contractor agrees to keep records and books of account showing the actual cost to it of all items of labor, materials, equipment, supplies, services and other expenditures of whatever nature either in connection with the acquisition or construction of the Emergency Plant Facilities under Article I the care and maintenance thereof under Article III or the restoration, reconditioning or replacement thereof under Article IV.

2. The Contracting Officer or his duly authorized representative shall at all times be afforded proper facilities for inspection of the Emergency Plant Facilities, both during and after construction, and shall at all reasonable times have access to the premises, work and materials, and to all books and records referred to in the foregoing paragraph 1 of this article.

ARTICLE VI - REPORTS TO BE FURNISHED BY THE CONTRACTOR IN FURTHERANCE OF NATIONAL DEFENSE

1. The Contractor shall, in so far as it is able, furnish to the Government, upon written request therefor, such reports, estimates and other information as the Coordinator of National Defense Purchases,

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or such other person as may be designated by the President, finds necessary and reasonable for the expediting of national defense. Requests for such reports, estimates and other information shall set forth the nature of the information sought and the form in which such information is to be furnished. If the Contractor is for any cause unable to furnish such information to the extent and in the manner requested, it shall promptly report to the Government in writing its inability to furnish such information, whereupon the Government, at its expense, may assist the Contractor to furnish such information to the extent and in the manner requested.

ARTICLE VII - ASSIGNMENT OF CONTRACTOR'S CLAIMS

1.\* Claims for monies due or to become due to the Contractor from the Government arising out of this contract may be assigned to any bank, trust company or other financing institution, including any Federal lending agency; and any such assignment may cover all or any part of any claim or claims arising or to arise out of this contract and may be made to any one or more such institutions or to any one party as agent or trustee for two or more such institutions participating in the financing of this contract.\*\* Any claims so assigned may be subject to further assignment; and any bond, promissory note or other evidence of indebtedness secured by any such assignment may be rediscounted,

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\* This Section may only be inserted in contracts signed after the enactment of proposed statute amending 3477 and 3737 of the Revised Statutes permitting the assignment of claims against the Government.

\*\*Pursuant to Section 3477 and Section 3737 of the Revised Statutes as amended, Section 1 of this Article may be varied so as to deny the assignment of any claim arising hereunder.

Paragraph changed - Section 2 added.



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hypothecated as collateral for a loan or credit, or sold with or without recourse. In the event of the assignment or reassignment of any claim for monies due or to become due under this contract the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with (a) the General Accounting Office of the Government, (b) the Contracting Officer or the Head of the Department or Agency, (c) the surety or sureties upon the bond or bonds, if any, in connection with such contract, and (d) with the disbursing officer of the

Department at \_\_\_\_\_,  
(Specify War, Navy, etc.) (Street address and Post Office)

who is hereby designated to make all payments under this contract. In no event shall copies of any plans, specifications or other similar documents marked "SECRET" and annexed or attached to this contract be furnished to any assignee of any claim arising under this contract or to any other person not otherwise entitled to receive the same.

2. Any assignment made in accordance with Section 1 of this article may provide that so long as there shall be sums due from the Government to the Contractor under this contract, the Contractor shall not, without the consent of the assignee, exercise any right given to the Contractor under the provisions of Section 2 of Article III hereof.

#### ARTICLE VIII - CONVENANT AGAINST CONTINGENT FEES

The Contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall

Paragraph changed - Section 2 added.

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give the Government the right to terminate the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractors upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business.

#### ARTICLE IX - OFFICIALS NOT TO BENEFIT

No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

#### ARTICLE X - DISPUTES

Except as otherwise specifically provided in this contract, all disputes concerning questions of fact arising under this contract shall be decided by the contracting officer subject to written appeal by the contractor within 30 days to the head of the department concerned or his duly authorized representative, whose decision shall be final and conclusive upon the parties thereto. In the meantime the contractor shall diligently proceed with the work as directed.

ARTICLE XI - DEFINITIONS

(a) The term "Head of the Department" as used herein shall mean the head or any assistant head of the executive department or independent establishment involved, and the term "his duly authorized representative" shall mean any person authorized to act for him other than the contracting officer.

(b) The term "Contracting Officer" as used herein shall include his duly appointed successor or his authorized representative.

ARTICLE XII - TAX AMORTIZATION

Inasmuch as it is the intent of Sections 23 and 124 of the Internal Revenue Code, unless payments made on account of Government Reimbursements for Plant Costs are included in gross income, not to allow (1) the tax deduction for amortization over a 60-month period of the Emergency Plant Facilities or (2) the inclusion of such payments in invested capital for purposes of the excess-profits tax, the Contractor agrees that, if such payments, to the extent they constitute reimbursements for capital expenditures made in acquisition or construction of such Emergency Plant Facilities, are not includible in gross income, then, for Federal tax purposes, (1) the basis of such Emergency Plant Facilities shall be computed without taking into account capital expenditures for which the Contractor has been or will be so reimbursed and (2) the amount of such reimbursements shall not be treated as paid-in surplus or contributions to capital for purposes of the excess-profits tax. In the event

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that the Contractor makes application to the Advisory Commission to the Council of National Defense and to the Department of War (the Navy) for a certificate with respect to terms contained in this contract or the necessity for any item or group of items of the Emergency Plant Facilities under Sections 23 and 124 of the Internal Revenue Code in accordance with rules governing such applications and the Contractor is thereafter refused the issuance of such certificate by either such Commission or the Department of War (the Navy), this contract shall terminate forthwith with the same effect as though a termination notice had been filed pursuant to Section 1 of Article III hereof.

ARTICLE XIII - ALTERATIONS

The following changes were made in this contract before it was signed by the parties hereto:

IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,

By \_\_\_\_\_

\_\_\_\_\_  
(Official title)

Two witnesses:

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_ } Contractor

\_\_\_\_\_  
(Business Address)

October 15, 1940  
5:08 p.m.

H.M.Jr: Hello.

Operator: McReynolds.

H.M.Jr: Hello, Mac.

Wm. H.  
McReynolds: Yes, sir.

H.M.Jr: How are you?

McR: First rate, thank you.

H.M.Jr: Mac, I'm sending you over by hand a copy of my press conference yesterday. Is that what you want?

McR: Yeah. I wanted it - Bill's going to be back in the morning .....

H.M.Jr: Well, is he worried about it?

McR: Well, he was a little confused about it. I think if he had of seen what you said in your press conference he wouldn't have been, but it was this Wall Street Journal item that he saw up in New York and he called his boys and I told them to tell him to keep his shirt on and I'd show him what you said when he got down here.

H.M.Jr: Well, I did a little checking. The thing that gave them the lead was Colonel Knox announcing it two weeks ago. You see?

McR: Yeah. Well, I told Bill Collins, who called me about it .....

H.M.Jr: Who's Bill Collins?

McR: He's Bill Knudsen's secretary.

H.M.Jr: Oh.

McR: And I told him that this was something that had been working for a long time and apparently the Boss just wanted it to work a little better.



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- H.M.Jr: Yeah. For your information, after the Wall Street Journal story appeared, I sent Chick Schwarz across the street to see Steve Early. I said, how shall I handle it at my press conference? So he said, go ahead and talk, so I .....
- McR: Oh, obviously that was the only thing to do.
- H.M.Jr: So I said three or four times this was purely informal - you'll see it.
- McR: Yeah. I had no doubt of what had happened and now, of course, I know Bill was perfectly happy about it.
- H.M.Jr: Well, for your - maybe you know this - I understand from Watson that Leon Henderson called up this message to the President, that Knudsen was all excited and the President had to see him personally.
- McR: Well, that would be Leon's way of approach. The President's going to talk - he's going to have the whole Commission up there at 2 tomorrow.
- H.M.Jr: I see. Well, I'll send it over by hand and after Knudsen has seen it if you get any reaction, let me know.
- McR: I shall.
- H.M.Jr: Because how anybody could take any offense on that is beyond me.
- McR: I can't imagine that he would - I don't think there's a damn thing to it.
- H.M.Jr: Now the other thing - sometime tomorrow I'll give you a call because I want to get together with you just on a personal basis because Stimson is all upset about some of the things that you people are asking him to do and he thinks it's slowing down production. See? He's giving me a memorandum on it.
- McR: I'm not surprised. One of the things - see, Stimson and Knox are both going to be present

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with the Commission when we talk to the President tomorrow and I think some of those things will probably come up.

H.M.Jr: I doubt it.

McR: I don't know.

H.M.Jr: But there are some Ordnance contracts which they're all ready to place on a bid basis and now the Commission is asking them to do it all over again - something like that.

McR: Well, there were .....

H.M.Jr: I mean, that's his side of the story. I don't know what your side of it is but he has asked me whether I couldn't do something so I said I'd see. I don't want to appear on it particularly if anybody over there now is upset on this .....

McR: Well, I don't think - I'm not worried at all about - Bill Knudsen didn't call me. If he had of been worried, he would have called me. He always does.

H.M.Jr: I see.

McR: He merely made inquiry .....

H.M.Jr: Well, I don't blame him because that Wall Street Journal story - I don't blame him for getting .....

McR: Collins said that the inquiry he made was whether any formal appointments had come over or any formal designation had come over from the President in connection with that, and Collins told him no. He asked him to check with me, so he'll talk to me when he gets in. You see Bill has been away, he'll get in tomorrow morning and I'll see him first thing in the morning.

H.M.Jr: Well, I'll tell you a little secret - White House secret - at Cabinet Knox spoke up and said, Mr. President, how would you like

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Morgenthau, Stimson and me to get together and do this. See?

McR: Yeah.

H.M.Jr: Never mentioned Knudsen - and the President said, fine. I went up to Hyde Park, asked specially to see the President and I said, didn't you mean to include Knudsen?

McR: Yeah.

H.M.Jr: He said, didn't I say Knudsen. I said, no, you did not include Knudsen. He said, well, of course. I said, well, that's what I thought and I've included him. So I'm just showing you I'm as usual looking after the President's interests, but originally he did not include him, but I immediately went up to see him and I said I think it's an oversight. Oh, he says, surely, surely. So that's just for you as the Administrative Assistant.

McR: Yes. Just a White House secret that stops here.

H.M.Jr: Right.

McR: Right-o.

H.M.Jr: O. K.

McR: O. K. Thank you for calling.



## GROUP MEETING

October 16, 1940  
9:30 a.m.

Present: Mr. Graves  
Mr. Chamberlain  
Mr. Thompson  
Mr. Cairns  
Mr. Buckley  
Mr. Bell  
Mr. Gaston  
Mr. Cochran  
Mr. White  
Mr. Haas  
Mr. Schwarz  
Mrs Klotz  
Mr. Pehle

H.M.Jr: Good morning.

Herbert?

Gaston: I haven't anything this morning.

H.M.Jr: Merle?

Cochran: I just have a letter from Archie, confirming a telephone conversation yesterday. He is having difficulty getting delivery on machine tools for China because of this priority business. Should I take that up with Phil or --

H.M.Jr: Second Assistant Nurse (indicating Buckley).

Cochran: He seems to think he would have to have some pressure from us before he could get anything.

This Hungarian was in yesterday on the proposition which he has involving a credit of perhaps one million dollars to Hungary, to the national bank, to permit them to keep up interest on their obligations due this country. So the State Department suggested they might get the funds from the Federal Reserve Bank in New York or the stabilization fund or the Export-Import Bank.

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H.M.Jr: Work it out first, will you please?

Cochran: Yes, sir.

H.M.Jr: Work it out. What else?

Cochran: That is all.

Schwarz: I would like to take advantage of an opportunity to inspect the new air station at Elizabeth City tomorrow, if you don't think you are going to have too much to say at the press conference.

H.M.Jr: That is up to Mr. Gaston. It is all right with me. A little ride?

Schwarz: He says so. I have got an invitation.

H.M.Jr: Okay.

Schwarz: I am eager to see it.

H.M.Jr: Sure.

(Mr. Pehle entered the conference)

H.M.Jr: Hello, Pehle. What happened to you?

Pehle: I got a call.

H.M.Jr: I hope you were interviewing a Countess.

Schwarz: You will want to see Dorothy Thompson's column today.

H.M.Jr: I read it. She upped me one and says they are turning out seven. How about it, George?

Schwarz: Can we make good?

Haas: Well, they are turning out more than P-40's,

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you see. I see she said seven P-40's.  
Let's hope she is right and you are  
wrong.

H.M.Jr: That is all right. I would rather be on  
the low side. She said it gave her a  
feeling of comfort.

Pehle?

Pehle: Nothing this morning.

H.M.Jr: Professor Chamberlain, you want to look into  
this thing. While you are gone, Pehle is  
traveling around with Countesses of Luxem-  
bourg, and what-not. Things like that never  
happened when you and I were working at it.

Chamberlain: No, indeed. Well, I will have a conference  
with him after the meeting and see what has  
been going on. It seems to me we might ex-  
tend this order a little.

H.M.Jr: Bell says maybe you will come back now.

Chamberlain: No, I think it has been too well managed.  
I am afraid to come back and interfere with  
the machinery.

H.M.Jr: Am I seeing you gentlemen at 3:00?

Chamberlain: Any time.

H.M.Jr: 3:00 is a good time. Whatever you gentlemen  
have at 3:00 o'clock.

Chamberlain: All right, Mr. Secretary.

Cairns: I have nothing.

H.M.Jr: How is that boat? Have you still got it on



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the banks of the Houston River, or whatever it is?

Cairns: I think it will be there for a little while.

H.M.Jr: Anything else?

Cairns: No.

H.M.Jr: George? Did they get you straightened out on your man up in New York?

Haas: Yes. Last night about five, I think, or a little after five, Guest called Lindow and they worked on the form and so on. They sent the material up and then Guest went up to New York last night to get it and he is due back this evening some time, and after the data is on, Lindow is going to help, providing our facilities for putting it together, and so on.

H.M.Jr: Anything else?

Haas: That is all.

H.M.Jr: Harry?

White: Here is a request of Secretary Jones for some further information, which we have been getting, more or less, but now that they have got a new Secretary, they want us to get your formal okay.

H.M.Jr: Is that all right?

White: That is in connection with an examination of the foreign investments here.

H.M.Jr: I was amused. I didn't want to say anything. Jones was asking you to answer purely statistical questions.

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White: He could get the answer in his own shop easily.

H.M.Jr: That is what I thought.

White: We sent him something.

H.M.Jr: What does he do? Does he come here and then just sit back and let us tell him about Chile? Is that a pose, or does he really not know?

White: No, I don't think he knew much about it, because they saw him a few months back and I don't think they have seen him since, but I suspect he knew much more than he indicated here, though he didn't get it right from the Chileans, because he had just been through one and possibly two conferences with the State Department on the subject.

H.M.Jr: He acts as though he never heard anything.

Bell: I think he did, too. He wanted to find out what the Treasury had to say - Treasury and State had to say about it before he commented.

White: I don't know whether you still get these reports (re shipping sunk) or still want them.

H.M.Jr: Yes. I want to see that man with you. Tell McKay.

White: This man?

H.M.Jr: Yes. Let's say at 10:30. One of the things I used to get, that I enjoyed, out of Captain Puleston was those London illustrated weeklies. They used to have marvelous pictures on the

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various new ships, and everything else. I don't get that any more.

White: I will have it come in.

H.M.Jr: Can that be arranged?

White: I am sure it can.

H.M.Jr: I would like to see that fellow. Supposing you come in at 10:30. That isn't so bad, is it?

White: No. I thought the paper accounts indicated it was worse than that.

H.M.Jr: No, there was some stuff I used to get - I don't know who did it and I thought I might go over it with him. He may have prepared it.

White: Yes. I will have him here.

H.M.Jr: What else?

White: Are you interested in the brief statement I sent over to Jones' office? Willkie's statement in any case receives no support from the facts.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Assistant to the Assistant Nurse?

Buckley: About all I know this morning is that it takes on the average twelve minutes to register. I timed it for two hours while I was waiting to register myself.

Phil asked me to remind you that we have a complete munitions program.



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H.M.Jr: How many people have we under 36?

Buckley: Phil and I.

Bell: And Foley.

Schwarz: Me, too.

Cochran: I have two, Hawkey and Hadley left in my office.

H.M.Jr: Women don't register, do they?

Klotz: I wouldn't know (facetiously).

Buckley: We have this complete munitions program for the B.P.C. now, in case you should want it.

H.M.Jr: Yes, I do want it. I will get to you this morning some time.

Buckley: I understand from calling Mr. Mead's office that he is supposed to be out of town for the rest of the month and I read from that that we won't get a production report on Consolidated until the end of the month or early in November, and I wonder if you want to let it go that far.

H.M.Jr: Knox is coming - he is having lunch with me today. Let's wait until the boys come back.

Buckley: All right.

H.M.Jr: It doesn't make an awful lot of difference.

Buckley: That is all I have.

H.M.Jr: The thing that they were going to have yesterday? When will I get that comparative statement?

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- Buckley: Purvis is working on it and he is very doubtful. Do you mean the comparison of the different pursuits? I have that now, and it is in a form which I think should be simplified a little bit. We have it only on the pursuit ships.
- H.M.Jr: Ask your office to have it now, and I will take a look at it right after this meeting.
- Buckley: All right.
- H.M.Jr: Harold? You are to let me know on the Sears-Roebuck fellow.
- Graves: Mr. Mackis going to give me a complete report on it.
- H.M.Jr: You haven't got it yet?
- Graves: No.
- H.M.Jr: I want to know what he is doing there.
- Graves: Yes. We will have it in two or three days. Mackis going out of town tomorrow and will be gone until Monday.
- H.M.Jr: You know, the interesting thing - one of the many things that Herman Oliphant used to be interested in was if we could get an order to build 10,000 houses, we really could save money and do a job. After seven and a half years of the New Deal, they are now going to do it, and when I was over at Procurement, I stopped in to see Reynolds, and they are talking in terms of 60,000 bathtubs at one time and 60,000 radiator units and that sort of thing. They still haven't got their house designed, though. He is going to bring it over and I am

- 9 -

going to take a look at it, and I think Hillman is going to do the buying. If they can buy in terms of 60,000 houses at a time, maybe we really can build a low-cost family house, but it has taken all this time to get around to it. It is interesting. It takes seven and a half years and a world war to get around to it.

Bell: Is Reynolds in charge of the housing?

H.M.Jr: As near as I can figure out, Procurement, Treasury Procurement, is going to do the buying for Public Works. You didn't find out whether the --

Graves: They don't know yet.

H.M.Jr: ....whether the Army or Navy are going to let us do the buying for them in connection with housing, or whether they are going to do their own.

Graves: So far as we know now, the only thing the Public Works are going to take over is the Army part of that program. As I say, that is all --

H.M.Jr: And the civilian part.

Graves: That is right.

H.M.Jr: Anything else?

Graves: Nothing more.

Bell: I haven't a thing.

Thompson: I have nothing.

H.M.Jr: I read the story in today's Post about a Treasury lawyer named Floyd Glendon Hall.



- 10 -

Thompson: He isn't a lawyer, Mr. Secretary. He is an emergency relief officer.

H.M.Jr: The story sounds phoney to me. The way I read the story, I think that the fellow really did talk.

Thompson: Oh, I think he did.

H.M.Jr: Pro-Nazi, and then when he got into this - when they called in the state police, he pretended he was just joking.

Thompson: I am checking into it.

H.M.Jr: I want Secret Service to do a good job on that. The way I read the thing, I think he started to talk and then these two truckmen jumped on him and then he said he was just kidding.

Thompson: His appointment expires December 31st.

H.M.Jr: That is a long way off. Where is he working?

Thompson: He is in the Bureau of Accounts.

H.M.Jr: He was maligned, he is not a lawyer?

Thompson: Not in the Treasury, at least.

H.M.Jr: The way I read that story, I think the fellow - he has got a nice looking wife.

Thompson: If he is going to do some kidding, he ought to be kidding about other things.

H.M.Jr: Yes, he ought to be kidding about something else. All right.

TREASURY DEPARTMENT

226

INTER-OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau  
 FROM Mr. Haas  
 Subject: Movements of commodity prices and living costs

(1) The broad price movements in 1939 and 1940

At the outbreak of war in early September 1939, commodity prices were still in the deflationary trend that began in 1937, (see Chart 1, upper section). Since industry generally had been operating with rather low inventories, the war brought an unusually heavy buying movement, which carried prices sharply higher. The buying was overdone, however, and prices again declined under various depressing influences until August 1940, losing nearly half of their previous gain.

The upturn in commodity prices in September 1939 caused a reversal of the declining trend in living costs. (See Chart 1). During July and August 1940, however, the trend has been downward, influenced by the weakening of general commodity prices earlier in the year.

The net increase in the Conference Board cost of living index between August 1939 and August 1940 has been very small, only 1.8 per cent. The chief increase, as shown in the following table, has been in food prices:

Item	Weight	Index	Percent change from August 1939
		August 1940 (1923 = 100)	
Food	33	79.9	+ 4.2
Housing	20	86.9	+ 0.7
Clothing	12	73.0	+ 1.5
Fuel and light	5	84.8	+ 1.0
Sundries	30	97.4	+ 0.5
	<u>100</u>	<u>86.0</u>	<u>+ 1.8</u>

The cost of living index for September is not yet available. Wholesale prices for foods, textiles and fuel in the week ended October 5, however, show but slight increase over the August average, as indicated by the following figures:

Secretary Morgenthau - 2

## BLS wholesale price indexes (1926 = 100)

Item	August	Week ended October 5
Foods	70.1	70.7
Textiles	72.3	72.5
Fuel	71.1	72.3

2. More recent price movements

Evidence of a rising price trend has appeared in prices of basic commodities during the past few weeks, which has, as yet, been reflected only slightly in the broader indexes of commodity prices. (See Chart 1, lower section.)

The recent rise has been most pronounced in prices of raw industrial materials, which have been heavily bought during the past month for use in the defense industries. (See Chart 2.) The relative stability of prices of basic foodstuffs over the past five weeks, on the other hand, seems to indicate that no widespread or general increase in demand has yet developed.

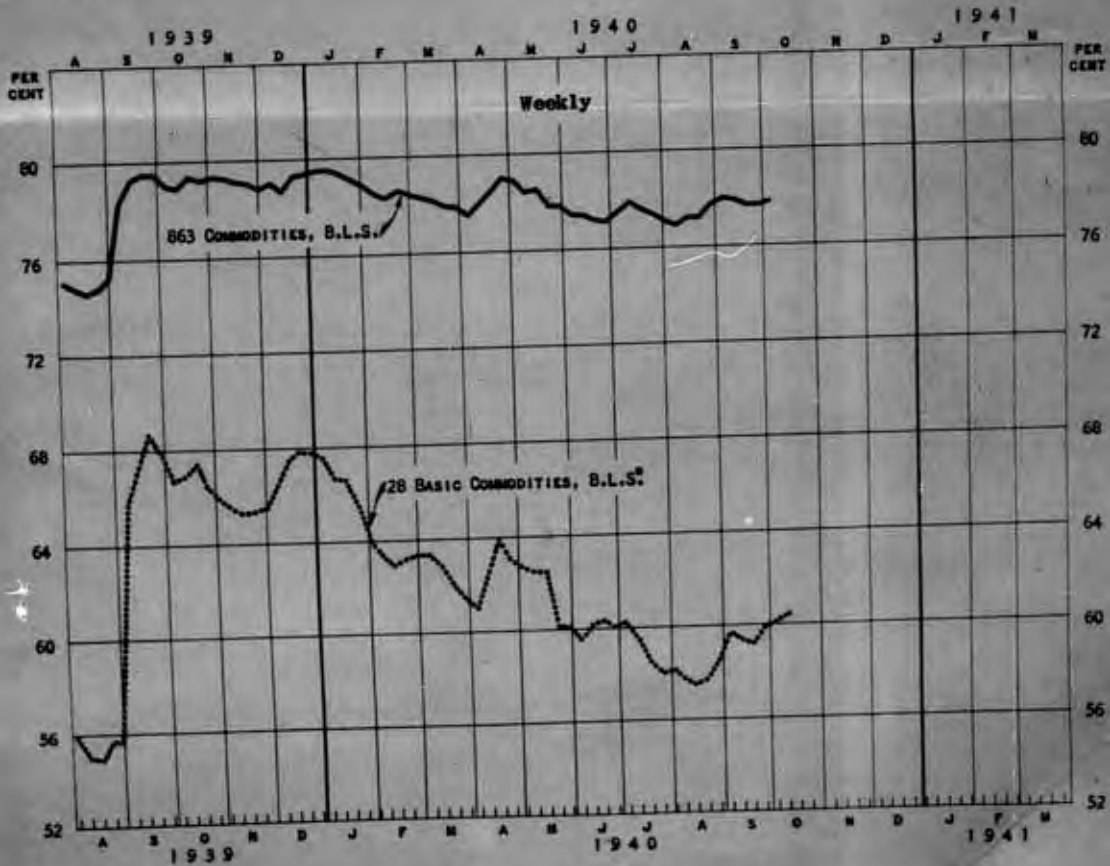
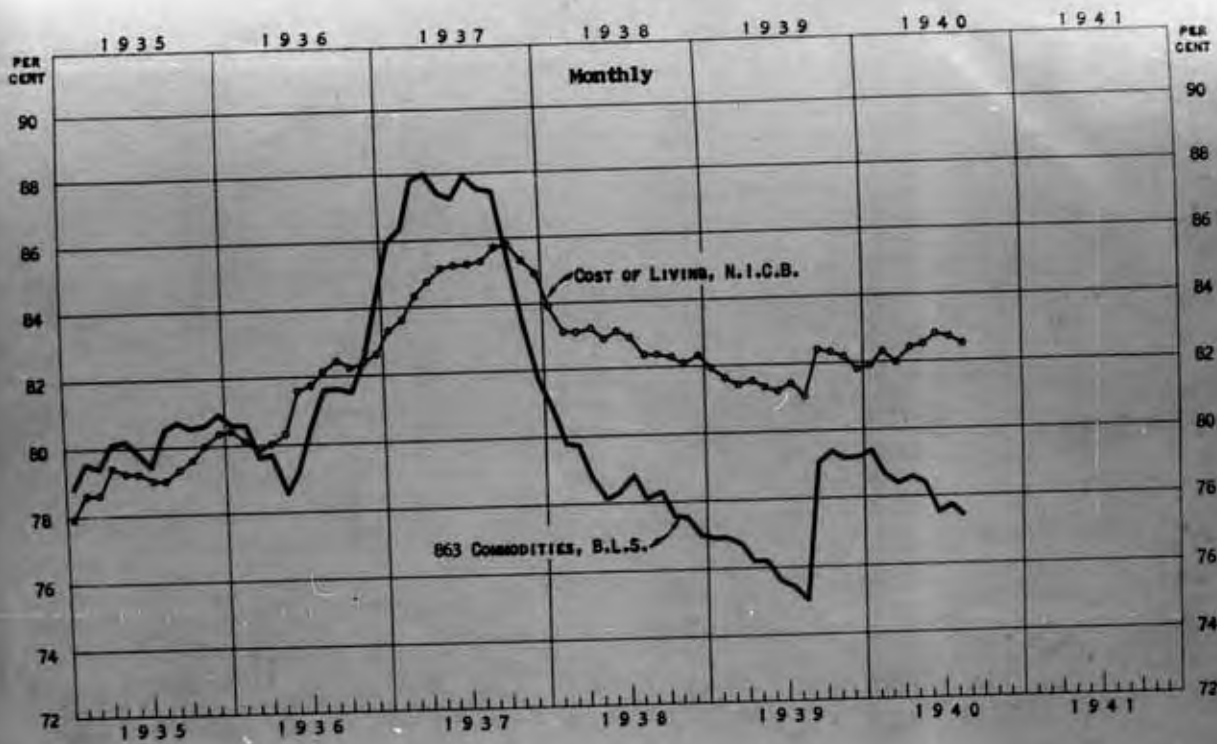
3. Price movements of individual commodities

In the lower section of Chart 2, spot prices of each of the 28 basic commodities in the BLS index are compared with respect to the percentage increase from the August low to the October 14 quotation.

Among the industrial materials it will be noted that wool, hides, zinc, silk, steel scrap (domestic), and copper have all risen in the past few weeks more than 11 per cent above their August lows. Among the foodstuffs, wheat, steers, tallow, and butter have risen 10 per cent or more.

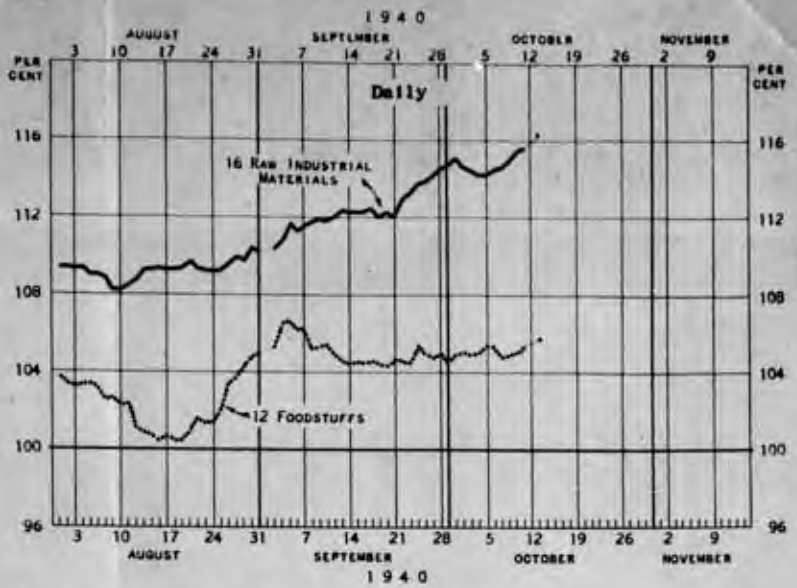
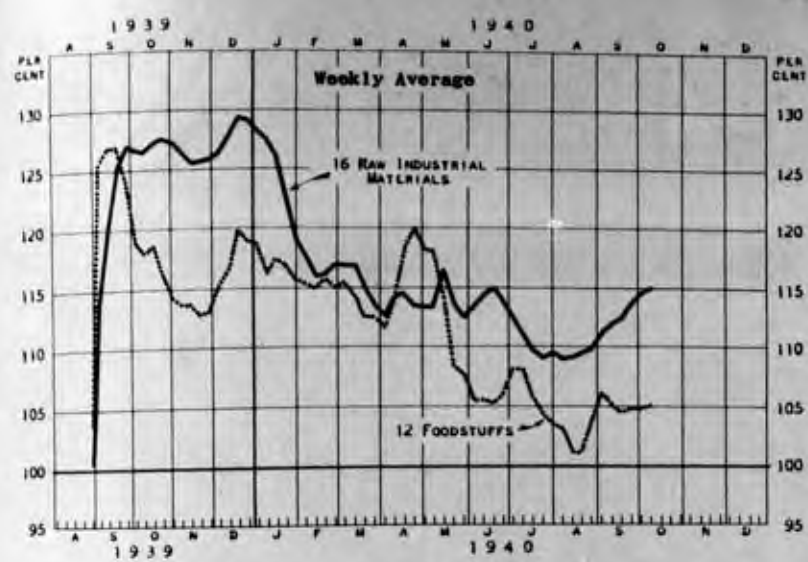


COMMODITY PRICES AND COST OF LIVING  
1926 = 100

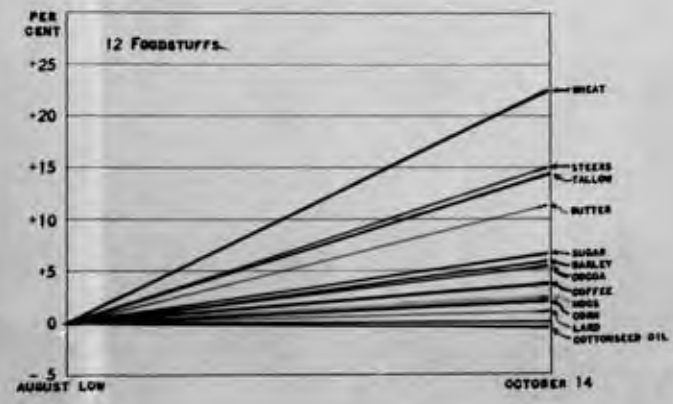
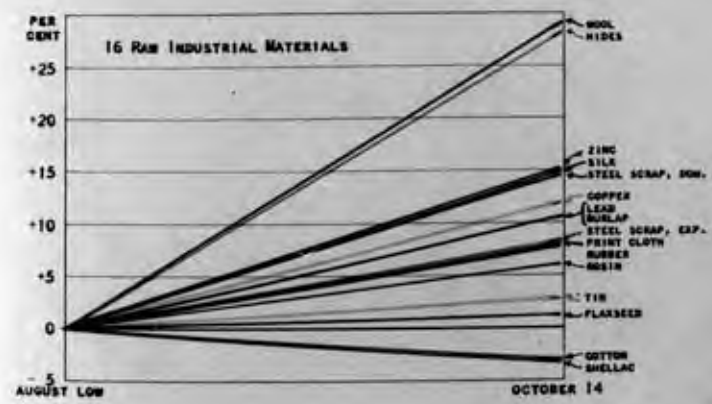


\*30 COMMODITIES PRIOR TO JANUARY 1940

### MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to October 14, 1940



October 16, 1940  
10:53 a.m.

H.M.Jr: Hello.

Operator: McReynolds.

H.M.Jr: Hello, Mac.

Wm. H.  
McReynolds: Yes, sir.

H.M.Jr: I have another confidential letter from Mr. Stimson on the same thing I was talking to you about last night and in your capacity as Administrative Assistant to the President, when could you have an off-the-record meeting with Ed Foley?

McR: Well, you see, we're in session here and we're not likely to get out before one, then we're due to see the President at two.

H.M.Jr: How about later this afternoon?

McR: I can see him later this afternoon.

H.M.Jr: He's sitting here with me - want to give him a ring?

McR: Well, listen, why don't I make a date to have lunch with Ed.

H.M.Jr: Today?

McR: Yeah. As soon as I'm out here I'll come up there to his office.

H.M.Jr: You'll come to his office.

McR: Yeah.

H.M.Jr: Perfect, and I want to keep very, very much in the background on this.

McR: Well, I'll come up there just as soon as I can get away from this meeting and then I'll have to be over at the White House at two. We can eat lunch and talk.



- 2 -

H.M.Jr: Would you?

McR: And if Ed could arrange to have sandwiches sent in or something of that kind we wouldn't be disturbed.

H.M.Jr: Well, you don't want any pigs' knuckles and sauer kraut.

McR: No, I just want a chicken sandwich and a piece of pie and a cup of coffee.

H.M.Jr: Only one chicken sandwich?

McR: Just one.

H.M.Jr: Do you want it toasted?

McR: No. (Laughs).

H.M.Jr: Want any lettuce on it?

McR: No - that's unimportant.

H.M.Jr: All right. We'll have it for you. Now that's a chicken sandwich .....

McR: And a piece of pie and a cup of coffee and that's all I want.

H.M.Jr: All right, Mac.

McR: And I'll come to his office just as quick as I get out of here.

H.M.Jr: Nobody could ask for more, but again, I want to keep 'way in the background.

McR: I see.

H.M.Jr: Thank you.

McR: O.K. Good-bye.

October 16, 1940  
2:30 p.m.

H.M.Jr: Hello.

Colonel  
Regnier: Hello, Mr. Secretary. This is Colonel Regnier speaking.

H.M.Jr: Oh, good. Colonel Regnier, Mr. Stimson sent me a confidential letter pertaining to contracts this morning, and if you would simply tell him when he comes back from the White House that Mr. Foley, my General Counsel, has the answer to that letter - hello?

R: Yes, sir.

H.M.Jr: And could give it to him verbally, and if he'll send for Mr. Foley, Mr. Foley has the answer.

R: Yes, sir. Thank you very much, Mr. Secretary, I'll give that information to Mr. Stimson.

H.M.Jr: Thank you.

R: Yes, sir.

October 16, 1940  
2:36 p.m.

H.M.Jr: Hello.

George  
Harrison: Hello, Henry.

H.M.Jr: Hello, George?

H: Yes, sir. How are you?

H.M.Jr: I'm fine. I phoned you twice last week  
but I couldn't get you .....

H: I heard about it only yesterday. I've been -  
I was away up - motored up in New York State,  
which I've never done and spent two or three  
days with Owen Young and then came down here  
and went to bed with a bad cold and I've just  
gotten up.

H.M.Jr: I asked where you were and they wouldn't tell  
me. They said you were on a business trip.

H: Well, they didn't know where I was.

H.M.Jr: I see.

H: But here I am now and I thought if - I just  
got in about an hour ago and I thought if I  
- if you were free I'd like to come down and  
say hello to you.

H.M.Jr: How long are you going to be here, George?

H: Well, I was going down to the country - to the  
lake this afternoon sometime, but I'll be in  
again on Saturday - I was coming in again.

H.M.Jr: What do you call the country?

H: Drive down to Edgert's farm. It's about  
fifty miles down the

H.M.Jr: Well, I've got a kind of a bad afternoon.  
If you're coming in Friday, I'd much rather  
do it Friday. Are you coming in anyway Friday?



- 2 -

H: Well, I had planned to come in Friday.

H.M.Jr: You had not.

H: I say I had.

H.M.Jr: Well, then why don't we do it Friday because it's nothing pressing. There were a couple of things that I needed your help on last week but they're over the dam now.

H: Oh, I see. Well, that's quite all right. I wanted to check with you because I called the bank when I got to the Reserve Board about an hour ago and they told me you had been trying to reach me.

H.M.Jr: Yeah. Well, I needed some help.

H: Well, I'm sorry I wasn't available.

H.M.Jr: Is 10:30 a good time, or 11 o'clock Friday?

H: 11 o'clock Friday will be fine.

H.M.Jr: I'll be delighted to see you.

H: All right. I'll be there at 11 Friday.

H.M.Jr: Thank you.

H: Fine.

H.M.Jr: Good-bye.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brasil.

DATE: October 16, 1940, 3 p.m.

NO. : 532.

The Bank of Brazil on October 15 sent the following to the Federal Reserve Bank of New York:

QUOTE Please arrange credit to a new account with your good selves United States dollars 10,000,000 subject to the terms and conditions set forth in the letter dated 15th July 1937 from the Secretary of the Treasury of the United States to the Minister Finance of Brazil as supplemented and modified by your letter of September 2, 1938.

Please cable interest and exchange rates as per item two said letter and we shall confirm credit equivalent to you under cable advice. UNQUOTE

The Bank of Brazil would like to have this transaction

expedited.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

BURDETT

RECEIVED  
BREVARD DEPARTMENT

OCT 17 6 14 AM '40

DA:FL

JT

GRAY

BERLIN

Dated October 16, 1940

Rec'd 5:30 p.m.

Secretary of State,  
Washington.

4341, October 16, 6 p.m.

My <sup>4313</sup>~~4314~~, October 14, 10 a.m.

FOR TREASURY FROM HEATH.

The Berlin press has announced that the discount rate of the Danish National Bank has been reduced from  $4\frac{1}{2}$  to 4 percent.

MORRIS

NPL



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

On Monday, October 14, Mr. Livesey telephoned me from the State Department. He said that Dr. Feis had asked him to let me know that the Hungarian Minister had been talking with the State Department in regard to the possibility of obtaining an official credit in this country to help Hungary continue interest service on obligations held in the United States. I asked Mr. Livesey to give us such memoranda and messages as the State Department had to assist the Treasury in a study of the proposition. I suggested the desirability of receiving Mr. Havas, the Financial Adviser to the Legation, before the Treasury might discuss the matter officially with the Hungarian Minister himself.

Mr. Livesey got in touch with the Hungarian Legation, which then called me and an appointment for Mr. Havas was made for yesterday afternoon at 2:30. Incidentally, the Minister also telephoned me directly and invited me to luncheon on Thursday with Dr. Feis, but I expressed my regrets.

When Mr. Havas called on me yesterday I had not yet received the promised documents from the Department of State. We discussed the matter briefly. I promised to call Mr. Havas back today to indicate whether any further information was desired at present, or to let him know how the Treasury felt about the proposal.

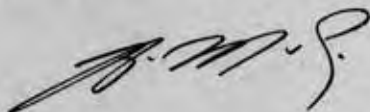
The State Department file was received yesterday evening. When I mentioned the subject to the Secretary in this morning's Staff Meeting, it was agreed that I should take it up with Mr. Bell for preliminary study. While talking with Mr. Knobe on the telephone this morning I confidentially and informally asked whether the Federal Reserve Bank would ordinarily take care of such a transaction. Since the duration is five years, Mr. Knobe was of the opinion that this would not be acceptable to the Federal. He will talk this over informally with one or two of his colleagues, but will not consider that the Treasury has made any official approach.

At 12:00 noon today I summarized the Hungarian file to Under Secretary Bell, and provided him and Mr. White with copies thereof. My opinion was that while this transaction should be entirely safe for the Stabilization Fund, considering that it would be collateralized to the extent of one hundred percent by gold held in the Federal Reserve Bank at New York, the principle involved is rather a dangerous one. That is, should we substitute the Stabilization Fund to provide dollar exchange for the Hungarian Central Bank to pay out to Americans who have loaned money to Hungary? It is true that we would be providing needed foreign exchange, but there is certainly no stabilization of the Hungarian currency involved. Furthermore, telegraphic reports from Europe have indicated to us that Hungarian monetary policy has been adapted importantly according to German pressure. If we are selecting a country to which the Stabilization Fund might give dollar exchange to enable the

- 2 -

country to meet obligations to the United States, and with no evidence submitted as to early ability to repay, we might more reasonably select a Latin American country, rather than one in the German orbit and very likely to be involved in the present war. The principal point in favor of doing the Hungarian operation would be the one hundred percent gold guarantee.

At 12:20 the Hungarian Minister and his assistant, Mr. Havas, talked with me by telephone. I told them I had received the file of papers from the Department of State and that we required no supplemental information from the Hungarian Legation at present. The Minister volunteered that since Dr. Feis and Under Secretary Bell will be with him for luncheon on Thursday this will provide an opportunity for an exchange of views. I told the Minister that I had discussed the problem with Mr. Bell and that we hope to discuss it further on Thursday afternoon or Friday.



DEPARTMENT OF STATE  

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ADVISER ON  
INTERNATIONAL ECONOMIC AFFAIRS

October 15, 1940

Mr. Cochran:

This memorandum was revised today by Mr. Eugene Havas. This is its corrected form.

MSG



## DEPARTMENT OF STATE

WASHINGTON

In reply refer to  
EA 864.5151/83

October 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a memorandum prepared in the Department of State, a copy of a telegram from Mr. Richard Quandt to Mr. Eugene Havas, New York, and a copy of a paraphrase of telegram no. 252 dated October 12, 1940 from the American Legation at Budapest, regarding recent decisions bearing upon the payment of standstill credits by Hungary.

Enclosures:

1. Memorandum.
2. From Mr. Quandt to Mr. Havas.
3. No. 252 from Budapest, October 12.

STRICTLY CONFIDENTIAL

October 11, 1940.

The Hungarian Minister gave an account of recent decisions bearing upon the payment of interest on the foreign debt of Hungary. He informed me in the strictest of confidence that his country would be prepared to continue interest payments on outstanding Hungarian bonds, Treasury bills, and standstill credits outstanding in the United States if a loan to the Cash Office of Foreign Credits (managed by the National Bank of Hungary) could be secured in this country at a low interest rate covering one year's requirements (approximately \$500,000 to \$1,000,000). He told me further in the strictest of confidence that the Hungarian National Bank would be willing to put up gold now in New York as 100% collateral for this loan.

In response to his query as to how this might be arranged I said that there were several possible alternatives:

- (a) Arrangement by the Federal Reserve System.
- (b) By the Treasury through the Stabilization Fund.
- (c) Through the Export-Import Bank.

I suggested that alternatives (a) and (b) would seem to me most appropriate to the nature of the operation. I promised to indicate to the Treasury the Department's interest in this matter and to ascertain whether it was prepared to work it out with the Hungarian Minister at the earliest possible time.

We discussed the question as to whether it would be necessary to make known the fact that gold collateral was provided. Although prospective payments on a similar basis would be open to other creditor nations (Switzerland, the Netherlands, Great Britain, etc.), the National Bank of Hungary hopes that any steps it might take to provide gold collateral would not become a matter of public knowledge. The reasons for discretion about the gold collateral are manifold and further elucidation of why the Hungarian National Bank wants it to remain confidential will be explained later on.

- 2 -

I stated that I would not want to give a definite answer offhand on the question of gold collateral but if the operation were done through the Stabilization Fund, so far as I knew there would be no such necessity unless the Stabilization Fund had to explain its operations at some future time to Congress. I also said that so far as my knowledge went the Export-Import Bank would not customarily reveal the nature of the security of particular operations.

The Minister commented that in the light of the fact that to carry out this transaction through the Federal Reserve would apparently involve public knowledge of the collateral, this would seem to be a less satisfactory alternative from their point of view.

I promised to let the Minister know as soon as I was in a position to do so how best discussions would be carried forward.

The communication which the Minister left with me is attached.

EA:HF:LWW mg



(COPY)

ZEU RICH 599 9 1731 1/50

DEB New York, October 10, 1940.

MRT EUGENE HAVAS 25 BROADWAY NEWYORK

Have sent following cable direct to White and through Swiss Standstill Committee to Gibson:

"In today's meeting Swiss Standstill Committee have exposed situation as follows: three years agreements of 1937 were made at peak of Hungary's foreign trade and foreign exchange situation and based on assumption that additional exports will continue at least on same level and yield sufficient exchange for debt payments."

"Despite failure of realization of these hopes Hungary fully met her obligations during three years and the National Bank had to sacrifice substantial amounts out of own foreign exchange holdings destined to meet current requirements of country and acquired out of normal exports."

"Since Spring 1938 exports against convertible exchange have shown steady decline and since beginning this year total exports fell far beyond expectations exports against convertible exchange and particularly additional exports having become impossible."

"During next twelve months no hope of improvement the less as this year's harvest and meat production almost disastrous."

"Additional exports appear impossible for three reasons

First: virtual impossibility of trading with overseas countries in consequence of mutual blockade

Second: lack of productive capacity in industry and heavy increase of home consumption in consequence of big capital outlay programme and of reattachment since 1938 of four million inhabitants.

"Third: impossibility of raw material purchases."

"Foreign exchange position developed parallel to foreign trade and holdings now considerably smaller than in 1937 with inherent tendency of further deterioration."

"Holdings much smaller than value of annual raw material supply."

"In these circumstances cannot undertake responsibility for continuing debt service and must suggest one year's complete suspension of transfers with following exceptions:

"First: relief loan owed by Hungary to United States."

"Reasons: origin of loan and small amount of annual payment."

-2-

"Second: National Bank's debt to Bank for International Settlements and Central Banks."

"Reason: loan was granted in 1931 to repay private banking and commercial debts. Loan was reduced this Summer by voluntary repayment made out of exchanges acquired by special sacrifices of National Bank and Government. Rest consolidated for eight and a half years. By this transaction National Bank regained freedom of action hampered before by own unsettled debt."

"Third: payments to countries with foreign exchange restrictions having already payment agreements with Hungary for settlement by clearing of financial debts."

"Being desirous to open possibility of payments even during moratorium propose to open following two possibilities

"Fourth: as and where Hungary will be able actually to trade with creditor countries and obtain without prejudice to mutual trading interest actual surplus of exports we would be prepared to apply appropriate part of our surplus by agreement to payment of interest to that country".

"Fifth: we would also be prepared to continue interest service as under existing agreements to countries which would be prepared to lend at low interest for five years annual amount of interest service."

"Latter proposal equivalent to funding operation with benefit of not affecting direct relation between creditor and debtor."

"During moratorium payments equivalent of interest would be payable by debtors to Cash Office of Foreign Credits which will employ amounts so received if not transferred through either of abovementioned possibilities in buying one years Treasury Bills maturing at end of moratorium."

"Hope you will appreciate our extremely difficult situation created by events outside our reach."

"Richard Quandt Head of Hungarian Standstill Delegation."

You received or will receive special instructions.

My address Hotel Baur Au Lac Zurich.

Kindest regards

Richard Quandt

(Copy)

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest.

DATE: October 12, 1940, 6 p.m.

NO.: 252.

STRICTLY CONFIDENTIAL.

Refer to our 235 of October 2, 1940, 5 p.m.

I have been informed by the National Bank of Hungary that the shortage of free devisen caused by a serious decrease of exports has rendered the Government of Hungary unable to keep up its usual interest payments; and, as a consequence, Quandt, who is at Zurich at the present time, has proposed to Swiss creditors (who also represent United States creditors) a one-year moratorium on all transfers with the exception of

Payments on the debt of the Hungarian National Bank to central banks and to the Bank for International Settlements;

Payments on the United States relief loan;

Payments to nations having foreign exchange restrictions which already have payment agreements with Hungary to be settled by clearing of financial debts;

Payments to a creditor nation with which it may be possible to effect an actual export surplus;

Interest service to countries which are prepared to lend the amount of interest service at a low interest for five years.

Details of this proposal have been cabled by Quandt to Gibson and to the Hungarian Minister to the United States.

Statements



-2-

Statements were further made that Hungary would be able to continue making payments during the year if the United States or other countries which are interested would loan Hungary two million dollars.

MONTGOMERY

EA:MSG

copy

pf

TREASURY DEPARTMENT

247

INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statement in Italian accounts maintained at the Chase National Bank.

A handwritten signature in dark ink, appearing to be 'JML', is written in the center of the page.

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 16	\$ 55,000	Banca Commerciale Italiano, New York	Credito Italiano, New York (check drawn on National City Bank, New York)	\$750,000	Credito Italiano, New York	Bank of Naples Trust Company, New York for account of Naples Agency
	30,000	" "	Credito Italiano, New York (check drawn on Guaranty Trust Co., New York)	85,000	" "	Banco de Italia del Rio de la Plata, Buenos Aires, by order of Credito Italiano, Milan
	15,000	" "	Credito Italiano, New York (check drawn on Irving Trust Co., New York)	100,000	Banca Commerciale Italiano, New York	Check drawn on Chase National Bank to the order of Credito Italiano, New York
	31,000	" "	Credito Italiano, New York (Miscellaneous checks)	100,000	" "	Check drawn on Chase National Bank to the order of National City Bank of New York for account of Banca Commerciale Italiano, New York
	700,000	Credito Italiano, New York	Credito Italiano, New York (check drawn by Post & Flagg)			
	100,000	" "	Credito Italiano New York (check drawn by Banca Commerciale Italiano, New York)	75,000	" "	Check drawn on the Chase National Bank, New York to the order of Swiss Bank Corp., New York



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. McKeon informed us today that the Federal Reserve Bank received a cable from the Bank of Sweden stating that on October 18, the Federal should receive from the Istituto Nazionale per i Cambi Cono l'Estero, Rome, \$987,513.71 for the account of the Bank of Sweden.

A handwritten signature in dark ink, appearing to be 'J.M.R.', is written below the typed text.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding transactions in the account of the State Bank of the U.S.S.R. maintained with the Chase National Bank.

Principal changes in the account during the period October 10 to October 16, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 10	\$ 75,000	Antorg Trading Co.	\$500,000	Commercial Letter of Credit Account
October 11	285,000	Finlands Bank	55,000	" " "
	63,000	Narodni Banka, Prague		
	115,000	Irving Trust Co. for account of Banque Millie Iran, Tehran		
October 14			200,000	Antorg Trading Co.
			63,000	Commercial Letter of Credit Account
			53,000	Limited Co. formerly Skoda Works, Posen, Prague
October 15	53,000	Narodni Banka, Prague	250,000	National City Bank, New York, for account of Reichsbank
	63,000	U. S. Mint, San Francisco	253,000	Commercial Letter of Credit Account
	169,000	Commercial Letter of Credit Import	500,000	Chase National Bank for account of Reichsbank
October 16			427,000	Commercial Letter of Credit Account
			350,000	Antorg Trading Co.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: What Should Be Done Now About Inflation?

I. The Problem as a Whole

The problem of inflation is of great concern to the Treasury. Treasury fiscal policy has been the major contributing factor to most war-time inflations, and is almost certain to be blamed in any event, even if innocent. An inflation, furthermore, reacts on the Treasury by increasing the level of monetary expenditure necessary to achieve any given physical objective. This, in turn, complicates the fiscal problem and so is likely to result in further inflation. It is advisable, therefore, that the Treasury should watch carefully all incipient movements likely to lead to inflation, even when such movements seem in themselves to lie outside the ordinary domain of fiscal policy.

An inflation can occur only when the amount of purchasing power offered in the market during a given period of time exceeds the supply of goods and services available during the same time, valued at the previously prevailing price level. Under such circumstances, the price level naturally rises to a sufficient extent to equate the available purchasing power with the available supply of goods and services.

The problem of controlling an inflation, therefore, may be attacked either on the monetary front by restricting the supply of purchasing power, or on the physical front by increasing the volume of production. In each case the factor of timing is very important -- for some steps, if taken prematurely, are merely repressive in their effects, while others must be taken well in advance of the actual event to be effective when the danger arises.

The purchasing power offered on the market during any period comes from two sources: (1) new purchasing power created during the period, and (2) purchasing power carried over from previous periods, principally in the form of bank deposits. The available supply of goods and services may be correspondingly broken down into two parts: (1) those



Secretary Morgenthau - 2

produced during the current period, and (2) stocks carried over from preceding periods. The carry-over stock of goods is not likely to be as important, however, as the carry-over of purchasing power.

## II. The Monetary Side

Under existing conditions, the problems of controlling inflation presented on the monetary side -- i.e., the problems of restricting purchasing power -- are less urgent than those presented on the physical side -- i.e., the problems of increasing production.

The problems on the monetary side consist essentially of (1) restricting the new purchasing power created in any period through current incomes to an amount sufficient only to purchase at the previously prevailing price level the supply of goods and services produced during the period, and (2) immobilizing the carried-over purchasing power so that it cannot be used to bid up the prices of either newly created or previously existing goods.

The problem of restricting current incomes to the current supply of goods and services presents special complications under war-time conditions when a large proportion of the total available supply of such goods and services is suitable for the war effort only, and not for civilian needs. This problem is one with respect to which no action can or should be taken, however, until the need for it actually arises. We can discuss it and plan for it now, but there is nothing to be done about it until an excess of current purchasing power over the current supply of goods and services actually arises or is on the verge of arising.

On the other portion of the monetary front -- that of controlling carry-over purchasing power -- there are a number of precautionary steps which may be taken now, the principal of which are to place our monetary legislation in order and to hold in check as far as possible any unnecessary rise in bank deposits. The principal contribution that the Treasury can make to such an effort within the framework of existing legislation, is to so plan its financing as to cause as little increase in bank deposits as possible.

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When, and if, the problem of inflation becomes imminent, however, it is probable that some direct steps will be needed to control carry-over purchasing power, irrespective of the level of bank deposits then existing. Such control would be much easier than might appear at first sight, because of the limited number of purposes for which such purchasing power is likely to be expended.

Previously accumulated purchasing power is unlikely to be expended for the ordinary costs of living. The purposes for which such purchasing power is likely to be expended are practically confined to the two categories of capital goods and of durable consumers' goods. As far as capital goods are concerned, the utilization of carry-over purchasing power may be fairly effectively controlled by direct restrictions on capital expenditures for purposes not essential to the war effort. The durable consumers' goods for which carry-over purchasing power is likely to be expended are pretty well limited to houses, household goods, and automobiles. Expenditures for these purposes can also probably be fairly effectively limited by controls on mortgage money and on consumer credit, by excise taxes, and -- when necessary -- by rationing. A striking example of control by means of an excise tax is the new Canadian tax on automobiles which is levied at the prohibitory rate of 80 per cent on that portion of the price of any pleasure automobile in excess of \$1,200.

### III. The Physical Side

The problems on the physical side are more urgent. Shortages are beginning to appear in the capacities for producing certain basic materials essential for the defense program, and prices for a number of such materials have already shown substantial advances. The importance of preventing price increases among individual commodities arises not alone from the fact that such increases may serve as the first step of an inflation spiral, but also because of their influence in stimulating speculative buying among these and other commodities. An effective control of inflation, of course, can only be achieved by increasing supplies, not by merely attacking the price symptoms.



Secretary Morgenthau - 4

The following basic defense materials are illustrative of capacity shortages which are beginning to appear. Others, perhaps even more critical in their relationship to the defense program, can doubtless be found. It is obvious that the industries concerned will be reluctant to make the necessary plant expansion on their own initiative. If a careful objective analysis indicates that shortages of capacity exist, and if the industries concerned will not undertake to increase their capacity, it will be essential that plant expansion be started soon by Government action.

(a) Steel

Some strain on steel ingot capacity is already being felt, although the bulk of the steel orders for defense materials has not yet reached the steel mills. The steel industry is now operating at a higher percentage of total ingot capacity than it was at the end of 1915, when price inflation in steel products began. The importance of insuring an adequate supply of steel is heightened by the increasing dependence of the Canadian armament industry on pig iron and steel from this country, since the Canadian steel output is near the limit of capacity.

The apparent strain on steel ingot capacity has been accompanied by a strain on pig iron capacity (which is now but slightly larger than the capacity during the World War period). Blast furnaces in August operated at a higher percentage of total capacity than the average rate in 1916, which was the highest annual rate of the World War period.

The output of blast furnaces during the coming winter may be limited by a shortage of iron ore. At the middle of September, the entire Great Lakes ore fleet of 296 vessels was in operation. If ore must be carried by rail while the lakes are closed, it will increase the costs of producing steel, and tend to increase steel prices or to decrease production.

To insure against any possibility of a shortage of steel for the armament industries of this country and Canada, which might also lead to an inflationary trend of prices for steel and its many products, it seems essential that a rigid scrutiny be made of all possible bottlenecks in the steel industry, from ore transportation, pig iron and steel ingot capacity, to finishing capacity. The length of time required to



Secretary Morgenthau - 5

build new production facilities -- variously estimated at 6 to 18 months -- emphasizes the need of early action.

It is understandable that the steel companies should be reluctant to increase capacity if an increase can be avoided, since it would add to present costs and would leave them with expensive surplus plants when the emergency is over. Nevertheless, the fact remains that steel ingot production is already almost at full capacity, although most of the defense orders for steel are yet to be placed. The steel problem is so important in the determination of basic policies for defense and for price control that it requires an unusually careful determination of all capacity limitations.

(b) Zinc

During the World War period, zinc was one of the first basic commodities to reflect a shortage of production capacity, and zinc prices soared to extreme heights early in the war. Today the same tendency is under way. Zinc is the only one of the principal non-ferrous metals to have already practically reached its 1937 price peak. The bottleneck is in smelting facilities, which are now being operated close to the present limit of capacity. Some idle capacity exists, which will require time to put into operation. Supplies of ore are ample, the potential output being far in excess of available smelting capacity.

A situation in which prices can reach the speculative peaks of 1937 under the moderate stimulus which the armament program to date has given them, has potentially serious inflationary possibilities. A careful analysis should be made of zinc capacity limitations, to determine whether Government action may be necessary to increase smelting capacity, in order to forestall further price inflation and to assure an adequate supply of zinc and brass for the defense program. The zinc producers, in all probability, will not go to the expense of greatly expanding domestic capacity, since the available world capacity after the war will again include the large smelters in Belgium and other countries now in German hands.

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(c) Copper

While our mining capacity appears adequate, some tightness may develop in copper refining capacity under the combined demands of the United States and British armament programs, particularly since a substantial part of our capacity is being used for the refining of foreign copper in bond. During three months of this year, the refining industry has operated within 13 per cent of the estimated total capacity, which may be close to the practical limit. Capacity estimates in any industry are often not reliable, since they may fail to make full allowance for various factors which retard production, such as shutdowns for repairs. Domestic copper consumption in August reached the highest monthly volume since at least early 1939, when estimates were first compiled.

While the need for action in expanding copper refining capacity may be slightly less urgent than in the case of steel and zinc, an analysis of present capacity in relation to probable needs seems advisable. It is possible that some shortage exists in smelting capacity, although data for this section of the industry are inadequate. It may be noted that the output of refined copper was not sufficient to prevent a rise of nearly 80 per cent in copper prices in less than 12 months during 1936 and early 1937.

In the case of copper, additional methods of price control are available through (1) reduction of the 4-cent import duty; and (2) restrictions on the exports of refined copper.

(d) Lead

In lead, a different situation exists, in which the treatment of symptoms rather than an expansion of capacity seems called for. While the estimated refining capacity for lead is considerably in excess of recent peak output reached in 1937 and 1939, refining activity in recent months has not been stepped up rapidly enough to prevent a reduction in refiners' stocks to the lowest level since April 1930, equivalent to less than a month's supply at the current rate of shipments.

No action seems necessary to increase refining capacity, but in view of the close control over refined lead output held by the American Smelting and Refining Company, other action may be necessary to insure an adequate supply of



Secretary Morgenthau - 7

refined lead for the defense program, and to avoid price increases. The output in 1936 and 1937, it may be noted, was not increased rapidly enough to prevent a 75 per cent rise in prices. In the present situation, a large volume of pig and bar lead held in bond, which would become available if the 2 1/8 cent tariff were removed, tends somewhat to put a price ceiling over the domestic market.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Transactions of the six reporting banks in registered sterling were as follows:

Sold to commercial concerns	£65,000
Purchased from commercial concerns	£15,000

The Federal Reserve Bank purchased £16,000 in registered sterling from the New York agency of the Bank of Taiwan, Ltd.

Open market sterling was first quoted at 4.03-1/2. The closing rate was 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 3,000
Purchased from commercial concerns	£ 1,000

In very light trading, the Swiss franc remained at .2318 throughout the day.

A moderate improvement in the Canadian dollar rate has been taking place during the past few days. That currency closed at a discount of 12-7/8% today, as against 13-1/2% a week ago.

The Argentine free peso rate advanced to close at a new current high of .2385. News sources attribute the present firmness in the peso to anticipation of an Export-Import Bank loan and to the transfer of "unblocked" foreign funds from this country to Argentina. The volume of New York trading in pesos, however, is extremely small.

The Cuban peso discount continued to widen, reaching 9-3/16% today as compared with 8-11/16% yesterday.

The other currencies closed as follows:

Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2073
Brazilian milreis (free)	.0505

There were no gold transactions consummated by us today.

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Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfers of gold in its vaults:

- \$1,495,000 from B.I.S. account No. 3 to the account of the Swiss National Bank. Gold in B.I.S. account No. 3 is understood to be the property of the National Bank of Hungary. This transfer was made yesterday afternoon.
- \$ 508,000 from the Bank of France "Z" account to the account of the National Bank of the Kingdom of Yugoslavia.

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

- \$ 50,276,000 from Canada, shipped by the Bank of Canada, to be earmarked for account of His Britannic Majesty's Government.
- 2,059,000 from South Africa, shipped by the South African Reserve Bank for account of the Bank of Sweden, for sale to the U.S. Assay Office at New York.
- 1,532,000 from Canada, shipped by the Bank of Canada for its own account, for sale to the U.S. Assay Office at New York.
- \$ 53,867,000 Total

There was a holiday in India today, and no metal prices were received from Bombay.

In London, the price fixed for spot silver was 1/16d lower at 23-7/16d. The forward quotation was unchanged at 23-3/8d. The dollar equivalents were 42.56¢ and 42.44¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made four purchases of silver totaling 393,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and 200,000 ounces consisted of new production from foreign countries, for forward delivery. The remaining 68,000 ounces was purchased from the Central Bank of China and represents another portion of that bank's recent importation of 1,122,000 ounces. So far, we have purchased 843,000 ounces of this particular shipment.

**CONFIDENTIAL**



Copy of Letter from B, Mexico City, October 16, 1940

In the political field there is very little to report. Things on the whole are quiet, and the Government is reporting that small bands of rebels all over the country are either giving themselves up to the military authorities or are being liquidated otherwise. Very little has been said here about the election controversy, and the almanistas have kept quiet. Gen. Avila Camacho continues in this city and has recently made a recommendation to his friends in Senate to go a little slow on new legislation, in which he may be referring to some of the projects of laws which Gen. Cardenas has sent to Congress to be approved before he leaves office.

Dr. Castillo Najera, Mexican Ambassador to Washington, arrived in Mexico about the same time. President Cardenas got back from his trip, and there have been conferences between the President, Castillo Najera, Lic. Suarez of the Treasury Department, and Ing. Buenrostro of Economics. What was discussed at these conferences, no one knows, but there is a good deal of speculation as to possible credits which Mexico might obtain from the United States, and in well informed circles these speculations have something to do with the strength shown by the Mexican Peso, which has been practically stationary at 4.85 during the last week. The Banco de Mexico is buying and selling at this figure. If Mexico will obtain financial assistance from the U.S.A., then the Peso will strengthen further and a figure frequently mentioned recently is that of 4.50. As we have said on previous occasions, we do not understand how it has been possible to hold the Peso where they have it.

A first step towards helping the mining industry was taken by the Treasury Department, when they abolished the aforo tax on lead, to become effective on the 21st of this month. Although this is a comparatively small item, it is nevertheless an indication that Lic. Suarez intends to make good some of his promises, which in regard to the aforo tax extend to a substantial reduction of same on some other metals, including Gold and Zinc. We know from a reliable source that Lic. Suarez is finding a lot of opposition to his plans, amongst his own men in the Treasury Department, who are unwilling to give up these important items of revenue. But we are still hopeful that something more will be obtained besides the lead tax.

The strike at Rosita started on Thursday last, and nothing has been accomplished so far to settle it. According to our information, both sides are determined to stand pat. An electrician strike at Monterrey is scheduled for tonight.

The reorganizations of oil and railways don't seem to have made much headway, and the President is still discussing with the Unions.

COMPLIMENTS  
OF  
MR. H. K. HOCHSCHILD



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Klaus raised with me on Monday the question of obtaining certain detailed information from New York banks. I told him that I preferred not to raise this question with the Federal Reserve Bank of New York, through which my inquiries are made, until he might give me a memorandum setting forth just what he desired.

Mr. Klaus submitted such a memorandum yesterday. I discussed it with Assistant Secretary Gaston this morning, who agreed with me that it was a matter on which we should have the Secretary's opinion. At 10:25 this morning I showed the Secretary Mr. Klaus' memorandum. The Secretary left word with Mr. Klaus' office, he being absent today in New York, that he should get in touch with Mr. Gaston upon his return. The Secretary telephoned Mr. Gaston and gave instructions that such memoranda as that under reference should be submitted to and initialed by Mr. Gaston before being passed on to the F. B. I., or used as a basis for requests for information from the F. B. I. I told the Secretary that I would be happy to cooperate with Mr. Gaston and also with Mr. Klaus, on banking questions, but that I felt Mr. Klaus should not be under my supervision. On the other hand, I thought there should be some supervision lest too exhaustive, and possibly embarrassing, inquiries be made. It was agreed that Mr. Gaston would exercise such supervision over Mr. Klaus, and that I had no responsibility therefor. After this conversation, I delivered Mr. Klaus' memorandum under reference to Assistant Secretary Gaston. While talking with Mr. Knoke of the Federal Reserve Bank this morning, I told him that we appreciated the information which his bank was giving us on Russian, German and Italian transactions, and that we desired this service continued. I let him know in strictest confidence, however, that the F. B. I. might be extending its investigation of such accounts. Consequently, I asked Mr. Knoke to let me know if he received any comments from his banking contacts upon possible duplication of Governmental inquiries. I told Knoke that while we desired a continuance of his inquiries for the present, we would naturally alter our work if and when it is found that the F. B. I. is obtaining everything that we desire.

*J.M.P.*

October 16, 1940.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Gaston



Following is a summary of information forwarded by the Federal Bureau of Investigation as of possible interest to this Department:

✓  
October 12th. A memorandum setting forth certain activities of French Ambassador Henri-Haye prior to his appointment indicating that he was a member of a secret Fascist organization that fomented many of the internal troubles of France.

✓  
October 12th. A letter alleging that Madama A. Jana Denati has located at the Ambassador Hotel, New York, and is doing propaganda work for Rene de Chambrun and Ambassador Henri-Haye.

✓  
October 15th. A letter alleging that a French Gestapo is springing up against French political refugees. Rene de Chambrun is alleged to be one of the inspirers of this organization. The system is supposedly operating in this country and engaged in propaganda work, as well attempting to persuade or frighten French political refugees to return to France.

October 15th. A letter stating that two accounts of the German Embassy and four accounts of German Consular officers were completely withdrawn on that date. These accounts were in the Riggs National Bank of this city.

G-2/2657-220

RESTRICTED

No. 221

SITUATION REPORTM.I.D., W.D.  
October 16, 1940.  
12:00 M.

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This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

The German communique states that raids during daylight on the 15th and last night were "considerably strengthened". The day attacks were directed mainly against oil depots, railways and air-dromes in south and central England. The main German night attack was directed against the industrial and dock area of the Thames Loop, London.

The R.A.F. operated offensively only at night and apparently encountered bad weather over Germany. Kiel and Hamburg were attacked, as were oil plants at Gelsenkirchen and Magdeburg, oil depots at Salzerbergen, and other industrial targets.

II. Mediterranean and African Theaters of War.

No ground operations reported. Both air forces continued active along the Mediterranean littoral. Both Mersa Matruh and Benghazi were heavily bombed. Bordia, Derna and Sollum suffered smaller raids.

RESTRICTED



Copy of Code Cablegram Received at the  
War Department, 20:33, October 16, 1940.

London, Filed 13:30, October 16, 1940.

1. In the Bomber Command three bombers were lost and four crashed in the raids during the night of October 14-15th. The attempted daylight bombing on Tuesday, October 15th, of the Dortmund-Ems Canal was unsuccessful. During that night 141 bombers were dispatched, 20 against invasion ports, 12 against enemy railways, 15 against industrial targets in Germany, 75 against naval targets and 19 against oil targets. The Fighter Command engaged in 106 patrols and 598 sorties. The Coastal Command dispatched 65 patrol missions, escorted 19 convoys and engaged in 73 sorties.

2. During daylight hours of October 15th five attacks, consisting of about 15, 30, 110, 120 and 120 planes, respectively, were made on London by German planes. No bombs were dropped. In addition, the enemy made one sweep over Southampton. A total of about 550 German planes operated during the day and night.

3. German plane losses were 19 confirmed, five probable and ten damaged. The British lost 15 planes and six pilots.

4. German attacks during the past two night have inflicted severe wounds on London. The British have not devised a counter-defense against aircraft that cruise over the city and drop their bombs deliberately. Apparently the raids last night were directed against communications, dock yards and the city, but fires occurred

in every district of London. The increasing use of the parachute mines is creating heavy damage and increasing the number of casualties. One munitions factory in Birmingham and five in London were damaged in varying degrees. In London there were damages to three public utilities, to two docks, and major damages to rail communications in seven places. Of the factories that have been reported damaged in my previous cablegrams, one aircraft plant will return to normal operations within four weeks, another within four days, and the third, where production now is about 50 per cent normal, will be operating at full capacity within two or three weeks. A large number of troops and civilians are clearing away the damages from the air raids.

5. During the night of October 15-16th a British naval vessel shelled a port of Dunkirk. Three merchantmen, totalling 14,100 tons, have been reported sunk by submarines. A mine sweeping trawler is missing. Two convoys, totalling 31 ships, have cleared for North America.

6. Previously reported strikes have both been settled.

7. Civilian casualties in London from the raids during the night of October 14-15th were 170 killed and 650 injured.

8. There is no new information on the invasion.

LEE.

**Distribution:**

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

CONFIDENTIAL

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BRITISH EMBASSY,  
WASHINGTON, D.C.

October 16th, 1940

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Henke Butler*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.



Telegram from London dated

October 14th

Naval.

A report has been received from neutral sources that an Italian steamship (1900 tons) was sunk in the Gulf of Genoa several days ago. All on board are believed lost. It is also reported that a Yugoslav ship (1900 tons) was mined and sunk off the mouth of the Danube on October 12th.

Reference to report of October 13th, paragraph 1, sub-paragraph 4. In addition to destroyer reported, it is understood that two small Italian torpedo boats of about 600 tons were also sunk.

2. Royal Air Force.

During the night of October 12th-13th four invasion ports were attacked but no definite results are reported except at Ostend, where bursts were seen in the harbour and personnel were machine gunned. Several bursts and explosions were caused at aluminium works at Bitterfeld, and also at Krupp's works Essen. Many fires were caused also, at two oil plants. Six heavy bombers attacked military targets in a special area of Berlin and several fires were started in the vicinity;

bursts/

bursts were observed and fires started on an electric power station and a gas works. Two marshalling yards in Northern Germany were attacked and also Fokker factory at Amsterdam where bombs were seen to straddle the factory. Other alternative targets attacked included an electric power station and a blast furnace, where fires and explosions were caused; the Ems Canal aqueduct, a bridge at Bremen and targets near Munster, several aerodromes were also attacked.

During the night of October 13th-14th 133 aircraft were sent to the following targets: Shipping in invasion ports; railway communications in Germany; 2 synthetic oil plants; the naval base at Wilhelmshaven (35 heavy bombers); ship building yards at Kiel (40 heavy bombers).

All our aircraft have returned except one heavy bomber.

### 3. German Air Force.

Night of October 12th-13th. Further reports.

In the London area an ammunition works was hit and one workshop seriously damaged; effect on production is not yet known.

Daylight, October 13th.

Three raids took place yesterday. All were of short duration. The first, consisting of two formations of about 30 aircraft both approached London; one formation turned back over Kent and a portion of the other penetrated

to Central London. The second raid also consisted of two formations each of about 60 aircraft. Rear parties of them turned back over Kent but the remainder reached the London area and split up into small sections. After three-quarters of an hour London and the whole southeast of England were clear of the enemy. In the evening a formation of 50 crossed the coast, some of which penetrated to the London area. All the enemy formation consisted of very large fighters. These fighters carry a much lighter load of bombs than the bombers, and rely on their speed and use of cloud-cover to avoid interception and make a quick "get-away"; the average time between crossing and recrossing the coast does not exceed 45 minutes.

Our fighters were sent to intercept on all occasions. No bombing of importance occurred in the London area and most of the bombs dropped were in the southeastern and southern outer suburbs.

During the night of October 13th-14th enemy activity was greater than usual and about 280 aircraft were plotted over the country. The heaviest attack was between 7 and 11 p.m., and was again chiefly concentrated upon London and southeast although Liverpool district was also visited. In the London area and suburban



distributed a large number of bombs scattered and although no important damage was done to industry casualties were heavy. In one suburb a block of flats was demolished and more than 200 casualties are thought to have occurred, a portion of Paddington station received a direct hit. In Liverpool and Manchester area damage was not extensive; casualties were few and fires started in the dock area were quickly under control. At Middlesborough damage was confined to private property but 14 persons were killed and 77 wounded.

4. Aircraft Casualties.

Casualties for the period are as follows:

<u>Enemy</u>	Destroyed	Probable	By A.A. fire
By fighters			
Fighters	2	4	-
Unidentified		1	-
	—	—	—
Total	2	5	-

Our Losses - 2 fighters, but one pilot is safe.  
1 bomber missing

5. Shipping Casualties.

By raider. A Greek ship was sunk by an enemy raider on September 8th in mid-Atlantic.

A Dutch tanker reported that she was being attacked by a raider 400 miles east of Durban on the morning of October 13th and

a British ship reported sighting a suspicious vessel in the same area on the same day.

A Norwegian ship (4500 tons) in homeward bound convoy reported that she was being attacked by a U-boat in northwestern approaches on the afternoon of October 13th. No further reports have yet been received.

6. Middle East.

Libya. On October 12th our bombers attacked the following objectives: an Italian aerodrome where 70 aircraft were located. Bombs were dropped on a group of 20 machines and considerable damage caused.

Bardia. Direct hits were made on barracks and wireless telegraphy station.

Tobruk. Two attacks were made, the naval barracks were hit and bursts amongst shipping were obtained.

Erythraea. On October 11th-12th our bombers attacked two Italian aerodromes causing large fires and explosions and also hitting a hangar and a runway.

Aden. During October 12th-13th the enemy made three unsuccessful air attacks on Perim island.

7. Roumania.

General Spidel, until recently Chief of Staff to Air Officer Commanding 2nd (Northwest) air fleet, arrived at Bucharest by air with four staff officers on October 12th and was received with ceremony. In this connection the German Military Attaché at Bucharest has informed the Turkish Military Attaché that one

Luft/

Luft division will arrive in Roumania on October 13th. A Luft division's strength varies according to its duties. It might normally consist of 3 bomber Geschwader (360 aircraft), 2 fighter (240 aircraft) and some dive-bombers. At present we only know of Germany preparing to occupy four aerodromes. These would not accommodate 600 aircraft.



FOR YOUR INFORMATION

October 16, 1940

To: The Secretary

From: Mr. Young

Re: Pratt &amp; Whitney Engines in Canada.

Mr. Ballantyne informs me that Mr. Wallace Campbell, President of Ford of Canada, has had several interviews with Mr. C. D. Howe and is now in the process of preparing a complete report on the building of Pratt & Whitney engines in Canada.

Mr. Campbell is using information already available at Ford in Detroit and will very shortly present Mr. Howe with a complete picture as to cost, location of plant, type of engines to be produced, and the rate of production.

BRITISH EMBASSY,  
WASHINGTON, D.C.

Strictly Confidential

16th October 1940.

Dear Merle,

I enclose a note of the story about the Brazilian steel works and Brassert, which I mentioned to you the other day. The Export-Import Bank might be interested to see this as I find that Warren Pierson was asking us a few weeks ago what information we had in our records about Brassert.

My own impression is that although Brassert is rather deeply involved in Germany, he is not particularly enamoured of this connection. I was told some months ago by a friend of his that the Germans might press him to pay a visit to Germany, but that if he felt he had to go in order to avoid forfeiting his interests in that country, he hoped a British warship would kindly remove him from the liner en route!

Yours ever,

(Signed) Jerry Pinsent

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

dm

C O P Y

MEMORANDUMStrictly Confidential.

I had a visit recently from an Argentine national of British descent, closely associated with important British steel interests.

My visitor alleged that Mr. Brassert, the head of the firm of H. A. Brassert & Company, Inc., Chicago, Consulting Engineers, is associated with the projected erection of steel works in Brazil with the help of the Export-Import Bank credit of \$20 million. This credit is no doubt given on the condition that the plant required shall be purchased in the United States, but my visitor asserted that in all probability it would not be possible to obtain the plant in the United States, either because U.S. manufacturers were fully occupied or because they could not supply the particular kind of plant required in this case. He thought, therefore, that the above-mentioned condition might have to be waived when it came to the point. Mr. Brassert is therefore said to be planning the Brazilian steel works on the basis of the use of plant of German type, with the intention that the contract for this plant should be given to Krupps.

Krupps already have a contract for the supply of arms to the Brazilian Government which they have not been able to execute. On the other hand, it would take them 12 to 18 months before they could produce the steel plant required for Brazil. Brassert is apparently urging the view that the war will be over before then, that the peace terms may involve some limitation of arms production, and accordingly it would be beneficial for Krupps to get a contract for steel-making plant rather than for arms, while it would be beneficial for Brazil to secure means for manufacturing her own arms. Part of the scheme may be that a substantial sum should be paid outright to Krupps (in dollars) to provide them with the finance to execute the contract. The German Government would, of course, obtain the benefit of the dollars, or most of them, while Krupps would obtain finance internally in Germany.

My visitor admitted that his story was in part conjecture, and I think it certainly requires verification. It may, however, be worth investigating.

(Sgd.) G.H.S. PINSENT.

16th October 1940.

dm





DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 840.51 Frozen Credits/705

October 18, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses herewith a copy of the paraphrase of a telegram, no. 234, dated October 15, 1940, from the American Legation at Quito, Ecuador concerning certain dollar funds blocked in the United States.

Enclosure:

From Quito, Ecuador,  
No. 234,  
October 15, 1940.

RECEIVED  
THE SECRETARY OF STATE

OCT 17 11 15 29

TO THE SECRETARY  
TECHNICAL ASSISTANT  
DIVISION OF THE

28

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Quito, Ecuador.

DATE: October 15, 1940, 4 p.m.

NO. : 234.

I have been requested by the Minister of France here to assist in obtaining from the Treasury Department of the United States permission for the Financial Attaché of the French Embassy in Washington to remit dollar funds which are needed by his Legation for the purpose of defraying its current expenses. He has explained that the French franc can not be negotiated locally. It has always been the practice of the French Minister to cooperate with this Legation in every way, and he does not sympathize with the governments of the totalitarian states. He will greatly appreciate anything which it will be proper to do in this connection.

LONG

EA:VCL

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 5:30 p.m. October 14. He left with me certain material which is being submitted separately to the Secretary. Pinsent stated that he would like to have the opportunity to give the Secretary orally some explanations of the data under reference. I told Pinsent I would give the Secretary his memoranda the same evening, and would inquire as to an early appointment. Pinsent mentioned further that he desired to obtain the Secretary's reaction to one matter which he preferred not to put in writing. Pinsent stated that the Bank of France now has under earmark with the Bank of Canada \$370,000,000. The Bank of England has also transferred to Ottawa \$280,000,000 which the Bank of France had under earmark with it in London. This latter amount is now held in the Bank of Canada under earmark of the Bank of England. The total of French gold thus held in Ottawa is \$650,000,000. Pinsent stated that the British contemplated taking over all of this gold. When I asked him what he meant by taking over, he said that naturally there would be a bookkeeping credit given to France for adjustment after the war, just as there are now outstanding entries between France and Great Britain as a result of the joint commission which was operating at London prior to French surrender.

Pinsent explained that insofar as the \$280,000,000 of gold held in the name of the Bank of England is concerned, there is no real difficulty since this is already in British name. With respect to the gold earmarked in the name of the Bank of France, the British Government will have to obtain the cooperation of the Canadian authorities, who alone are competent to take over this gold. Before taking this step, Pinsent hoped to have the views of the Secretary of the United States Treasury thereon.

Incidentally Pinsent let me know that the State Department had given to Counselor Butler of the British Embassy the substance of the recent telegrams from the American Consul at Dakar in regard to gold held there. Butler, in turn, had cabled this to London without consulting Pinsent. The latter was quite annoyed, since he has reason to doubt the accuracy of the figures emanating from Dakar. In checking our information on this subject, I told Pinsent that from the data which Phillips had given us in July, and from our own information, I thought that the gold at Dakar was probably in the amount of 1,010,000,000 dollars, divided as follows:

French gold not otherwise accounted for	512,000,000
Polish Central Bank gold	68,000,000
Belgian Central Bank gold	<u>430,000,000</u>
Total	1,010,000,000



- 2 -

Based on the weight in metric tons which the Consul at Dakar reported, the value would have reached \$1,407,000,000. Since Pinsent has now learned that the Bank of France gold earmarked in Canada is \$370,000,000 instead of \$376,000,000 as given to us by Phillips in the summer, he thought the amount of French gold held elsewhere should be raised from \$512,000,000 to \$518,000,000, thus making the above total likely to be in Dakar \$1,016,000,000.

Messrs. Purvis, Pinsent and Ballantyne were received by the Secretary yesterday morning. Messrs. Bell, White, Young and Cochran were also present, as well as a stenographer. The memoranda provided by Mr. Pinsent the preceding evening were discussed. Prior to entering the Secretary's office I drew Mr. Pinsent aside and referred to the question which he had mentioned as desiring to pose orally to the Secretary with respect to Great Britain taking over the French gold in Canada. It was decided that Mr. Pinsent should telegraph his Government that Secretary Morgenthau does not desire to be consulted in the premises.



This is referred to in Second Paragraph 28●  
on Page 8 of meeting held on October 17th  
at 3:30 p.m., and HM Jr said he did not  
want to accept it.



**BRITISH PURCHASING COMMISSION**

October 16, 1940.

Dear Mr. Secretary:

Under cover of my letters of the 10th of October and of yesterday's date, I have given you the main outline of the orders which the British Government wishes to place now in the U. S. A. for aircraft and ordnance.

Following the suggestion that you, together with Secretary Stimson and Secretary Knox, made to Mr. Purvis about the proper organization of the discussions which the British representatives are having and will have with the U. S. A. representatives on this programme, we suggest that joint planning and technical committees should be established for the new air programme, and also for the armament and other programmes, analogous to those already functioning in connection with the current air programmes.

I submit also for your consideration that the various adaptations of the normal R. F. C. basis to the peculiar circumstances applying to various munitions items, e. g. aircraft, ordnance, etc., might be assisted by the formation of a joint Finance Committee entrusted with this task.

Yours sincerely,

The Honourable  
The Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.