

RE ALLIED PURCHASING PROGRAM

July 23, 1940
10:00 a.m.

Present: General Brett
Mr. Stimson
General Arnold
Mr. Young
Lieutenant Anderson
Mr. Knudsen
Colonel Knox
Mr. Purvis
Mr. Ballantyne
Mr. Taylor
Mr. Wilson
Mr. McReynolds
Admiral Towers
Mr. Foley
Mr. Nelson
Mrs Klotz

H.M.Jr: Mr. Stimson, I think you are responsible for having this meeting.

Stimson: Well, as I look around at the numbers and the importance of the conferees, I am amazed at my own indiscretion.

H.M.Jr: Oh well, it is an important subject.

Stimson: But, Mr. Secretary, it came up out of the rather unsettled and haphazard conditions that I found involving the question of airplane engines manufactured here and there was a controversy in embryo in regard to arising out of it and I am taking it up with the Air Corps of the Army. They suggested a series of examinations and resumes being made, which I sent you a copy of, for the purpose of finding out a basis out of which we could achieve, possibly, an orderly situation. As I understand, the trouble has been that airplanes are not being manufactured in an integral or orderly condition geographically. People are ordering engines and airframes

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and they are building them in different places and with that being the case and without supervision, there is bound to be a straining and possibly a clash of interests and it came up particularly out of - it was brought to my attention from an order of - what was it, General? I am separated from my right hand here by a remote - some 1200 engines?

Arnold: Some 1200 airplanes that the options were taken up on.

Stimson: Options on 1200 airplane engines which my other friend Purvis had been snooping around and getting the contracts for without apparently anybody to say nay or to watch him.

Purvis: I wish that were true. There are 2407.

Stimson: Well, at any rate, I caught him before he had gone any further than 1200.

H.M.Jr: Are those engines or frames?

Stimson: Engines.

Arnold: Frames.

Brett: Airframes.

Stimson: Additional frames, but there is a body of engines involved in there.

Arnold: Yes, the engines together with the airframes.

Stimson: Together with the airframes.

Arnold: It is the total of airframes and engines.

Stimson: Well, with the engines and airframes being ordered in different places --

Arnold: That is correct.

Stimson: That is what I mean. The engines were ordered by separate manufacturers.

Arnold: They have got the engines. Now they are buying the airframes to go with the engines.

Knox: Were these engines French orders transferred to the British?

H.M.Jr: Here is a press notice here this morning which has just been put on my desk. It makes Mr. Knudsen a hero.

Stimson: It looks as if your (Knudsen's) publicity department had been working overtime.

H.M.Jr: He is going to save the day, good old Knudsen.

Knudsen: What is it, Mr. Secretary?

Stimson: "The Army has asked William S. Knudsen, Production Chief of the National Defense Council, to prevent new British orders for about 1200 American airplanes from interfering with production for this country's defense program, the United Press has learned. The request for coordination of British orders with this country's demands was made by Army Air Corps officials."

That may possibly come down to your publicity department, Arnold.

Arnold: No, not mine.

Stimson: I am the only one that I am sure hasn't any.

"....who fear that the new orders would tie up production channels. It was the first time such a request has been taken directly

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to the Defense Council. Knudsen's associates said he expressed willingness to undertake coordination of the orders and he believed no serious difficulties would be encountered."

Now, that is very hopeful.

- H.M.Jr: I just thought it was a nice tone to start on, anyway.
- McR: I didn't give it out.
- Knudsen: I am sure I didn't.
- Stimson: Anybody who says we have got an inactive Advisory Commission had better take notice.

Well now, there is the suggestion that I telephoned to Secretary Morgenthau the other day, to this effect, that there should be a resume of all engines under order for the United States and for all foreign nations made.

Second, that there should be a resume of all Allied production of airframes and of the requirements of engines manufactured in the United States for those frames.

Third, that there should be an allocation - I wouldn't call it an allotment - of all engines manufactured in the United States to airframes manufactured in the United States for foreign governments. The result of this would then give a balance of American engines available for allocation to either the United States or Great Britain for additional airframe construction. We would then be in a position to form a definite program for additional factory expansion with reference to both frames and engines.

Well now, to put that in my rough and ignorant brevity, I conceive of this meeting as a meeting

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to set to work the machinery for laying on the table all of this construction of airplane engines in the United States, together with the construction, both in the United States and outside of the United States, of the airframes for which those engines were being intended, and that out of that we should have the knowledge out of which a fair consideration could be given to the comparative equities of the Army, the Navy, and the British purchases, that preferably I had in my mind that some board should be appointed with authority to go over this matter and to allocate the different engines to the different requirements for engines in the shape of airplanes, both here and abroad, in such a way that we wouldn't be butting up against each other, but would have an equitable adjustment of the entire matter.

Now, if in that ignorance I have omitted anything, General Arnold, will you correct me?

- Arnold: I think that is a correct statement.
- Stimson: Don't be shy.
- Knox: As a matter of fact, Mr. Secretary, haven't we created just such an agency in Mr. Knudsen's outfit to do that very thing? Isn't that your understanding, Mr. Knudsen, that that is part of your function?
- Knudsen: If that is the pleasure of the meeting, we are willing to undertake it. You see, what we need is --
- Stimson: We haven't got it now, I know, because this row has come up.
- Knudsen: The upshot of it is that I asked last week, Mr. Purvis to be kind enough to notify us

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when he started to negotiate for more planes out in the field so that we knew that before he actually placed an order and that agreement was made in my office between Mr. Purvis and myself. Then I asked a second thing. I asked in the second place that as far as humanly possible that I would like to make it mandatory that the planes the British bought over here would be the same as the American planes.

Stimson: That was the same point I was coming to, standardization.

Knudsen: There isn't very much difference in a couple of models. They could mostly today be used in an American program, but by and large, I think we could get together with it.

Stimson: Would you object to having it associated with yourself, representatives from the Army and Navy, who could perhaps be able to advise you in more detail?

Knudsen: Not at all, sir.

Stimson: In regard to the things which are requisite to their construction and which might not otherwise come to you.

H.M.Jr: Could I just interpose here a minute before we get down to a committee or detail? I would like to state my position and why the meeting is in this room. My orders are from the President. I am going to be very frank and say so in this room. The President some time ago set up a committee representing the Army and Navy and Treasury to receive all foreign purchasing missions and to channelize them to the right people, and Colonel Burns represents you (Stimson) on that and Admiral Spear represents you (Knox) on that and Mr. Philip Young represents me.

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Stimson: I had as a prominent member on the suggested board that I had, that either you or a member of your Treasury staff should be a member.

H.M.Jr: Now, as I understand, what the President said in May in Congress, he said it perfectly forthrightly and no if, and or but, that in this national defense program that we were beginning to undertake - May 10 or May 16, he made his speech - that our program was to be superimposed upon the needs of the Allies. That is what he said to Congress and as far as I know he has never intimated at any time that that program should be changed. Furthermore, I also believe it is his belief - and I very seldom try to interpret what he says - that just as long as we can keep the English going, and they have the will and the courage to keep going with their own money - and the only thing they are asking for is permission with their own money to buy the stuff they need to keep up this magnificent fight - that if we want to keep out of the war, as I understand it what he feels, that the longer we keep them going, that much longer we stay out of this war.

Now, I don't mind saying it seems to me the height of stupidity to do anything at this time which interferes with their program when they are doing their fighting with their men, their blood and their money.

Now, if for some shortsighted reason we are going to interfere with this program, if I understand what the President wants, he wants to keep these people going. Now, he has done everything possible to do that and I don't believe - and certainly at no time has either General Marshall or Admiral Stark told me that anything that we have done has interfered with the national defense program with the

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money at the disposal at that time, and I have sat down and spent hours and hours, particularly with General Marshall, and gone over it item by item with him.

Now, I just want to say, as a policy matter - and I say I very, very rarely try to interpret the President, but I am using as my sailing orders what he said to Congress, and the only time that I have had anybody check was before you came in, Mr. Compton at Cabinet meeting one day said, "Now, this was two weeks ago, Mr. President. Are we still to continue to help the English? Is there any change?" The answer was that we should continue to help them. I just want to lay that down, and my position, acting for the President, not as Secretary of the Treasury, is to see that these people get what he wants.

Now, I am not here as Secretary of the Treasury; I am here as his agent, and as long as he asks me to continue to do that, I am going to do it, because I think it is sensible; I think it is farseeing; and I think anything to stop these people or to nag them or to worry them at this time when they are doing what they are, I just think is a move to drive us into the war and bring us that much closer. I think it is the height of stupidity and I just want to say that on the record and the world can know it, as far as I am concerned.

Stimson: Mr. Secretary, you certainly know my position well enough to know that it coincides with that of the President.

H.M.Jr: I know it does.

Stimson: And if I have given any other impression in what I have said here this morning, words have served to conceal instead of reveal

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the thoughts, but the whole purpose of this was to find a way by which the purpose which the President has, which is also coincident with another purpose which he has, namely of - and which he has expressed to the Congress very vigorously, of building up a great national defense of our own.

H.M.Jr: Granted.

Stimson: Shall be carried on with a minimum of friction, a minimum of trouble and a minimum of burden to yourself.

H.M.Jr: There is no - you and I and Colonel Knox have talked this thing over. We are in complete disagreement, but I just --

Knox: Disagreement!

H.M.Jr: Agreement, complete agreement, and just before we get down to detail, I wanted to at least state the principles and keep this thing on a fairly high plane, and then as far as I am concerned, I would just as lief leave the room.

Stimson: We don't want you to leave the room.

H.M.Jr: But I want to explain once more to these representatives of the Army and Navy what is my function, what is motivating me and what I understand is what the President wants me to do, and in my conversations with you and with Mr. Knox, I think we see as nearly eye to eye as three men can see on any subject.

Knox: There is one thing you omitted in your survey that I think is in Secretary Stimson's mind, that after that situation that you describe - and the description of which I am in complete agreement with - there has come about a new

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situation which is superimposed upon it, of a very large appropriation for expanded activities in both the Army and Navy and I think I know exactly what is in Secretary Stimson's mind, and it is in my own, that this activity of the Navy and Army for additional planes should not be permitted to gum up what we have been doing before and get it confused, and what I think Secretary Stimson is asking for is a very reasonable thing, that we take this new factor, find out exactly what the British need and what they want and God knows we want to give that to them and then add to that the additional factor that we have got to have a lot more planes in the Navy and the Army has got to have a lot more planes and we want to justify our activities here to the public as a whole, because they are very keen about this thing, by not interfering in any way with the British getting what they want. We are also adding these additional airplane facilities to our airplane defense. Isn't that right?

Stimson: That is right. My proposal was based upon the fact that men can work more effectively, in my opinion, when instead of working without knowledge of what each other one is doing, they are working in accordance with thoroughly well understood coordination and not clashing with each other. You can't do that without a dissemination of knowledge.

H.M.Jr: I agree with you but, Mr. Stimson, as far as I am concerned, the principles involved in this are so important that I personally hope you gentlemen, Mr. Knudsen and Mr. Nelson, who is in charge of priority, that we give this thing enough time to arrive at a formula and then anybody that we

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designate can work it out, but nobody that I can designate can work this formula out and I hope it will be worked out here. And then as to the details, leave it to somebody else.

Stimson: Well, isn't there a step first before that, namely to find the facts out of which the formula - on which the formula must work.

H.M.Jr: Well, I think --

Stimson: I found that on the part of the gentlemen upon whom I rely in the War Department there has been an insufficient knowledge of facts as to these items which I enumerated in this resume. They don't know the capacity of the airframes for which engines are being sought in this country, being built outside. They don't - they didn't even know about these last 1200 orders until they had been made.

Purvis: I hope I am going to get an opportunity presently of speaking on that a little, Mr. Secretary.

H.M.Jr: Couldn't we take an inventory right now? I hope you have allowed until 11:00, and I think --

Purvis: Mr. Secretary, --

Stimson: Not only 11:00, but as long as you want.

H.M.Jr: I think if you gentlemen can be a little patient, we can settle this thing and there is enough information in this room to settle the thing here this morning so that the English Purchasing Commission can go on about their business. I really think there is, if we just take the time this morning to do it. Don't

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you think so, Knudsen, because Bill, here, is all - he wants to go to town and he has got this and the other thing.

Knudsen: Of course, what I think, Mr. Secretary, is when we have three or four places we want to put stuff, as in this particular place, we had the Army, we had the Navy, we have the British, we have other foreign and we have some commercial. What this thing needs is a dispatcher's office to say, "Let her go over here," so the two trains don't get on the same track and that is all we are trying to do. Nobody is trying to take anything away from the English, not me.

H.M.Jr: No, but haven't you got all the facts so that you could take five minutes and paint the picture as it is right now? What is the problem, anyway, as you see it? What is the problem?

Knudsen: I've got enough figures here to write a book.

H.M.Jr: All right.

Knudsen: But boiling them down to simple terms, I took all the airplanes that I knew we had on order and I found out that there were two of the British airplanes of 8,103.

Knox: Of what?

Knudsen: British airplanes.

Knox: An order for 8,000?

Knudsen: 8,103.

Stimson: In this country?

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Knudsen: In this country. Then I find we had other outside orders, 1,417, and that including our program, meaning the program that was passed by Congress, which we called the '42-'47 program, the United States had 10,572.

Knox: Ordered?

Knudsen: And with the program that is on the Hill, to that would be added 14,000 airplanes, so when we get all through, there are 34,386 airplanes either on order in the United States or to be placed within the month. Of that, 10,000 are placed now, 8,000 British and 1,417 varied, Sweden and - don't amount to anything, commercial, all that kind of stuff. When I get around to looking it up, there are a good many more engines on order in the United States for the British than there are planes. There is an unallotment of about 12,000 engines.

H.M.Jr: Unallotted?

Stimson: That is, 12,000 engines for which no airframes are being constructed in this country that you know of.

Knudsen: Correct, that is right.

Stimson: And are those all for the British?

Knudsen: Yes, all for the British, because they represent the combined British and French orders that the British took over when the French passed out of the picture. Now, when we get through with our load for the program I just gave you a little while ago, there will be 62,000 engines for the Army and Navy and 31,000 for the British and 7,600 for miscellaneous, making a total of 101,000 engines which we have until the end of 1942 to manufacture. I can tell you just by companies -

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but the totals - the companies don't matter.

Knox: Purvis, what are you going to do with these 1,000 engines you have ordered that you haven't ordered frames for?

Purvis: Mr. Secretary, before I answer that, may I have the privilege of just running back a little over the history? Quite a number of people in this room were not present. It won't take more than a minute to do it. Would that be all right?

H.M.Jr: Please.

Stimson: I would be very glad.

Purvis: I think these historical things from our view have such a vital bearing on this decision, the importance of which I can't emphasize enough. I honestly believe that the Secretary is quite right. If I were to cable to London today, the feeling of discouragement that I had for a moment last week, I think the effect would be very vital on the course of the war, so if you will let me speak for a moment of my historical things, I would appreciate it tremendously.

In the first place, there is one dominant fact which I don't think is realized generally in the room. Secretary Morgenthau knows it and some others do know it. That is, that the extent of the orders, whether for airframes or engines, placed in this country by England or France was not governed by their needs as they saw them at the time at all. They were governed by the productive output, capacity, of the industry as added to by the Allied money that was poured into the industry and which has given that industry today a

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place which is valuable in the United States' national defense. It would have been of but very little value but for that.

Stimson: I am aware of that.

Purvis: That was a privilege for us, and it was also, I think, not without value to you.

Stimson: Your orders have been responsible for the building of additional facilities in this country which are very valuable.

Purvis: I do want to start on that note, however, that we were never able to buy nearly as many planes or engines as we wanted and today we are unable to buy nearly as many planes or engines as we want, as we need, in the face of the fact the enemy has more. It isn't a perspective background, it is a question of what we have to do day by day. Now, for that reason I think we can dispose of any idea that there is a surplus pool of engines or planes or anything. There is none. It is just a question of how many completed airplanes - and I believe this goes for U. S. defense, though I have no right to talk of U. S. defense - it is just a question of the number of airplanes that we can get into the air in a given time, which will actually be used to hold this particular fort. That is my conception of the background of the situation.

I believe that a great deal of misunderstanding seems to have arisen - and this has come somewhat in the last week, as a surprise to us for reasons which I will state later - has come through a distinctive feeling that there is some plus sign in the picture which came as a result of the debacle in France. There is no plus sign; they are all minus signs. We

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have never been able to get what we needed or wanted at the time.

With that background, I would like to say just two or three other things about the situation. When in December the idea was born to have a new program for aircraft here, the British and French Governments took the precaution to come to Mr. Secretary Morgenthau, as the President's liaison man that we had to respond to, and to explain to him the vital importance of this and to ask whether we could assume that the placing of that program would be favorably looked on and blessed by the Administration. I believe that that went right through to the highest quarters and we felt that assurance of great backing in the matter was present, and assurance that you yourself - you have come into the picture more recently and have re-emphasized it this morning, to my great relief.

The fact remains that that went into great detail. The Army and Navy, I think, came into discussions behind the scenes to some measure, so far as we were concerned, but often in the same room also. And it went even before Congressional committees and was blessed as something that helped U. S. national defense, and also we felt, therefore, that there would be no question that when the engines and planes began to come through, of withdrawal of those, at least - please don't misunderstand me. If there is any pool of engines anywhere at any time which lacks - which can be put into the air against the enemy, we will be the very first to say, "Let's distribute them to the general advantage," including, of course, yourselves. I know you could take it anyway if we didn't take that attitude, but we would take it

naturally because this is a vital necessity for us, too, and we would like to see this country armed very strongly. We don't want to play the dog-in-the-manger policy with one single engine. Today we have airplanes waiting for engines. There is no surplus that I know of at this time.

Knudsen: No one says there is any surplus. We say we have no frames allocated to us.

Purvis: Wait a minute. I think, Mr. Knudsen, that I gathered the impression from your remarks that we had rather more engines than we needed. Now, admittedly, you were pointing out - and I quite conceded - that you were missing certain information. I regret to say that even today they are working on it feverishly at home. I have not got it with me, the number of frames into which they would like to put the engines, which could have been otherwise sent to France. I do know, however, and Mr. Wilson, of course, as his personal representative can handle it much better than I can, I do know Lord Beaverbrook --

H.H.Jr: Explain Mr. Wilson's position.

Purvis: Mr. Morris Wilson of Montreal has been appointed by Lord Beaverbrook as his special representative in North America to watch the programs as a whole which we have been carrying out and I know that Lord Beaverbrook has reduced and standardized enormously and in the process has increased the number of frames which are coming out of our plants, perhaps at the sacrifice of quality over a longer range. We may not have all the long distance bombers and things that we want, but he has immediately gone out to reduce the number, I think I have heard, from 13 to 7 types of frames in order to step up the airplane output and therefore

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get the maximum of completed planes in the air. That has a very great bearing on this engine problem.

But may I go back just a minute? We have had that feeling, as I say, that that would be - that we had placed these orders after very careful examination. I would like straight away to answer one point that Mr. Knudsen has been worried about last week. The point is whether or not we have been acting fully in the open in placing orders or whether we have been putting them somewhat surreptitiously.

Stimson: Nobody - I certainly didn't intend to --

Knudsen: Oh, for heaven's sake.

Purvis: Last week I gathered Mr. Knudsen felt that our machinery had been a little lax. I would like to explain --

Knudsen: No, we had no agreement up to the day in my office. We had no agreement that you would notify us when you made an inquiry.

Purvis: No. We had an agreement --

Knudsen: We have it now.

Purvis: We had an agreement that we had to notify in a weekly statement, which is a pretty close record and which has been coming to the Secretary and was on your (Knudsen's) desk that day, week by week, not only the orders we have placed, but the inquiries that were pending, and I may say that the only slip up from our end is that apart from the weekly record that we have been putting in to you of orders pending, which we are trying to place, we have

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been sending the manufacturer to you up to the time I made that agreement, to say, "Can we accept this order?" instead of ourselves coming to you because we thought it was a foregone conclusion. May I say why we thought it was a foregone conclusion, Mr. Knudsen, because here we were with the anxiety to place orders. I feared not for 1200. As far as our calculations go, it is nearer 1385.

Knudsen: Well, say so.

Purvis: But here is the point. We assume --

H.M.Jr: Let me interrupt you. I think this is right, General Arnold and Brett and Admiral Towers, that no American manufacturer takes an order for a foreigner without checking first with the Army and Navy.

Brett: We knew nothing whatsoever about the Consolidated or Bell orders and we knew nothing about the Vultee order until Mr. Vultee came in after the negotiations were practically completed.

Purvis: Nevertheless, before they were completed, we said we would not sign an order with him unless he got your okay.

Brett: We knew nothing about the Consolidated order until the Consolidated company had signed on the dotted line.

Towers: We knew about it, however, and Consolidated is under the chaperonage of the Navy.

Brett: But we knew nothing about the Bell order.

Purvis: To the best of my knowledge and belief, there has been no case in which we have signed

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an order without sending the manufacturer to you and posting week by week with the Administration a note of the order - the negotiations pending as well as the orders placed.

- Brett: I say that we knew nothing about the Bell order until the order had been signed, in my office, I mean in the office --
- H.M.Jr: That is the beauty of a meeting like this. A thing like that can be cleared up and he has made an arrangement with Mr. Knudsen so that can't happen again.
- Knudsen: An agreement has been made.
- H.M.Jr: Last week with Mr. Knudsen.
- Purvis: From now on, it is all on a daily basis.
- H.M.Jr: On everything, not only on airplanes, but on everything and anything over \$150,000, isn't that right?
- Purvis: That is right.
- H.M.Jr: But everything.
- Purvis: May I just finish on one note, Mr. Secretary, and that is, we feel there is a very great danger now, going back to the first point. We have never been able to buy nearly what we need and that that is - that the emphasis is going to be not on how we can by hook or crook at the sacrifice of butter, and increase the number of planes which will be available to divide, but that we may get into the position of spending our energies dividing what is already in the pot. So far as we are concerned, up to September and October '41, in particular, the loss

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of one plane would be a very important factor. In the early months just now, what we would like to do, in fact, we would like to cooperate with anything you want to do and put down such money as is necessary to do it from our end. What we would like to do is concentrate almost entirely on increasing the production, coming to the point that the recent orders we have been trying to place for airframes - it never occurred to us in our wildest moments that that would be anything but welcome, for this reason: When we obtained permission to place the orders for shipment of engines to France, as such, as distinguished from airframes with engines in them, we realized that that represents an unbalancing to some extent of your outlet. You had the - we took it because everybody knows that engines are a bottleneck and anything that would help the worst bottleneck would presumably be good and that was investigated and talked about and approved and done.

When we inherited those French engines, we immediately went to work to put some of them into frames that would be available in England but also, as we thought, in constancy with the only policy that you demanded, to put a substantial portion into airframes in this country, because then you have a balanced condition. Otherwise, the engines presumably would be shipped out as such unless you used your powers to prevent that. We had thought, and this is basic to our whole understanding of this situation, that your view was going to be this: As long as the Allied money is building up potential output in this field, as long as it is increasing airplane production so much a month so that in three or four months we can put out so many thousands of model planes, that the question of

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letting the background of the current production go to us was something that would be constant with your normal defense policy. We have been working on that assumption. If there were a change in that, if the results of this meeting were going to be such that we lose planes and engines or the possibility, to put it more clearly, of getting more planes into the air, whether it be the airframe built here or not, I really feel we ought to - I really feel it would change their outlook as to whether they continue the war. Air power is vital. Excuse me if I have been so emphatic, but that is the position as I see it.

Knudsen: There are two points in our talk, Mr. Purvis, that from my standpoint ought to be cleared up. There is no disposition on our part to help lose the war. Now, let's get that straight. I don't think there is anybody in this room, I am sure, that would do anything - hesitate to advance anything that would do - you have got certain programs coming for your planes in the United States and all we are trying to do is to engineer it so that the plants don't get confused. General Brett shows me the production lay-out. There are certain places now where there is a gap in the production, see.

Purvis: I am all for doing anything that will get more planes in the air and will sit and conspire with you with a pool of engines to that effect.

Knudsen: All we are trying to do here is to get it laid out, see, through one channel, to get it out to the factories so they get orders from one place and then after we get that far, then put the screws on them to get more planes. Now, I think that that is the

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proper way to handle the job and there certainly isn't anybody in this crowd that I know of that is trying to cut you down. We are just trying to lay it out so we can all get more, because we have got to have more.

Purvis: Still we are waiting your permission to place 1200 planes, for which there are engines, on which the manufacturers should be at work. Now, admittedly, that is very recent and I have no complaint --

Knudsen: I asked you, Mr. Purvis, if you could wait until today.

Purvis: Oh yes, I know.

Knudsen: Now if you are going to lose the war on account of three days' delay, then I am going to be up against it. I shouldn't have done it.

Purvis: I think that has been our problem. I think we have lost the war so many times on three hours' delay, Mr. Knudsen - excuse me, may I answer one other point of the Secretary's, standardization?

I don't think there is any field in which we have so completely accepted what the manufacturer in this country could produce and sell than in the planes, admittedly on armor, on which I think the European experience is a help. We have had positive ideas. But so far as the actual airframe and engine is concerned, we have simply accepted - I think I am right in saying - 99 and it might be 100 percent of what the industry here wanted to build. We have accepted that. We have not been able to get them to even consider changing. There isn't a British type made here. Everything is American type.

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Brett: I would like to state my position. I am probably the tempest in the teapot.

H.M.Jr: I think you are, at least somebody is. Let's have it out on the table here.

Brett: The whole question arises from my standpoint. It is the fact that of course I have directives which I have to work on which have been approved by the Chief of Staff of the Army and the Secretary of War. Those directives require a given number of airplanes, fully equipped, to be in possession of the U. S. Army within a given period of time. In connection with that we have naturally made a very careful survey of the airframe industry, likewise the production of the airframe industry with increased facilities and factories. In making those surveys, we assumed a certain condition. We had to, in order to get a true picture.

Now, the orders which you speak of for the last few days would naturally upset that picture. As I say, I am the cause of all that trouble because all I want to do, in spite of anything Mr. Purvis says or any insinuation concerning our desire to hold him up, there is nothing in that at all. I merely want the cards laid on the table so that I can count on what I can tell my Chief as to his possibilities of getting airplanes. I don't care if the English get every airplane. In fact, if it is going to win the war for the English, I would be tickled to death to give it to them, provided my Chief tells me that that is okay.

In connection with Mr. Purvis, I think we have worked together quite a bit before. I was the man that probably did as much to

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defer deliveries for him last December as anyone. I also gave up a great deal of engine capacity at that time which I had under option, in order that the English and French could place their orders and did everything in the world I could and I am in exactly the same position today, if the President desires that consideration be given, but I would like to know what I am working toward. I would like to know exactly what we are going to get and what the English will get. We will take the monthly production of our engines, the monthly production of airplanes, and if they want 100 percent of them, they are entitled to them. They can have them. But I would like to know exactly where we stand and where we are going to stand over the next eighteen months or two years.

H.M.Jr: Brett, may I say that up to now we haven't had to bother the President and I hope we won't, but after all, if we can't come to an agreement, Mr. Stimson and Mr. Knox and Mr. Knudsen and Mr. Nelson and McReynolds and myself can go over to see the President, but I hope we won't have to and I don't think we will.

Stimson: We are less likely to have to --

H.M.Jr: Now, as I understand it, there is this much that has been agreed to as of last week. Any orders in contemplation to be placed, the Allies will either direct or through this Committee, whichever is the quickest way, will get word to Mr. Knudsen before you place any orders for anything.

Purvis: We have put in a teletype service to Washington since last week and so far as we are

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concerned, we intended to clear it through Mr. Ballantyne and Mr. Young. I have appointed a man in our office. We are only asking that if we send you every hour on the hour questions that we want authority to go ahead, that you will pass them as quickly as you can.

H.M.Jr: And it is agreeable that Phil Young service you?

Knudsen: Yes. He was there when we made the deal.

H.M.Jr: All right. Well, he is a very modest young man, you know.

Purvis: We will probably find out he really inspired it.

H.M.Jr: Well, that is taken care of.

Now, there are two things, as I see the thing. The new orders in advance before anything for any - before any war order is placed will clear through to Mr. Knudsen and it is up to Mr. Knudsen to take care of the Army and Navy. Right?

Knox: I would like to hear Mr. Purvis tell us about these 1200 engines.

H.M.Jr: Do you mind one second?

Knox: No, go ahead.

H.M.Jr: I was trying to put this into three pockets, if I could. But I can wait.

Knox: No, go ahead.

H.M.Jr: The other thing here, as I see it - there are two things and they are entitled to know this.

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Do you gentlemen intend to take away from them any of the engines they have on order now and, number two, what are you prepared to let them have? Are you ready to let the English place additional orders for engines, which they are ready to do today?

Stimson: Part of that depends upon problems which are under your operation and with the rapidity with which we can go into plane construction.

H.M.Jr: I am not going to take that today. If you don't mind, it isn't my fault that Guy Vaughn came down here in May and we practically reached an agreement that he was ready to put in a plant and since May that thing has been kicking around this town and the thing hasn't been consummated. It is not the Treasury's fault, it is not the Treasury's fault that the Packard Company --

Stimson: Please don't advertise my speech or think that I am saying something against you personally.

H.M.Jr: No, I am glad to get it because it is getting under my skin because if they won't do it on the basis which Mr. Knudsen has spent day and night - and because Mr. Jesse Jones - I am sorry he is not here, because I would like to say it to his face - is afraid, notwithstanding a ruling from the Treasury and the Attorney General that he can lend this money to Curtiss-Wright and to Packard and that they can still place an order with the English. It is neither Mr. Knudsen's fault nor my fault. You can't do anything more than that, and Mr. Knudsen has worked day and night to try to get this thing through. We have worked day and night with him and Mr. Jones sits there and won't do this thing because somebody tells him that he can't build a plant which at some subsequent date may --

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Knudsen: I was with Jones last night.

Stimson: May I just --

H.M.Jr: This thing goes around and around and around and it comes down to this amortization and I am no more to blame for that thing than the cop on the corner.

Stimson: No, but certainly I didn't intend to intimate - but you asked me a question as to whether or not we were going to require in our program certain engines or planes in certain numbers than at the immediate moment. That depends on whether or not we can go and produce planes and that in turn depends on the solution of the problem that I asked you.

H.M.Jr: Well --

Brett: Well, we are bridging that gap, Mr. Secretary, and we are placing a clause in the contract which doesn't hold anybody responsible in case the law is repealed. It neither holds the Government responsible for the contract or responsible --

H.M.Jr: Well, some of these columnists have gotten under my skin. I read in the paper day after day that it is the Treasury and I am just a little emphatic. I don't mind the words, but some of these columnists have just got under my skin, because no one has worked harder than myself and my associates to straighten this thing out, nor is there anybody more interested than I am.

To come back to the thing, it gets down to two pockets; one, what do you want to do about the orders the English have out, contracts for; and two, what are you prepared to do to let them place additional orders?

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- Knudsen: For the airframe orders for the moment, the airframe orders they have at the moment, there is no action on that, that goes right through.
- H.M.Jr: What about engines?
- Knudsen: Just a minute, I beg your pardon.
- H.M.Jr: Mr. Stimson, I get emphatic because I feel this thing very, very deeply and it is - you know my --
- Stimson: So do I when you shake your gory locks at me.
- Knox: Have we got the background all through now?
- H.M.Jr: You win.
- Knox: I would like to know what the English want to do and see how it fits into our program.
- Knudsen: In other words, the present orders that are on the books will go along with no interference whatever.
- H.M.Jr: Engines?
- Knudsen: Planes. Secondly, what we want to know now is how many planes do the British care to place against the so-called engines in the pool.
- Purvis: Could we just perhaps get down to that for a few minutes?
- H.M.Jr: Excuse me. Admiral Towers says if he had a minute he thinks he could throw a little light on this.
- Purvis: Good.
- Towers: The Army and the Navy have certain long-range

programs. The Navy's is based largely on requirements of the fleet for aircraft, which in turn, of course, is based upon the ships, some of which are just being started.

Mr. Knudsen, as I understand it, has two major missions about aircraft. One is to procure the aircraft required to meet the Army's program and the Navy's program and, two, to attain within a certain time a velocity of production.

Now then, our Army and Navy respective orders amounted to enough aircraft to attain that velocity of production which was desired. Of course, I can't speak for the Army but in so far as the Navy is concerned, in order to get the velocity within the two-year time limit, Mr. Knudsen's representatives requested of the Navy that they order in two years more aircraft than they needed at the end of two years and in so far as we are concerned, in order to let the British buy more aircraft, if we are asked to reduce our numbers down to our real requirements, I for one would be very pleased because it doesn't make any difference whose money goes into these plant expansion or whose orders go in there, you accomplish a mission of getting a velocity of production.

H.H.Jr: Terribly important.

Brett: That is exactly our position.

Arnold: No.

H.H.Jr: No. What Admiral Towers has said is terribly important.

Towers: We actually are preparing to order, at the request of Mr. Knudsen, some 1700, isn't it, Anderson?

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Anderson: 1795.

Towers: In excess of our requirements over the next two years. In other words, if they were all built at the end of two years, we would be ahead 1700.

H.M.Jr: Would you have the money to pay for them?

Towers: I go up this afternoon and try to get that money. I am in a vitally embarrassing position.

H.M.Jr: I realized this, but Admiral Towers put it much better. I saw the figures that Mr. Mead originally developed, but you (Towers) put it very much better.

Towers: I think that somewhere along the line the original request of us to take more aircraft than we really wanted within two years has been forgotten and now your people are trying to get engines to enable them to deliver to us the number of aircraft that you asked us to take, which is more than it was.

Knudsen: But in the program that you asked for on the Hill, did you ask for more than what you needed?

Towers: Not more than we will need, no, because even this program doesn't - that we are asking money for now - doesn't carry us to the completion of expansion, but it carries us forward at a more rapid rate than the ships that are going to carry these aircraft are being produced.

Purvis: You are looking for potential gain rather than actual, immediate --

Towers: Yes, and we agreed to it only to enable you to place orders of sufficient size to get

your velocity, which was way under --

Knox: And now the British come in and want more planes and we can divert the orders designed definitely for the Navy to the British so they can meet immediate necessity. In other words, the Navy in this picture is ready to help the British to a maximum of 1700 planes. Is that right?

Towers: Yes, sir. We have certain --

Knudsen: When are these 1700 due?

Knox: Within two years, supposed to be.

Towers: Yes, within two years. It amounts to 3200 engines, I think, isn't it? Well, a total of about 3,000 engines manufactured by private industry, 250 manufactured in the Government.

Knudsen: How many of them can you give up within the next six months?

Towers: None in the next six months.

Knudsen: How many can you give up in the second six months?

Towers: Certainly not many, except on a directive from higher authority. I mean, in so far as --

Knudsen: Then as I take it, your proposal is that after the total program for the two years, you are willing to give up 1795 planes at some time after the first year?

Towers: Yes.

Knudsen: That helps.

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- H.M.Jr: I wonder if the Army will come as clean.
- Stimson: The Army has a very different program.
- Knox: Yes, you are right.
- Stimson: A very different program. The Navy has to wait two years for the ships.
- Knox: More than that.
- Towers: Also for pilots and shore bases. They are all - really, we would rather have them all come along parallel to each other.
- Stimson: The Army is to be prepared or trying to be prepared to meet an emergency which might come very quickly, very quickly, and we have not, as I understand it, enough planes to meet even our minimum requirements for the so-called protective mobilization plan.
- Arnold: That is correct, sir.
- Stimson: Which is, I would say, a plan that I don't dare talk about much in public because it is so insignificant to the danger with which we are confronted with and your need is much bigger and more immediate than Mr. Knox's. Consequently, we are not at all in the same situation in which the Navy is.
- Arnold: I might go into more detail than the Secretary did. We have three stop dates in the development of our program and each one balances out in so far as enlisted men, pilots, construction and airplanes are concerned and the best information we have from the Procurement people is that by April 1, 1941, we will be short airplanes to meet our program. After that, we catch up. Beyond that, there is - we produce more than we need.

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H.M.Jr: April 1, '41?

Arnold: '42, April 1, '42. After that, we have more airplanes than we need, but up to that time we have just been nip and tuck to meet our program and that is the reason why General Brett was so consistent that if any changes be made, our directives should be changed. But as it is now, it is balanced in so far as mechanics, personnel, construction and airplanes are concerned.

Stimson: A directive is one which is so small and so modest that I for one am very much concerned lest it be enlarged by news from the other side of the Atlantic almost every time I pick up a paper.

H.M.Jr: Well, Mr. Stimson, could we do this? Would this be helpful? Using the date April 1, '42, for the Army, let's work backward, see, from that date. That is a new date to me. Would you take it, Knudsen, from there and work back with it and what is the situation for England and ourselves from now until April 1, '42?

Knudsen: I can do that on one page, Mr. Secretary, if England tells me how many planes they want to place up to that date.

H.M.Jr: But up to now, they have always used the date September, '41. Could you just as lief use the date April 1, 1942?

Purvis: At this stage we could push it forward probably to April, '42, couldn't we, Mr. Wilson?

Wilson: Yes.

Purvis: We really took options on the output of this time. September, '41, was merely at that

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time a date which happened to be important to the strategy then.

H.M.Jr: Would you answer Mr. Knudsen, please?

Purvis: Mr. Knudsen, on the actual orders, may we just dwell on those for a minute and I will also answer Mr. Knox. On the shortest possible form, may I give you items of the United Kingdom airplane orders recently placed on our understanding with the company that they would not - that they would tell us that it was accepted by you before they - otherwise, we placed it on the definite understanding we had to have your approval.

That includes 210 P-39's, with delivery from May to September, '41; 30 Curtiss Hawk 75-A's to be delivered by May, 1941.

H.M.Jr: How many?

Purvis: 30. Perhaps I should mention in regard to the Bell P-39's, we intended to use engines from the French contracts. The same in regard to this other 30. 80 Curtiss Hawk - that is the P-40 modified. That is merely an intensification of the capacity which is now employed on British orders. They came to us and said, "If you have the engines, we can deliver that amount more within the date you have always told us you wanted them, by September, '41, that is." 24 Lockheed Hudson reconnaissance bombers. That is overtime working capacity employed on existing order, engines again from French contracts; 200 Vultee dive bombers, negotiations having originally started from the French and concluded by U.K. In other words, the French intended to keep those engines here for that Vultee that you mentioned, General Brett. It makes a total of 544 placed originally, probably in addition

to the 8,103 on the strict understanding on our part from the manufacturers that they had cleared with you.

Now, there is another list equally short that we would like to place and which we have put up to your Commission to place under the new conditions. We shall have to reconcile this to make quite sure that you have it all today in that list I gave you last week. There may be one or two slight differences, but they will be slight. It is the list that I imagine I gave you last week. 150 Brewster dive bombers, January, August, 1941 delivery, using engines off French contracts; 100 Brewster dive bombers, also from the French, by September, '41; 50 fighters to be delivered by September, 1940; 20 to be obtained as spares that we already have on order; 30 now used on United Kingdom order, engines to be exchanged with the Dutch for French engines, to be released - to go in 36 PBY flying boats. It is a switch around, you might say. 100 Grumman fighters, delivered October, '40, to March, '41, under the existing contractual option, expiration July 31, 1940, the French contract, engines again from the French contracts. 100 Curtiss Hawk P-40, December '40 to May '41 delivery, from an intensification of capacity now employed on U.K. orders, engines coming from French contracts, 180 for delivery October to December, 1941, under the existing U.K. contractual obligation expiring July 1; 94 Lockheed Hudson bombers, engines off the French contracts; 100 Stinson O74, which we would like to place and on which we have also asked whether you could give us the priority on your O74's which you may or may not be able to do, but we would be very anxious if we could; 200 Vultee dive bombers, delivery March '41 to February '42, using French engines;

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80 Northrup 817 bombers for delivery now. Those are 80 bombers that we once hoped to get. We haven't yet got them out of stock. 150 flying boats as soon as possible and which we have sent a memorandum recently asking for help either from stocks or priorities. Frankly, however, I would like to say that in giving that list which we would like your approval to match up with the French engines, if we could place 4,000, 6,000, 8,000 or 10,000 more planes, we would place it today. We wouldn't wait a moment. None of this has ever begun to catch up with what we have to have in order to take care of Germany and we are there on the spot with it. That, of course, is our difficulty. So that this is very urgent. You can analyze them --

Knudsen: How many planes is that altogether?

Purvis: The whole thing, including the - wait a minute, let me just - I gave you 500 of the other - it is about 1200.

Knudsen: 1200 altogether?

Purvis: That is excluding the 80 Northrup A-17's which we originally thought we might get out of stocks.

Knudsen: 1300 planes that you need now.

Purvis: That we want to place orders for now. Of course, we would like to get your permission to place the orders wherever we can find a place to use the engines which are not actually required for U.K. airplanes.

Knudsen: What you are pleading for - asking for now, you want to cover the 12,000 engines.

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- Purvis: Oh, yes. I mean, after all, we bought the propellers.
- Knox: 12,000 or 1200?
- Knudsen: 1200.
- Purvis: I am not quite sure of the 12,000. We don't quite agree on that figure. It may be 8,000 and it may be 12,000, but the fact remains what we want to do is, in combination with frames built here and in the U.K., to use every last engine that we have got and then ask your help in doubling the production of engines if possible so we can do more.
- Knudsen: Let's reduce this to cases. You have 8,000 planes on order. You want to place immediately 1200 more.
- Purvis: I don't quite agree with the figures. I think it is 8,200 and something on order, plus 500 that we have placed subject to the assurance received already from the contractor that he has cleared with you, plus --
- Knudsen: We start with 8800, then.
- H.M.Jr: Plus this 1200 --
- Knudsen: That is 10,000.
- Purvis: Plus anything that we can get.
- Knudsen: Then we have got to decide what you are going for up to '42. How many more will that be? We are going to place 1400 ourselves here.
- Purvis: Now, let us get back to - we have just completed aircraft, Mr. Knudsen, that is all we talked about. There are still some engines

left for planes there and we are assuming that those will either be shipped as engines to U.K. or built into frames here.

Knudsen: We have got to decide whether we can get along in our 14,000 program, plus the 42 on the program and the Navy --

Purvis: Plus the stimulation of production which I suggest is the emphasis we should all get into this. After all, it is reputed Germany can make 36,000 planes a year. Surely in this country we can make 48,000.

Knudsen: Let's be sensible and say what we can make and not have wishful thinking. I gave the Secretary a report and I know what it is. We think that is as far as we can go. If we get any more or you get more --

Purvis: There will be paper orders, you mean. In other words, there are two kinds of orders, those where the manufacturer of planes puts up his money on a penalty basis, which is the orders we have placed, or paper orders which might be placed.

Knudsen: On this money situation, what you really say is, you ought to have the planes you put down money for.

Purvis: Yes, we want to put down --

Knudsen: It is up to us not to take any more money until we give you planes for it.

Purvis: Well, I am assuming all the time that you are right when you say you want us to have as many planes as we can get.

Knudsen: That is right. Let's find out how many there are. Can we do that? You give me 10,000 planes.

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- Purvis: I brought this statement down to file with you, of course. This will be filed this morning.
- Knudsen: I appreciate that. Can we talk now about how many more you think you would like us to get you?
- Purvis: What deliveries are you talking about?
- Knudsen: I am talking to April 1, 1942. You have got 10,000 in the pot now.
- Purvis: I should think the very minimum would be 700 for the six months in question, or is it seven months? April 1, six months? That would be the minimum, wouldn't it, because that --
- Knudsen: That is 4200 motors.
- Purvis: That from our viewpoint, however, is just a continuation of the state to which our money brought the industry last time, for which we have options. We have contractual options.
- Knudsen: You want 4200 more planes, is that right?
- Purvis: Plus anything more we can get.
- Wilson: Our program now runs from two or three hundred a month up to July and then it tapers off very sharply to nothing. Two or three months after July it will be practically nothing.
- Knox: July what?
- Wilson: Next year, 1941. We taper off very rapidly. Of course, we have options by - we haven't got enough.

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Knox: But would you be satisfied with a production on this side of the water of 4200 planes in six months?

Wilson: Of course, Colonel Knox, if we didn't get that much our program would be tapering away.

Knox: You want more than that, is that your idea?

Wilson: We were thinking in terms of more. We are in your hands, of course.

Purvis: We want to aid in any way we can in building up the velocity of production.

Knudsen: Mr. Wilson, this is 14,000 planes you are talking about. If you get 14,000 planes, do you feel that is fair?

Purvis: They only last, Mr. Knudsen, a very short time. The 14,000 you are talking about under our conditions will be going off the rack as fast as they come on. Under your conditions, without a war, they come out and stay there. These planes go up, I think it is 16.8 times, that is all.

Knudsen: Have you raised the 14,000 or do we stay with 14?

Purvis: We would like to raise it - it is no good talking, as you said just now, in fairy figures and we don't want to throw monkey wrenches by talking 36,000, but as I said the other day, if by any chance, to show you the state of our need, if by any chance you could give us 3,000 more a month, starting for instance in January of this year, I believe - I know it is not practical but it is to give you an illustration of our need. I think we could get you the orders

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in 24 hours for the whole year.

Wilson: In other words, our need is unlimited.

Knox: I think we are in the realm of speculation here, but here we have got a tangible figure. 14,000 planes by April, '42. Why don't a small group of about four or five, Mr. Knudsen and Mr. Purvis and representatives of the Army and Navy and perhaps the Treasury, sit down, four or five people, and here is an objective. 14,000 planes by a certain date, and let's work that out so that we all understand what each of us is doing and we are sure the whole thing is harmonizing and coordinating.

Purvis: But there is one thing you left out of account.

H.M.Jr: Is that what you want?

Knox: That is what we want. There is one other thing I want to add, Purvis, before we speak. As far as I am concerned, in the Navy, we want to see you get yours first because we think you are fighting our fight.

Purvis: There is only one thing in there that might not be clear, Colonel Knox. I know the anxiety here is to come out of the meeting clear. That is that the 14,000 we are talking about are entirely apart from - there is a surplus of engines that we have contracted for in this country and built up for U.K. frames.

Knudsen: We want to trade you some planes for these engines. Can we do that?

Purvis: That might be possible. That would be talking, wouldn't it?

H.M.Jr: There is just one thing which I think that he ought to state again, which he stated to me.

As I understand it, the English are ready and would like to place another order along the lines of the Rolls Royce or Packard and if - they are ready to place another order for 6,000 engines. Now, if they could place that order, certainly from ten to twelve months it will come into production and if we could do the same - and we haven't got the money - you could go to Congress and get the money for another 6,000 and that would increase the common pot by 12,000 engines a year. I think that is terribly important.

Knudsen: But you see, we have got 9,000 of these engines coming now that Mr. Purvis isn't taking. We have got 6,000 coming and 3,000 coming out of Pratt & Whitney. Are you talking liquid-cooled engines or any kind?

H.M.Jr: Any kind. Let me state it again. If I am correct, in the last six weeks the only increase in production due to additional plants that I know of is the Packard order. Right?

Knudsen: Are you figuring on a second Curtiss plant?

H.M.Jr: But the second Curtiss plant again, unless I may be misinformed, you have no orders for that.

Knudsen: Oh yes, we have orders.

H.M.Jr: How many?

Knudsen: We have got this 14,000 program. We have sent them letters.

H.M.Jr: But this so-called Curtiss-Wright plant --

Knudsen: Well, we will have orders for that.

H.M.Jr: Have you got the money?

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Knudsen: It is up on the Hill, but we will get it.

H.M.Jr: How many?

Brett: That is a thousand a month, sir.

H.M.Jr: That is new?

Brett: That is new.

H.M.Jr: That will be added to it?

Brett: That is right. Well now, it is in the so-called Ohio plant of Curtiss-Wright. Is that on one shift or two shifts? I think it is a two shift basis.

H.M.Jr: Well now, is there any room in any plant for the English to place additional orders for England?

Knudsen: No.

Brett: I understand Pratt & Whitney is expanding slightly.

Knudsen: These engines are taking up that space.

H.M.Jr: But you have an order for Curtiss-Wright for the Ohio plant?

Brett: That is their allocation.

H.M.Jr: Have you got the money?

Brett: The money is in this bill.

Knudsen: You see, the Curtiss-Wright plant is just as far as the Packard plant.

Brett: Colonel Knox expressed our position very clearly to the effect that we are just

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anxious to get together to lay out a definite program as to what should be done.

H.M.Jr: Mr. Stimson, how would this be, if this meeting adjourned to Mr. Knudsen's office? After they got together we could meet again here and get a report from them. Would that be agreeable with you?

Stimson: I don't want to adjourn without this distinct thing being understood, that whereas Admiral Towers tells me that the Navy today is ready with its full quota of planes for action, General Arnold tells me that the Army is about 3,000 planes short of this minimum P.M.P. required. Now, that is why I have been troubling Mr. Purvis a little bit with my situation, that a crisis might come which would require action by the Army in that time and therefore, I have to consider immediate emergency when these requirements for '41 or '42 seem like iridescent dreams. We are glad to have them happen but our strain might come right off.

H.M.Jr: Would it be agreeable to you gentlemen if we met here again at 10:00 o'clock tomorrow morning and got a report from this committee?

Stimson: I think so. I may have to go to the Hill tomorrow morning on a budget hearing.

H.M.Jr: Well, if you do, we will do it in the afternoon.

Knox: Suppose we meet subject to your call.

Knudsen: We will report to you when we are done --

Stimson: No, I think we ought to make a time. I will come sometime tomorrow and I will try to avoid being --

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Knox: 10:00 o'clock tomorrow.

H.M.Jr: This committee ought to be able to get together, all good men with good will ought to be able to get together by 10:00 o'clock tomorrow morning.

Knudsen: Are you going to sit in with Mr. Purvis, Wilson?

Purvis: To the extent that you want us, we would be very happy to be available just as often as you need us.

Knox: I think you ought to be there.

Knudsen: Of course.

H.M.Jr: 10:00 o'clock tomorrow morning back here, then.

Purvis: 14,000 planes and the engines. Don't cut me off of the 14,000 planes.

Knudsen: Well now, I asked you --

Purvis: Oh, but I said it, Mr. Knudsen. I called attention just now. I said, "Don't forget, it doesn't stop at 14,000 planes. It stops at whatever engines may be there," and then Secretary Stimson said not to forget it.

CONFIDENTIAL

July 23, 1940

To: The Secretary

From: Mr. Young

At the aircraft and aircraft engine conference held this morning in Mr. Knudsen's office, the following were present: British Purchasing Commission - Mr. Arthur Purvis, Mr. Morris Wilson, Mr. Taylor, Mr. Charles T. Ballantyne; Advisory Commission - Mr. Knudsen, Dr. Mead, Captain Kraus; Army - General Arnold, General Brett, Major Lyon; Navy - Admiral Towers, Lieutenant Anderson.

Mr. Knudsen asked the British Commission, the Army and the Navy to tell him their requirements for airplanes as of April 1, 1941, October 1, 1941, and April 1, 1942, classified by combat planes and by trainers. After considerable discussion, the figures given on the attached sheet were considered to represent the approximate requirements of the parties involved.

At the present time the British have 1,287 planes on order or for which negotiations are under way. An added number of 4,200 planes was allotted to the British to cover their needs at the rate of approximately 700 per month for six months from October 1, 1941, to April 1, 1942. The total requirements of the Army, the Navy, and the British call for a production of 33,467 airplanes by April 1, 1942.

Mr. Knudsen considers this total figure as about 5000 planes more than this country can produce by that time. However, it is his idea to call in the manufacturers and to tell them that that number of planes has to be produced and then suggest those companies which should expand their facilities. The monthly production and delivery schedules to the three parties involved are yet to be worked out.

Mr. Purvis made several ardent pleas, both for a larger slice of production and for even greater production capacity.

Mr. Knudsen attacked the problem on the basis that this country cannot possibly manufacture more than 30,000 airplanes before April 1, 1942, and that therefore this number had to be allotted among the various interests.

With respect to aircraft engines, the British have orders to date for 21,485 plus options for 20,589. According to Mr. Knudsen's figures, there would seem to be adequate engine capacity in this country for the 33,467 planes required by April 1, 1942. It was estimated that for the 33,467 planes 56,894 engines would be required. Further, that the United States has productive capacity to turn out 68,000 engines for the two fiscal years 1941 and 1942.

Both Mr. Purvis and Mr. Wilson emphasized the fact that airplane engines would not be shipped out of the country by the British if there were no airframes available to use them. In addition, it was tentatively agreed that if the British did not have airframes for engines which were completed, then the United States would assume priority, provided, of course, that the British would get engines for their airframes as they needed them. The British agreed to furnish as soon as possible figures on production of airframes in England.

The British also agreed to have their technical representatives work with the technical representatives of the Army and Navy to establish a program of standardization for complete airplanes and all accessories to be ordered in the future.

The attached sheet represents a tentative agreement between the British Purchasing Commission and the Advisory Commission. It is being discussed by Mr. Wilson and Mr. Purvis this afternoon and will be finally settled at the conference tomorrow morning.

PJ.

Meeting of July 23, 1940

Airplane - Army requirements to 4/1/42	12,884
" - Navy requirements to 4/1/42	6,208
" - British requirements to 4/1/42	14,375

	<u>April 1, 1941</u>	<u>October 1, 1941</u>	<u>April 1, 1942</u>
Army	6,882	3,548	2,454
Navy	1,923	1,555	2,730
British	4,094	4,686	5,595

These requirements are accepted by parties involved. British Empire will place at once the 1,287 planes under negotiation and has the option of placing 4,200 planes more to make the total of 14,400.

On Engines:

British orders of today are 21,485 with options to 12/31/42 of 20,589. It is understood and agreed that all planes, American and British, get priority on Engines and that optional and un-allocated engines are distributed in accordance with the above understanding. It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon as possible and will be considered on the same basis.

July 23, 1940
12:04 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.

Arthur Purvis: Hello. Yes, sir.

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

P: Yes I am.

H.M.Jr: Well, you don't mind my being very short and to the point.

P: Not a bit.

H.M.Jr: And if you don't mind my saying it, I think you missed a trick at the end there.

P: Did I?

H.M.Jr: Yes, you did. If I may make the suggestion, I don't know how many damn engines you got from the French, see?

P: Yes.

H.M.Jr: But what I would do -- otherwise you're going to lose them -- would be just -- you're getting somewhere between 6 and 700 planes between now and September '41.

P: Correct.

H.M.Jr: What I would do is, whatever those engine deliveries are, I just would add them to your monthly production -- your monthly requirements from now until September.

P: Yes, I see.

H.M.Jr: You see?

P: Yes.

- 2 -

H.M.Jr: And say, well, we're getting 670 planes every month. Well, from now on we want a 1000. See?

P: Yes, exactly.

H.M.Jr: And then from September to April '42, we still want a 1000.

P: That's it.

H.M.Jr: In other words I'd list my requirements from 670 -- I think it's something like that....

P: Yes, quite. I'm very glad you telephoned me.

H.M.Jr: to whatever the engine requirements are

P: Yes, exactly. I know exactly what you mean.

H.M.Jr: and if you haven't got it, I'd make a blind stab and say I need a thousand.

P: That's what I'll have to do. (Laughs). That's right.

H.M.Jr: I'd make a blind stab and if you can raise that to a 1000.

P: Excellent. Thank you very much.

H.M.Jr: But otherwise you're going to lose them now, Arthur.

P: All right. Thank you.

H.M.Jr: You're going to lose them.

P: Thank you. All right.

H.M.Jr: Thank you.

P: Much obliged. Am I going to see you?

H.M.Jr: At lunch alone.

P: About what time.

H.M.Jr: One o'clock.

P: Excellent. Thank you.

July 23, 1940
12:35 p.m.

H.M.Jr: give me an answer on this tomorrow morning. I want you and Chamberlain to talk about it in strictest confidence.

Daniel Bell: O. K.

H.M.Jr: Sumner Welles is working on a proposal to get those planes back from the island of Martinique which are now held by the French.

B: Yeah.

H.M.Jr: But the French Ambassador says he won't do it unless the money that he gets paid for it will be free and not frozen. See?

B: Yeah. Do you know the amount involved?

H.M.Jr: Oh, let me just think. The planes -- what's 50 times 50 -- 225 million, is it?

B: 50 times 50?

H.M.Jr: 50 times 50,000.

B: 50 times 50,000, that would be 2½ million.

H.M.Jr: Well, that's about what it is -- 2½ to 3 million.

B: Uh-huh.

H.M.Jr: Talk it over with Chamberlain and give me an answer tomorrow.

B: All right. Yeah, we've done that you know in some few cases.

H.M.Jr: Have we?

B: Well, for instance, in bringing American citizens back from Denmark we had to give the Danish National Bank free dollars before they would furnish the Danish pounds to let them buy their tickets.

- 2 -

H.M.Jr: I see.

B: It doesn't amount to much money but the principle is there, and we could do it.....

H.M.Jr: Will you let me know in the morning?

B: If it's that important.

H.M.Jr: It's important.

B: O. K.

H.M.Jr: It's damn important.

B: All right. I'll let you know.

The following are excerpts from E. H. Foley, Jr.'s calendar of July 23, 1940 with regard to Foley's opinion of July 23, 1940 to Secretary Morgenthau.* The Attorney General did not write a formal approval of this opinion, but it was handled by telephone.

1:55 Judge N. A. Townsend "I'm sorry I have not been able to call you sooner but I have been in meetings most all morning. I'm calling to say that I have now prepared a short memo to the Attorney General and have reached the conclusion that your opinion is sound."

Mr. Foley - "That is very good of you, and I appreciate it. I will now sign it and send it over to Mr. Knudsen. I do think it is a pretty important matter."

Judge Townsend - "I'm sorry I've taken so much time, but I wanted to be sure that I didn't overlook anything that might bob up to make us want to change our opinion."

Mr. Foley - "I didn't mean to rush you, but I did have this meeting with the Secretary (10 am) and Mr. Knudsen this morning."

Judge Townsend - "I was sorry I couldn't get it through by then."

Mr. Foley - "I'm very grateful. Thank you very much."

5:00 Attorney General Jackson called Mr. Foley to say that Judge Townsend had given him a memo in which he said "I am of the opinion that Mr. Foley's opinion is sound." Mr. Foley said "I'm very sure that we are absolutely right but I wanted an insurance policy so that we won't be left out on a limb and it's a pretty important and vital thing insofar as the National Defense program is concerned and that is the reason why we took the extraordinary precaution in asking your indulgence in advance so if it did come to you we would be looking at it in the same way. Mr. Jackson agreed with Mr. Foley that it was the advisable thing to do. Mr. Foley said he was glad to have his approval of the matter and thanked him "ever so much."

*Opinion on the authority of the Reconstruction Finance Corporation to make a loan to X Company either under the 1940 National Defense Amendment or under the 1938 Glass-Steagall Amendment. It was Mr. Foley's opinion that there is adequate authority for such loan.

Pages 260 through 263 dated July 24, 1940 -
Placed in Book 286

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MEMORANDUM

July 23, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

In the course of a conference this morning with Attorney Fred Eaton of the National Advisory Commission regarding the amortization statute, he again referred to the importance of having his Commission in accord with what we submitted to Congress as an Excess Profits Tax Bill.

I advised him that the Treasury did not intend to submit this bill to any other agency but that we would be glad to discuss its provisions with the Commission after the bill had gone to the House Ways and Means Committee and had been printed for public distribution. He agreed with me that our position was a proper one, but he expressed the fear that his Commission might be "forced" to intervene. I inquired who would be likely to do the forcing and he said that the Chamber of Commerce and the aeronautical associations were already putting great pressure upon them. I suggested to him that it was unlikely the Commission would be executing contracts with any associations and that I failed to appreciate the necessity of the Commission yielding to the demands of trade associations.

Continuing the discussion on the amortization provision, he said that he hoped that we would provide the taxpayer with the option of writing off all unused amortization in the year in which the emergency ended "because the Commission anticipated that army and navy contracts would be so phrased that if the emergency ended before the contract was completed, cancellation of the contracts by the army or navy would require that Department to pay to the contractors a sum equal to the unpaid balance of the cost of any facilities".

Mr. Eaton was a little bit vague about this matter and I asked him to send me a memorandum, setting forth just what he wished and the reasons for it. It would seem that if the Commission's view prevails, the contractor will be paid for his building twice: (1) out of the unit price which provides for cost of construction (together with the cancellation bounty), and (2) by allowing the contractor to write off 100 percent cost of construction through amortization.

JHS

RE EXCESS PROFITS TAX

July 23, 1940
8:40 a.m.

Present: Mr. Sullivan
Mr. Foley
Mr. Viner
Mrs. Klotz

H.M.Jr: At your service on taxes, first.

Sullivan: Well, when we met yesterday at 2:00 o'clock --

H.M.Jr: Yesterday?

Sullivan:and Mr. Doughton made --

Foley: Dan?

H.M.Jr: Is he outside?

Foley: He is in his office. I don't know whether he is supposed to be here or not.

H.M.Jr: Let it go a minute.

Sullivan: He made quite a long speech about how we didn't want to kill the bill by delaying it or spoil it by hurrying it, and so on and so forth, and he wanted to know if the Treasury staff and the experts of the Joint Committee had been able to agree and I advised him that in accordance with my letter to him as of last Friday that we had been through everything up to that date with Mr. Stamm and that we had only one important difference of opinion and three unimportant differences of opinion and the important difference was on the basis for the tax and I went ahead and stated the Treasury position and I was constantly interrupted.

There were present at the meeting Senators Harrison, George, Connally, Byrd, Mr. Doughton, Mr. Cooper, Mr. Boehne, Mr. Buck and John McCormack.

H.M.Jr: You would be interrupted.

Sullivan: Senator Connally was definitely for the bill now. I think Boehne is, too, but he didn't say so. Senator Byrd was very, very antagonistic and so, too, were most of the others, not

- 2 -

antagonistic but the lines of questions they asked indicated very clearly their bias on the matter.

H.M.Jr: I see.

Sullivan: They then called on Stamm to state his position and he said that I had stated the situation between us fairly, that although he did not approve of the Treasury plan, he hadn't been able to think up anything else that wasn't subject to similar objections and he was still working on it and gathering information.

Then Doughton and Cooper and Harrison all said, "Well, do you think that you will be able to get something?" He said, "Well, I don't know. If we don't, we will have to agree with Treasury," and Doughton said, "I believe everybody thinks it would be better if Treasury and the Joint Committee agree on something and do you think you would agree if you had another week?"

H.M.Jr: Who said that?

Sullivan: Doughton.

H.M.Jr: To?

Sullivan: Stamm. And Stamm said, "Yes, I think so," and I then suggested that we go ahead with the Committee right now, presenting ours, and then if Stamm is able to devise a plan that he likes better, let him bring it in and let the Committee be referee and they --

H.M.Jr: Excuse me. Does he (McKay) know that Corcoran and Cohen are coming?

Foley: No.

H.M.Jr: Are they coming?

Foley: At a quarter of 9:00.

H.M.Jr: (To Lieutenant McKay) When Mr. Ben Cohen and Mr. Tom Corcoran come, let me know, please.

- 3 -

McKay: Yes, sir.

H.M.Jr: Excuse me.

Sullivan: Yes, sir.

They didn't want to do that and then Senator Harrison said he was all tied up on Monday, so it was set for a week from today at 10:00 o'clock.

It was perfectly obvious this thing was arranged before we got in there, because I got hold of Stamm afterward and I said, "Just between us, have you any plan?" and he said, "No," and I said, "Do you have any idea you are going to get one?" He sort of smiled and said, "Well, I can't tell, maybe not."

They were all very much interested to know how much money would have to be raised.

H.M.Jr: That is the thing. What I want to do today, I want to call Mr. Roosevelt and ask him when, this week, he will give us, the Treasury, a chance to sit down and talk to him about planning for the next - well, for the balance of this fiscal year. That is as far as - that is July 1, '41.

Viner: Sure.

H.M.Jr: On this basis, looking the thing over, on the idea that you teach somebody to walk before they run. I don't see how you could ask for more than half a billion at first crack from excess profits.

Sullivan: They asked for rates yesterday and I fought it off and fought it off and fought it off.

H.M.Jr: Have you seen this?

Viner: I saw the schedule. I wasn't --

- 4 -

Sullivan: Finally Connally --

Viner: I didn't understand it. You see, I didn't know what the proposal was like. This is the amount exempt, is that right?

Sullivan: No, you have an exemption of five thousand.

Viner: Plus 15%.

Sullivan: Plus 15%, yes.

Viner: Is exempt.

Sullivan: No, it isn't exempt.

H.M.Jr: Take him afterward, because I would very much like him to go into it. You can't do it in five minutes.

Sullivan: Then Connally, the outstanding friend we had up there - I said, well, we hadn't devised any rates because we don't know what the provisions in the bill are going to be, but we thought we could give him a rough guess that the provisions as we had prepared them - and you wanted fairly low rates and I gave him the first schedule.

H.M.Jr: This?

Sullivan: Yes.

H.M.Jr: You mean this piece of paper --

Sullivan: No, I didn't give him anything. I just talked out loud and they wrote it down. And it wasn't this one, either. It was an approximation of between 550 and 750 million dollars, which would be 25 on the first bracket, 40 on the second and 50 on the third.

H.M.Jr: Well, take Viner and go over it with him.

Sullivan: Yes, I will.

H.M.Jr: Well, I think this: This other bill produced four billion, didn't it? It cost four billion

- 5 -

and we produced roughly a billion in taxes.

Sullivan: That is right.

H.M.Jr: Thinking offhand, this is going to be five billion, isn't it?

Sullivan: I don't know, you see.

H.M.Jr: Well --

Viner: It isn't going to be five billion for this year, not according to Dan. It isn't going to be anywhere near it.

H.M.Jr: No, he figured a billion one. But in Dan's figures, I think - when I go on the Hill I think he ought to take half way between - well, I think he ought to take the Budget figures, that is the simplest way.

Viner: Yes, but of course that is just a guess now.

H.M.Jr: I know, but I would rather be on the high side than on the low side.

Sullivan: I think that is right and I think up there they want that, too.

H.M.Jr: I would take the high side. I only read this thing once. I think it is a billion four, isn't it?

Viner: I think it is a billion eight, with two, one for the Army and Navy.

H.M.Jr: I remember Dan said a billion one and I think the Budget was a billion four and the Army was two, one, but I think they ought to take the Budget's figure. After all, that is their job.

Viner: That is right.

H.M.Jr: Now, my feeling --

(Mrs. Klotz entered the conference)

- 6 -

Klotz: I am sorry I was late.

H.M.Jr: You are not late; I was late, too. I tried to get around it by having him come down and call for me but he stayed at the Mayflower last night.

My thought is this, and we will go into it some time today: I will tell you now. I would like to do it again at 3:00 o'clock today. I want to talk on fiscal policy to all three of you here and have Mr. Bell here, too. Well, I don't know but what I question whether in this calendar year we want to superimpose - I tell you what I would like to do - if you wouldn't mind leaving, I will talk politics with Mr. Cohen and Mr. Corcoran.

BRITISH EMBASSY,
WASHINGTON, D.C.

July 23rd, 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,

L. Huran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 22nd.

272

1. Early yesterday morning German merchant vessel, believed tanker, escorted by five destroyers or sloops, sighted off Norwegian coast proceeding south. Two attacks carried out by our aircraft obtained hits both times. When last seen, tanker was stopped and on fire.

During attack on Dover yesterday, destroyer Beagle shot down one enemy aircraft.

Destroyers Vanoc and Havelock collided in Liverpool approaches July 20th; Vanoc haled above water-line; Havelock slightly damaged.

H. M. submarine Phoenix now four days over due is presumed lost.

Attack on U-boat by Beryl reported in summary of July 20th considered successful, oil still rising from position. Two promising attacks carried out July 21st against U-boats northeast approach by one of our aircraft and sloop Weston.

2. Our night bombing July 20th - 21st was generally successful, most targets located and attacked. No definitely successful results Wilhelmshaven dockyard but one 2000 lb. bomb fell near the Admiral Scheer. During a successful

mine/

mine-laying operation, one Hampden claims a direct hit with one 250 lb bomb on a 2000 ton vessel off Copenhagen. 273

Last night 112 aircraft were despatched as follows:

Eighty-one bombers against aircraft factories and store depots, with oil plants and railway targets as additional objectives, 6 medium bombers to petrol tanks at Ghent, 18 medium bombers to enemy aerodromes, 8 heavy bombers for mine-laying in the Melsinger area, 5 heavy bombers leaflet dropping in northwestern France. All aircraft except one returned safely.

3. Enemy activity on the night of July 20th - 21st in addition to that reported yesterday:

Tin box factory at West Hartlepool demolished, with 13 minor casualties; some houses destroyed at Plymouth and 1 person killed; structural damage atport, 5 persons killed. Bombs were dropped without serious damage in the Orkneys, near Seaham, Sunderland and Houghton, near Aylsham, Shoeburyness, near Gillingham and Margate, and at Falmouth. Near Bishop Auckland canisters of crude oil were dropped on farm land but did not ignite. Yesterday the enemy were active chiefly against Channel fleets and attacks on shipping. In two instances formations preparing to attack convoys turned back on seeing our fighters.

Last night enemy air activity was less, but widely dispersed. Bombs were dropped at

Portobello/

Portobello, Wyneside, in Leicestershire, at
Milfordhaven and near Plymouth. Small material
damage and only one casualty reported. Mine-laying
suspected in the Thames Estuary, Plymouth, and
Tyne areas.

Subsequent information corrects enemy
casualties reported in yesterday's summary to 15
confirmed and 8 unconfirmed. Yesterday 4 enemy
aircraft confirmed as destroyed, 1 unconfirmed;
our casualties 2. One Sunderland despatched July
21st on reconnaissance Trondheim failed to return.

4. Shipping casualties:

(a) By U-boats:

British Fellaide, 3500 tons, outward bound
in ballast sunk July 17th northwestern approaches.

(b) By air:

Panama Prossoula, 1300 tons, sunk Bay
of Biscay July 15th.

Yesterday westbound Channel convoy
repeatedly bombed off south coast; British Terlinge,
2300 tons, sunk; Norwegian tanker Kollbjorg, 8000
tons, set on fire; Norwegian tanker Nina Borthen,
6000 tons, damaged.

5. Malta. Early yesterday 3 Italian aircraft
made a low bombing attack on Kalfarena, causing slight
damage. Later the same morning, during the second
attack, 1 bomber shot down by anti-aircraft.

FEDERAL RESERVE BANK
OF NEW YORK

July 23, 1940.

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

Attention: Mr. Cochran

Dear Sir:

I enclose for the Department's information copies of

- (1) our cablegram No. 419 of June 25, 1940,
- (2) cablegram No. 292 of June 26, 1940,
received from the Bank for Inter-
national Settlements,
- (3) our cablegram No. 424 of June 27, 1940,
- (4) our cablegram No. 427 of June 29, 1940,
- (5) cablegram No. 301 of July 2, 1940,
received from the Bank for Inter-
national Settlements,
- (6) our cablegram No. 431 of July 2, 1940, and
- (7) cablegram No. 328 of July 19, 1940,
received from the Bank for Inter-
national Settlements.

We are now studying the points raised by the Bank for International Settlements in their cable No. 328 and shall wish to discuss them with the Treasury Department in due course.

Very truly yours,

(Signed) L. W. Knocks,

L. W. Knocks,
Vice President.

Enca.

Copy

This is the kind of material I don't want at the Dept. Please.

OUTGOING CABLEGRAM-Serial No. 5877

copy

Sent on June 25, 1940

Bank for International Settlements

Chateau d'Oex

No. 419

The Treasury Department has advised us that Executive Order No. 8389, as amended, covers the Bank for International Settlements and its assets in the United States of America. Accordingly, Treasury licenses are needed for disposal of such assets. We are undertaking to obtain from the Treasury a general authorization covering all transactions considered by us to be normal transactions. Other transactions would be a matter for special application.

Federal Reserve Bank of New York

Copy

copy

277

INCOMING CABLEGRAM-Serial No. 4279

Received on June 26, 1940

Chateau d'Oex, June 26, 1940

Federal Reserve Bank of New York

New York

No. 292

Reference your number 419 Policy of Bank for International Settlements has been and is to deal with its assets in each country strictly in accordance with laws in force there. My intention is that no transaction shall be carried out for its clients by this institution which client could not legally carry out directly and in their own name. Please advise Treasury to this effect and cable nature of amendments to executive order 8389 issued since May 10. Would be grateful for information why Treasury license is required by Bank for International Settlements as stated in your 420 except when dealing with property specified in order as amended.

McKittrick
Bank for International Settlements

Test correct

Copy

c o p y

OUTGOING CABLEGRAM-Serial No. 5944

Sent on June 27, 1940

Mc Kittrick

Bank for International Settlements

Chateau d' Oex

No. 424

Your No. 292 received and will cable
later

Federal Reserve Bank of New York

Copy

copy

279

OUTGOING CABLEGRAM-Serial No. 6046

Sent on June 29, 1940

Bank for International Settlements

Chateau d'Oex

No. 427

We have obtained from Treasury Department
license covering normal transactions mentioned in
our 419.

Your Nos. 295 and 296 Transactions completed.

Expect to revert to your 292 on Monday

Federal Reserve Bank of New York

Copy

C O P Y

280

INCOMING CABLEGRAM-Serial No. 4678

Received on July 2, 1940

Chateau d'Oex, July 2, 1940

Federal Reserve Bank of New York

New York

No. 301

Papers report measures of blocking French assets in United States. Please advise nature and extent. What is position of property in United States in which French Nationals domiciled in France outside of occupied territory have an interest.

Bank for International Settlements

Test correct

Copy

COPY

OUTGOING CABLEGRAM-Serial No. 6109

Sent on July 2, 1940

Bank for International Settlements

Chateau d'ocx

No. 431

FOR MC KITTRICK

Reference your No. 292 dated June 26, 1940

1. Have advised Treasury as requested

2. Only amendment since May 10, to Executive Order 8389 is that of June 17, 1940 which extends as of that date all the provisions of such order to property in which France or any national thereof has at any time on or since June 17, 1940, had any interest.

3. Treasury Department considers B. I. S. as national of one or more of the foreign countries named in the Executive Order, as amended. Accordingly, transactions of the kind prohibited by the Executive Order involving the accounts of the B. I. S. may only be effected pursuant to license even though the party beneficially interested in the transaction is not a national of such a country.

Reference your No. 301 dated July 2, 1940. Property in the United States in which French nationals domiciled in France outside of occupied territory have an interest is in the same position as property of French nationals domiciled within occupied territory.

Federal Reserve Bank of New York.

INCOMING CABLEGRAM-SERIAL NO. 4782

Received on July 19, 1940

Chateau d'ceux, July 19, 1940.

Federal Reserve Bank of New York

New York

No. 328

Your No. 431. Am much disappointed by attitude of Treasury as stated in paragraph three for every effort is being made here as stated in my 292 to avoid actions in any country which would go against declared policy of that country.

Bank for International Settlements must protest with all possible emphasis against interpretation given by Treasury to Executive Order both on general and specific grounds.

ONE Bank for International Settlements cannot effect any transaction in the United States which is not available to all banks in countries omitted from Executive Order and doing international business. Attitude of Treasury seems therefore to discriminate specifically against Bank for International Settlements. Thanks to your assistance which is deeply appreciated licenses granted fortunately permit orderly continuation of business in New York.

TWO Attitude of Treasury in considering Bank for International Settlements "national of one or more of the foreign countries named in the Executive Order" causes great anxiety for the future. If situation develops as at the close of last war

COPY

and assets owned by nationals of certain countries are applied in satisfaction of claims of various sorts position of Bank for International Settlements if burdened with unspecified multiples of nationality will become desperately complicated from legal standpoint. Unless some modification of present declaration can be secured risk incurred by Bank for International Settlements in holding assets whether deposits or gold in Americas will probably be greater than for any other institution.

THREE

May I also point out while confirming my cable No. 292 that principle of allowing financial institutions created by international agreement to do their legitimate business without interference has recently been given emphatic confirmation in case of inter-American bank to which United States has given adherence. While United States is not signatory to Young Plan whereby special rights are granted to Bank for International Settlements it still seems strange that two similar institutions should receive such widely different treatment.

FOUR

Fail to understand on what specific grounds Treasury has taken its decision. Largest holding of Bank for International Settlements stock in any country mentioned in Executive Order is 12.6% in Belgium but ownership of Bank for International Settlements shares carries no voting rights and is therefore of no influence on policy. Voting rights of United States are as great as those of any nation named in Executive Order and as no such country's rights

exceed 10% of the total none can be considered substantial as required by Section 11 Order. Bank for International Settlements is a corporation under Swiss laws and must be considered Swiss if nationality needs to be specified.

FIVE

Would be most grateful for any assistance in finding solution of present difficulty and shall be glad if you think it wise to have you communicate this cable to Treasury as well as Federal Reserve Board.

Suggest following for your consideration.

Firstly As ownership of all gold you hold under earmark for Bank for International Settlements has as required been communicated to you presume no questions arise in this connection.

Secondly Bank for International Settlements could open with you Special Account whose balance would be maintained equal to total of dollar balances with Bank for International Settlements of all nationals of all countries named in Executive Order. Total balance on such account on June 30 would have been only \$33,000. Would hope by this or some similar means to keep you informed at all times as to total amount of dollar balances held by Bank for International Settlements for countries named in Order and to give you notice automatically whenever an operation affecting these balances takes place.

-4-

It is not possible that by such an arrangement you would have sufficient information for Treasury to withdraw its declaration as to nationality of Bank for International Settlements. Shall appreciate greatly any help you may feel able to give.

McKittrick

COPY

JR

GRAY

Ankara

Dated July 23, 1940

Rec'd 12:26 p.m.

Secretary of State,
Washington.

129, July 23, noon.

Danish Charge de Affaires requests that authorization be granted to Guaranty Trust Company of New York to honor check number 1914 June 10, 1940 for \$470.36 drawn by Danish Ministry of Finance to his order as P. Friis Ankara. He anticipates that this will be the last request of this nature that he will make for three or four months. STCOR.

MACMURRAY

WVVC

TREASURY DEPARTMENT

287

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

FROM Mr. Gaston *MS*

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

The Texas Company was advised yesterday that a departure permit would be granted the SS MONTE JAVALON under Spanish registry to carry 5,000 tons of asphalt to Spain.

Pending Cases

The matters described in paragraphs 1, 3, and 4 under "Pending Cases" in the July 17, 1940, report, attached, are still under consideration.

CONF

Secretary Morgenthau

Mr. Cairns

July 17, 1940

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker MYAN, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker HOVAM, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export 60,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.

2. The Texas Company has requested advice as to whether or not the SS MONTE JAVILON, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, some time between August 10 and the early part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with the departure of the SIMLA, a Norwegian vessel now at the port of Philadelphia. No departure permit had been requested, but a stay order has been placed against such a request when it is received.

4. The Lithuanian Steamship DENNY is now in Boston. The Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

HR/sp

(Initialed) E. C.

CC: Elias Choumcey
Mr. Foley

July 23, 1940

Secretary Morgenthau

Mr. Gaston

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

The Toms Company was advised yesterday that a departure permit would be granted the SS MONTE JAVALON under Spanish registry to carry 5,000 tons of asphalt to Spain.

Pending Cases

The matters described in paragraphs 1, 3, and 4 under "Pending Cases" in the July 17, 1940, report, attached, are still under consideration.

(Signed) Herbert E. Gaston

CC: Miss Chauncey
Mr. Feidler
Mr. Foley

HE/c

COPY

Secretary Morgenthau

Mr. Geimas

July 17, 1940

MERCHANT SHIP MOVEMENTSClosed Cases

1. A departure permit was refused for the American Tanker ARKIAN, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.
2. A departure permit was refused for the American Tanker NEVADA, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export 610,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.
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3. Suspicious circumstances have arisen in connection with the departure of the SIMLA, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.
4. The Lithuanian Steamship DEBRY is now in Boston. The Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

HE/op

(Initialed) H. G.

CC: Miss Quamey
Mr. Foley

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent called on me yesterday afternoon at 3:45. He showed me a cablegram from London dated July 20 in which the foreign office informed the Embassy that several more assurances had been received that all gold had left France and was perhaps in Dakar. (This is assumed to refer to the \$512,000,000 remnant of the French gold supply which had been heretofore unaccounted for in British estimates.)

The telegram expressed the opinion that Germany may have acquired £40,000,000 sterling of gold in the Netherlands; £12,000,000 sterling of gold in Denmark; and £1,000,000 sterling of gold in Danzig. No estimates were available regarding other assets acquired by Germany.

Mr. Pinsent told me that the Commercial Counselor of the Embassy, Sir Owen Chalkley, was having conversations with our Government representatives in regard to the possible taking by Great Britain on this market of American agricultural products, against providing tin and rubber. Pinsent told me confidentially that the two governments are still far apart. The Americans have drawn up a list of \$300,000,000 worth of agricultural products which they would like to dispose of to Great Britain. The British have compiled a list of \$65,000,000 worth of American agricultural products which they might take, including lumber in this figure.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 23, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The attached table shows the preliminary schedule of cash disbursements on balances due June 30, 1940 with respect to British Government orders in the United States placed through the British Purchasing Commission. The total of such balances amounted to \$320.8 millions.

The Commission is unable to supply us with information regarding the estimated disbursements on British Government orders placed in the United States outside of the Commission. We have been informed that the Commission has no records regarding deliveries or payments on such orders.

The Commission also informed us that they had no information concerning the payment schedule on balances due in the United States on orders placed by other members of the British Empire. Both the Canadian and Australian Governments have been placing at least part of their orders in the United States through the Commission but apparently the Commission does not keep records concerning the deliveries or payments on these orders. It is possible, however, that some of the desired information which is not now available may be developed by the Commission through its own purchasing divisions or by contact with the respective Governments. We are expecting a further report as to these possibilities.

Attachment

Preliminary Schedule of Cash Disbursements
on balances due June 30, 1940 on
British Government Orders in the United States
through the British Purchasing Commission

(In millions of dollars)

	<u>1940</u>	<u>1941</u>	<u>1942</u>
January		18.9	.3
February		18.4	.1
March		19.1	
April		19.5	
May		19.3	
June		19.4	
July	40.0	16.7	
August	25.7	17.5	
September	21.8	15.8	
October	19.4	8.3	
November	19.7	1.0	
December	19.4	.5	
Total	146.0	174.4	.4
Grand Total as of June 30			320.8

United States Exports of Petroleum Products to Selected Countries
during the First Six Months of 1939 and 1940

(In millions of dollars)

Exported to:	Jan.	Feb.	March	April	May	June	Total
United Kingdom							
1939	4.0	3.1	4.4	3.8	4.8	5.4	25.5
1940	3.0	4.4	6.1	6.0	7.0	6.2	32.7
France							
1939	3.1	3.0	2.5	3.9	4.3	1.8	18.6
1940	2.7	3.2	1.9	3.4	2.5	2.3	16.0
Canada							
1939	2.1	2.1	2.2	3.2	5.9	5.2	20.7
1940	2.2	2.3	2.1	3.3	5.4	6.2	21.5
Japan							
1939	3.2	3.5	3.5	3.5	5.0	3.1	21.8
1940	4.0	2.1	2.3	2.3	2.9	3.2	16.8
China							
1939	.3	.6	.4	.8	.4	.8	3.3
1940	1.3	1.1	1.8	.3	.9	1.5	6.9
Italy							
1939	1.4	1.1	1.0	.8	1.2	1.4	6.9
1940	1.4	1.0	1.8	1.1	1.1	.3	6.7
Belgium							
1939	.6	.5	.6	.8	.4	.9	3.8
1940	.7	.1	.2	.4	.3	-	1.7
Netherlands							
1939	1.0	1.4	1.1	.5	1.9	1.3	7.2
1940	1.3	.4	.5	.3	.3	-	2.8
Norway							
1939	.2	.2	.1	-	.4	.1	1.0
1940	.5	.6	.5	.2	-	-	1.8
Sweden							
1939	.2	.6	1.3	1.2	1.1	1.1	5.5
1940	.5	1.1	1.2	.7	-	.1	3.6
Other countries							
1939	10.9	8.0	12.7	10.4	12.4	11.1	64.5
1940	11.7	11.3	11.3	10.7	9.4	11.1	65.5
Total - all countries							
1939	26.0	24.1	29.8	28.9	37.8	32.2	178.8
1940	29.3	27.6	29.7	28.7	29.8	30.9	176.0

Treasury Department, Division of Monetary Research

July 23, 1940.

July 23, 1940

12:30 p.m.

Sumner Welles just telephoned me.

Last night I told him that the President had suggested that I work out a three-cornered deal with Russia, China and ourselves whereby we would buy certain strategic materials from Russia and they, in turn, would use that money as credit with which to sell arms to China. I asked him please to talk with the President as to Russian matters to see that this is what the President still had in mind. That I had been waiting for Welles' return before doing anything because I wanted a State Department representative to be present if and when I saw the Russian Ambassador.

Welles told me that the Russians are very angry because we have frozen the Latvian, Estonian and Lithuanian money and he thought it was an inopportune time. He called me at 12:30 and said he had talked to the President and the President agreed the matter ought to be postponed for a week or ten days.

He then said, in strictest confidence, he was trying to work out with Ambassador Saint-Quentin getting hold of the planes at Martinique for the English and it would have to be some sort of exchange with the manufacturers and Saint-Quentin said that if they did it they would only do it on condition that the money they received for these planes would be free and not frozen. I promised to let him know not later than noon tomorrow. I told him my own impression was we would do it. Welles thought we ought to do it. I said I would have to consult my people.

(When the Secretary concluded dictating the above, he phoned Mr. Bell and asked him to look into the matter.)

MEMORANDUM

July 23, 1940

To: Mr. D. W. Bell
From: Secretary Morgenthau

Would you as soon as possible find out for me how many planes Congress has already voted for both the Army and Navy and how many planes are in bills for the Army and Navy pending before Congress now. This is both for money to be authorized and for money to be obligated, but please separate the two groups of planes into: Group one - money to be authorized; and, group two - money to be obligated.

Just as soon as you get this, and I am in a great hurry for it, give me a memorandum and give one to Philip Young, and tell Philip Young to rush it to Mr. Purvis.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1940.

TO Secretary Morgenthau
FROM Mr. Gaston



An application for a departure permit was received from the Collector of Customs, San Pedro, California, on July 22, 1940, for the Japanese MS NITEIEI MARU to Gensan, Korea. This ship is owned by Nitto Kogyo Kisen Kaisha.

Departure permit was issued at 2:40 p.m., July 22, 1940, and the Collector at San Pedro advised at 3:30 p.m. that the ship had sailed, carrying 84,000 barrels Diesel oil.

STRICTLY CONFIDENTIAL

July 23, 1940

My dear Mr. President:

I am sending you, inclosed herewith, a statement showing the number of vessels, and their cargo, destined for Japan that cleared United States ports July 20th, 21st and 22nd.

From now on I will furnish this to you weekly.

Yours sincerely,

(Signed) H. Morgenstau, Jr.

The President,
Hyde Park, New York.

Copies to:

- Secretary of War ✓
- Secretary of Navy ✓
- Secretary of Interior ✓
- Admiral Stark ✓
- Acting Secretary of State ✓

By Messenger / 125

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

Enc. 2

By Messenger / 25

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
 copy of the letter which I have
 sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harold L. Ickes,
 Secretary of the Interior.

2 Encl

By Messenger

125

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harold L. Ickes,
Secretary of the Interior.

By Messenger

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Harold L. Ickes,
Secretary of the Interior.

By Messenger

July 23, 1940

My dear Admiral Starks:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encs. 2

By Messenger / 25

July 23, 1940

My dear Admiral Stark:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

By Messenger

July 22, 1940

My dear Admiral Stark:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

July 23, 1940

My dear Mr. Welles:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
Acting Secretary of State.

Enc. 2

By Messenger 125

July 28, 1940

My dear Mr. Welles:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
Acting Secretary of State.

By Messenger

July 28, 1940

My dear Mr. Welles:

I am sending you herewith
copy of the letter which I have
sent to the President today.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Sumner Welles,
Acting Secretary of State.

By Messenger

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith copy
of the letter which I have sent to
the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
The Secretary of War.

Enc. 2

By Messenger

125

July 28, 1940

My dear Mr. Secretary:

I am sending you herewith copy
of the letter which I have sent to
the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
The Secretary of War.

By Messenger

July 23, 1940

My dear Mr. Secretary:

I am sending you herewith copy
of the letter which I have sent to
the President today.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Henry L. Stimson,
The Secretary of War.

By Messenger

DEPARTMENT OF COMMERCE OFFICE OF MARINE SAFETY

Date	Vessel	Nat.	Net Tonnage	Cargo	From	To
7/20	ITSUKUSHIMA MARU	Jap.	5818	Bulk Oil	San Pedro	Yokosuka, Japan.
7/20	RIEKO MARU	Jap.	7143	Crude Oil	San Francisco	Kawasaki, Japan.
7/20	KUMAKIYO MARU	Jap.	3895	Crude Oil	San Luis Obispo	Hiitago, Japan.
7/20	BELLO	Nor.	3686	Gasolams	New Orleans	United Kingdom via New York
7/20	KATHERINECOT	Neth.	2853	Aviation Gasoline	Houston	United Kingdom.
7/20	MIRZA	Neth.	4484	Gasoline- Oil	Corpus Christi	United Kingdom.
7/21	OTMASAN MARU	Jap.	5300	Bulk Oil	San Pedro	Kagasaki, Japan.
7/22	HITIBI MARU	Jap.	5815	Bulk Diesel Oil	San Pedro	Gensan, Korea.
7/22	SHIYO MARU	Jap.	4302	Crude Oil	San Luis Obispo	Yokohama, Japan.
7/22	FRIBS BERNHARD	Neth.	203	Petroleum Products	San Juan	Dutch Guiana, Trinidad, & French Guiana.
7/22	RESOLUTION	Am.	26	Petroleum Products	San Juan	Virgin Islands.

NOTES Figures on the amount of petroleum products laden by the above listed vessels are not available except in the case of the HITIBI MARU which sailed with 84,000 barrels of oil. This figure may furnish a rough method of approximating the cargoes of the other vessels by a comparison of the net tonnages given.

DEPARTURE PERMITS GRANTED VESSELS CARRYING

PETROLEUM PRODUCTS ON JULY 20, 21 & 22.

<u>Date</u>	<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>From</u>	<u>To</u>
7/20	ITSUKUSHIMA MARU	Jap.	5618	Bulk Oil	San Pedro	Yokusuka, Japan.
7/20	RIEKO MARU	Jap.	7143	Crude Oil	San Francisco	Kawasaki, Japan.
7/20	ESSENTO MARU	Jap.	3895	Crude Oil	San Luis Obispo	Hitago, Japan.
7/20	SELLO	Nor.	3686	Gasoline	New Orleans	United Kingdom via New York
7/20	KAPENBOECHT	Neth.	2883	Aviation Gasoline	Houston	United Kingdom.
7/20	MIRLA	Neth.	4484	Gasoline- Oil	Corpus Christi	United Kingdom.
7/21	OTMASAN MARU	Jap.	5300	Bulk Oil	San Pedro	Nagasaki, Japan.
7/22	NITIRI MARU	Jap.	5815	Bulk Diesel Oil	San Pedro	Gensan, Korea.
7/22	ZEITO MARU	Jap.	4302	Crude Oil	San Luis Obispo	Yokohama, Japan.
7/22	PRINS BERNHARD	Neth.	203	Petroleum Products	San Juan	Dutch Guiana, Trinidad, & French Guiana.
7/22	RESOLUTION	Am.	26	Petroleum Products	San Juan	Virgin Islands.

NOTES Figures on the amount of petroleum products laden by the above listed vessels are not available except in the case of the NITIRI MARU which sailed with 84,000 barrels of oil. This figure may furnish a rough method of approximating the cargoes of the other vessels by a comparison of the net tonnages given.

THE UNDER SECRETARY OF STATE
WASHINGTON

July 23, 1940

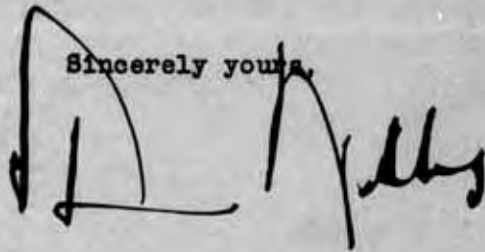
My dear Mr. Secretary:

I appreciate your courtesy in sending me with your letter of July 23 a copy of the letter which you have addressed to the President on the same date, showing the number of vessels clearing from United States ports for Japan.

This information is very helpful to the Department.

Believe me

Sincerely yours,



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

July 23, 1940
3:16 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello.

Secretary Stimson: Hello.

H.M.Jr: Morgenthau -- Henry.

S: All right, Mr. Secretary. Two things. In the first place the letter that you've just sent me enclosing a letter to the President about the shipments of oil.

H.M.Jr: Yes.

S: I'm very glad you've done that and I wanted to tell you this, apropos our talk last Friday.

H.M.Jr: Yes.

S: I thought of a precedent that would be very interesting in this situation and I've got the references to it. It happened in 1918. In 1918, you may remember that the Japanese got very "uppy" in Siberia.

H.M.Jr: That was the place at that time called Manchuria.

S: No, no. This was in November, 1918, in the last war.

H.M.Jr: Oh.

S: You remember the Allied Associated powers went into Siberia and the Japs went in to stay and they sent in more troops than they -- than had been agreed to in the allotment and they acted in a very rough way and it looked as if they were there to stay.

H.M.Jr: I see. I don't remember it but

- 2 -

- S: There was that situation. The United States got rather alarmed at it, everybody was troubled, because it looked as if they were going off on what they've done since and the War Trade Board took it in hand.
- H.M.Jr: I see.
- S: And they laid restrictions upon licenses for the export of cotton to Japan and for the import of silk from Japan.
- H.M.Jr: Oh, really.
- S: By gum, they rounded up the Japs and the Japs took their army and got out of there in no time.
- H.M.Jr: Well, I'll be darned.
- S: And you can find the thing referred to in Foreign Relations, those are the reports of the State Department with regard to foreign affairs, for 1919
- H.M.Jr: What year?
- S: I say, it's in the volume of 1919.
- H.M.Jr: 1919.
- S: It's referred to on page 247.
- H.M.Jr: Oh, grand!
- S: And our friend from the State Department now had better have that showed to him.
- H.M.Jr: Well, I'll do that because I had a very bad session with him and Lothian at my house yesterday. I got nowhere.
- S: Well, that's the trouble. Well, we've got to get somewhere. The trouble is with Sumner he doesn't know as much about it. I've got another thing that I can show you that came from the State Department only I let Knox have it to read first. It's a memorandum going very carefully into the present situation. I shouldn't want to have it quoted because it

- 3 -

was given to me in confidence by a friend.

H.M.Jr: Well, could I see it after Knox has read it?

S: Yes, I'd be very glad to. It's quite a long thing to read but it's most educational.

H.M.Jr: Well, Lothian came to the house and all the figures he had was the Department of Commerce figures on oil leaving this country and when I asked for the English figures, oh, he didn't have those but he'd try and get them and it's the most silly thing. He had three days notice and he comes there simply with our own figures.

S: Well, I see in these figures of yours, you have figures from American ports. Are they entirely -- let's see. No. San Pedro, San Francisco, San Luis Obispo -- where's that?

H.M.Jr: I think San Luis Obispo is -- must be California.

S: I think it must be California. New Orleans, Houston, Corpus Christi....

H.M.Jr: These are all United States ports that I've given clearance to in the last three days.

S: Yes. I see that -- 1, 2, 3, 4, 5 -- five of them are going to Japan.

H.M.Jr: I think they're all going to Japan.

S: Well, I see some United Kingdom via New York

H.M.Jr: But they're all headed for Japan.

S: I suppose they're all going there.

H.M.Jr: That was the instructions anyway.

S: Yes. But they're all on Japanese ships.

H.M.Jr: Yes.

S: They're all on Japanese ships apparently.

- 4 -

- H.M.Jr: Now the only thing that I got out of Sumner yesterday, and this is strictly confidential, he evidently talked to the President before he came to my house and the President told him to get an order ready which would stop the export of aviation gasoline.
- S: Yes. That would help a lot.
- H.M.Jr: Well, evidently -- well, Sumner threw that in as a kind of sop, but that's -- now what I said last night -- pardon me.
- S: No, no, no. I didn't mean to interrupt.
- H.M.Jr: I say, I sent up to the President last night two orders, one on scrap iron and scrap steel and the other on all oil products.
- S: I wish you'd do that, yes.
- H.M.Jr: I did. I sent it to him last night.
- S: Sent it to the President.
- H.M.Jr: All it needs is his signature and then that would make it legal. For instance, we're sitting on a ship, two ships, now for ten days with oil for Spain with no legal grounds for it and we're just sitting there holding them.
- S: Well, that's good.
- H.M.Jr: And if the President would only sign this thing then we'd have some legal grounds.
- S: Well, I think, frankly -- I think -- of course, I hate -- I don't want to butt into another Department even though I think I know something about that Department, but I do think that Sumner is all wrong on that.
- H.M.Jr: Well, of course he is and
- S: I mean, there's nobody in the Department that knows anything like as much about it as Stanley Hornbeck does and I know how he stands.

- 5 -

H.M.Jr: Of course, I understand Stanley Hornbeck is all for clamping down on the Japanese.

S: Absolutely.

H.M.Jr: So I understand.

S: But for goodness sake don't quote me because it isn't fair to him.

H.M.Jr: Oh, no, no.

S: There's an old friendship between him and me and he comes and talks to me in confidence and he knows that job better than anybody in the whole Department.

H.M.Jr: He wasn't that way two or three years ago.

S: No. He was very cautious. He wasn't that way when I came out of my -- well, he was very loyal. He helped me with my letter to Borah I understand.

H.M.Jr: Yeah.

S: He helped me with it, but he was very much alarmed, but since then he's come stronger and stronger and he goes with me 150%.

H.M.Jr: Now, the other thing -- let's see, I told you about aviation gas. That's in the woods and -- oh, yes, I asked Stettinius today to give me the facts on scrap iron and scrap steel and he started to refer me to the State Department. I said, now, listen, Stettinius, you haven't been in Washington long enough to refer me to the State Department, and he said he'd have it ready for me by Thursday.

S: All right. Well, that's good.

H.M.Jr: He'd have it ready for me by Thursday. Now

S: Now -- oh, all right. Beg pardon, I have one more thing. Don't let me forget it.

- 6 -

- H.M.Jr: I just wanted to say, this isn't my Department either over there but I'm putting all the pressure on the State Department I can and I'm going to continue to.
- S: You're dead right and I never was more filled with hope than by the talk we had with the President last Friday.
- H.M.Jr: Well, one other thing and then, then -- and that's the thing which bothers me. Both Welles and Berle take the position that China and Japan should make peace, you know.
- S: Well, they're dead wrong. I mean, Berle I don't count at all. I know the reason he's been -- I know enough of what's going on in the State Department to know that he's -- why he pretty nearly got us into trouble with Great Britain with his early notes.
- H.M.Jr: Did he?
- S: I mean, in those first negotiations over the blockade the original drafts were nearly always drawn by Berle -- of course, this is strictly confidential.
- H.M.Jr: Surely.
- S: And Herbert Feis told me that they had a dreadful time and it was only because several of them like Feis and like one or two others stood up that we might have gotten into serious estrangement with Great Britain.
- H.M.Jr: Well
- S: So I don't count Berle at all.
- H.M.Jr: We have somebody over here -- this is equally confidential -- whose comment on Berle is that he renders all of his legal opinions by ear.
- S: (Laughs). Well, now, the other thing that I wanted to speak to you about is this, that I just have had word from the Committee on Appropriations that they want me absolutely and preemptorily tomorrow at 10 o'clock for a short time.

- 7 -

H.M.Jr: I see.

S: Now, I'll come to you just as quick as I get through there.

H.M.Jr: Well, now why don't we so we don't crowd you too much -- why don't we put it off after lunch and then there won't be such a crowd, I mean, there won't be such a rush. Why don't I say 3 o'clock. How would that suit you?

S: Well, my statement will be very short and I could agree to get down by 11 o'clock, I think.

H.M.Jr: Well, they'll want to cross-examine you.

S: No, they won't -- I'm not going to talk on figures; I'm just making an opening statement.

H.M.Jr: Well, shall we postpone the meeting until 11?

S: If you hold it at 11, I think I'll be there all right.

H.M.Jr: Well, supposing I make the meeting 11 or 11:30.

S: Either one you like.

H.M.Jr: Well, you name it.

S: 11:30 perhaps.

H.M.Jr: What?

S: 11:30 I'll be surer.

H.M.Jr: I'll change the whole meeting until 11:30 because there is no use sitting down without MacGregor.

S: Oh, no, no, no. I have got to go to the other though because it's that big appropriation.

H.M.Jr: Now, may I ask you one little favor.

- 8 -

S: Sure.

H.M.Jr: Make sure that those Army officers of yours aren't asking for more than they really are entitled to.

S: Well, I'll do my best.

H.M.Jr: I mean, just make sure that those figures aren't padded. I have no way of knowing.

S: I know. I know. Well, I'll see but I'm new here, too, you know. I'm just getting acquainted.

H.M.Jr: They'd tell you where they wouldn't tell me.

S: My impression has been that -- my talks with Brett have been the chief talks -- that Brett has been very fair about it.

H.M.Jr: Well, if you would ask him, and I'll make this appointment 11:30.

S: Yes, thank you very much.

H.M.Jr: Thank you.

In reply refer to Initials
and No.

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

23 July 1940

Dear Mr. Secretary:

I appreciate so much your note of today and its enclosures, and I will be glad to keep abreast this situation which, of course, is a vital one.

Sincerely,

J. R. Stark

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

RECEIVED
JUL 24 1940
NAVY DEPARTMENT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm.

DATE: July 23, 1940, noon.

NO.: 753.

The Governor of the Riksbank would like to know if earmarked gold is included in short-term foreign liabilities which are held by banks and bankers in the U.S. blocked by the Government of the United States. Will you please cable.

STERLING

EA:MSG

OCT 23 1940

RECEIVED
LEGATION
OCT 23 1940

July 23, 1940

Dr. Fuis

Mr. Cochran

Will you kindly send a cablegram along the following lines, based on an oral request received by me on behalf of Professor Charles Rist, Honorary Under Governor of the Bank of France:

"American Embassy,

Berlin.

For Heath from Cochran.

Would appreciate any information you may be able to cable concerning whereabouts welfare Lieutenant Leonard Rist of the Fourth Battalion, 329th Regiment, French Infantry, 'Etat Major', last heard of at Le Havre. This officer is son of Professor Charles Rist."



PAP

TELEGRAM SENT

GRAY

July 23, 1940

6 p.m.

AMERICAN EMBASSY

BERLIN

2031.

FOR HEATH FROM COCHRAN.

Would appreciate any information you may be able to cable concerning whereabouts welfare Lieutenant Leonard Rist of the Fourth Battalion, 329th Regiment, French Infantry, 'Etat Major', last heard of at Le Havre. This officer is son of Professor Charles Rist.

WELLES
(Acting)
(FL)

: EA:FL:MSG

July 23, 1940

Dr. Fels

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy
London

For Battenworth from Treasury

Reference your 2329, July 22, 6 p.m. Treasury Department is not
interested in acquiring French bank notes."



HHC:dm:7.23.40

PAP

TELEGRAM SENT

GRAY

July 23, 1940

9 p.m.

AMEMBASSY

LONDON

1983.

FOR BUTTERWORTH FROM TREASURY.

Your 2329, July 22, 6 p.m.

Treasury Department is not interested in acquiring
French bank notes. STCOR.

WELLES
(Acting)
(HF)

EA:MSG

MEMORANDUM

July 23, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

This morning Mr. Stam intimated to Mr. Blough that he was acting under orders when he requested another week in which to consider our plan. He also intimated that he would have no plan to introduce.

Later on he said he would like to discuss the matter with the Treasury on Friday, July 26th, and that he might have "some sort of a plan" then.

JLS

JUL 23 1940

Dear Mr. Nelson:

I have your letter of June 29, 1940, and accept your resignation, as tendered, as Acting Director of Procurement and Assistant to the Secretary. As you point out in your letter, the necessity for your resignation has been brought about by your appointment by the President as Federal Coordinator of Purchases.

I cannot overlook this opportunity to express my appreciation for your valued services and counsel while associated with me in the Treasury Department. Be assured that you have my heartiest good wishes in your new undertaking.

With personal regards, I am,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Donald H. Nelson,
Assistant to the Secretary,
Treasury Department.

GD:WTF:dm

File to Mr. Thompson

By Messenger 7⁰⁰ on 7/24

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

IS C 17 31 1940
June 29, 1940

My dear Mr. Secretary:

It is with genuine regret that I herewith hand you my resignation as Acting Director of Procurement and Assistant to the Secretary.

This is made necessary, as you know, by the fact I was appointed Federal Coordinator of Purchases reporting to the President.

I enjoyed my work tremendously in the Treasury and gained a great admiration for yourself and your staff during my short period there. It was a real pleasure to work with you and if I can be of service to you at any time, please call on me.

With sincere regards,

Sincerely yours,



Donald M. Nelson

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

334

7/24'40

Miss Chauncey.....

Mr. McKay called Mr. Foley last night and said that the Secretary wanted these figures on the amount of oil exported to Spain since January of this year sent to Secretary Ickes.

This is for your information and file.

^mcG

MR. FOLEY

July 23, 1940

Dear Mr. Secretary:

At the request of Secretary
Waggoner, I am enclosing a table showing
the United States exports of petroleum
products in the first six months of 1937-1940,
and a break down showing the countries to
which such products were exported during
the first six months of 1940.

Sincerely yours,

/s/ E. H. Foley, Jr.

The Enclosure

The Secretary of the Interior

Enclosure (1)

By Messenger

Original forwarded to Addressee
from the office of the General
Counsel at 9:00 a.m. 7/24/40

HNFw/ta
Typed 7/23/40

U. S. Exports of Petroleum Products
First Six Months of 1935-1940
(In millions of dollars)

	1936	1937	1938	1939	1940
January	\$20.1	\$23.0	\$30.4	\$26.0	\$29.3
February	16.9	24.4	30.0	24.1	27.6
March	19.7	23.1	30.6	29.8	29.9
April	20.5	29.7	35.8	29.0	28.8
May	24.0	35.0	35.3	37.8	29.8
June	21.6	33.0	35.2	32.2	30.0 ^{1/}
Total -					
<u>1st 6 months</u>	124.2	169.5	196.3	178.9	175.6
Total -					
<u>12 months</u>	268.8	376.3	388.6	353.7	-

Treasury Department, Division of Monetary Research.

July 22, 1940.

^{1/} Estimated on basis of exports for 2/3 of month.

**United States Exports of Petroleum Products to Selected Countries
During the First Six Months of 1949**

(In millions of dollars)

Exported to	Jan.	Feb.	March	April	May	June 30 (end of year)	Total
United Kingdom	33.0	34.4	36.1	36.0	37.0	36.2	232.7
France	2.7	3.2	2.9	3.4	2.5	2.3	16.0
Canada	2.2	2.3	2.1	3.3	3.4	6.2	22.5
Japan	4.0	2.1	2.3	2.3	2.9	3.2	16.8
Spain	1.3	1.1	1.0	.3	.9	1.5	6.1
Italy	1.4	1.0	1.6	1.1	1.1	.3	6.7
Belgium	.7	.2	.2	.4	.3	-	1.7
Netherlands	1.3	.4	.5	.3	.3	-	2.8
Norway	.5	.6	1.5	.2	-	-	2.8
Sweden	.5	1.1	1.2	.7	-	.1	3.6
Other Countries	11.7	11.3	11.3	10.7	9.4	11.1	65.5
Total - all countries	29.3	27.6	29.7	28.7	29.8	30.9	176.0

Treasury Department, Division of Monetary Research

July 29, 1949.

RE SMALL LOANS TO BUSINESS MEN

July 23, 1940
8:50 p.m.

Present: Mr. Sullivan
Mr. Foley
Mr. Viner
Mr. Gaston
Mr. Haas
Mr. Cohen
Mr. Corcoran
Mrs Klots

- H.M.Jr: What I wanted to do was to take a new look at this question of loans to small business men and just see what the situation is, legislatively and otherwise, because while I haven't discussed it with Mr. Roosevelt, it seems to me that I am about seven and a half years past due doing something for them and I asked George yesterday - I haven't had much time to go after the Federal Reserve and RFC figures and see what they have done.
- What is the situation, George? We will sort of take an inventory. Do you have time?
- Haas: I have some very rough figures that I put together last night. For the Federal Reserve, I don't need a paper. They have got one application for \$10,000 which they are considering.
- Corcoran: That has been five years they have been doing that, isn't it?
- Haas: That is right. And the RFC, I took their records and had someone count the loans under \$25,000.
- H.M.Jr: I was just looking around. Are we all Democrats? Yes, we are all Democrats. It is all right. Are we all Roosevelt Democrats? Yes. It is all right to count you in, George, isn't it?
- Haas: Been at it for a long time; I don't see why not.
- H.M.Jr: If anybody wants to take a walk, it is a good time right now.

- 2 -

Gaston: I think most of this crowd will stick.

H.M.Jr: Go ahead, George.

Haas: I counted the RFC loans of amounts under 25 and in February of this year there were 32 loans made of that size. March, 42; April, 49; May, 42. That was the last figure.

H.M.Jr: How many?

Haas: 42 in May; 49 in April; March, 42; and February, 32.

H.M.Jr: Well, do it one way or the other. Go up the ladder or down. Do it over again.

Haas: All right, February of 1940, 32 loans; March, 1940, 42; April, 1940, 49; May, 1940, 42.

H.M.Jr: Do you know what part of the United States?

Haas: It said - gave the name of the concern and its location, I am pretty sure. I think I will have to check that up, Mr. Secretary.

Corcoran: George, were those loans actually closed or loans authorized?

Haas: These are actually closed.

H.M.Jr: That is twenty-five thousand or under?

Haas: Yes, sir.

H.M.Jr: While he is looking, what is the status of the legislation on this matter now?

Cohen: As I understand, it is simply stalled in Wagner's committee.

Foley: Two bills were introduced at this session.

H.M.Jr: What are they?

Foley: And both of them are about the same. One

- 3 -

of them is S-3511, which is a bill to establish a permanent industrial loan corporation to assist financing institutions and making credit available to commercial and industrial enterprises. The management of that corporation would be in the Board of Governors of the Federal Reserve Board and the capital stock and surplus would come from purchase on the part of the Treasury of the FDIC stock held by the twelve Federal Reserve Banks and the gold increment would be used for that purpose. That bill is pending in the Senate Banking and Currency Committee.

The other bill would amend Section 13-B of the Federal Reserve Act, which is the power they have at the present time to make industrial loans and it would eliminate the requirement that loans have to be made to established businesses and would strike out the limitation of five years on the maturities.

- H.M.Jr: Is there any size limit to the capital?
- Poley: I don't know, Mr. Secretary. I think that the total amount available there was that 129 million dollars that they got from us.
- H.M.Jr: Is there any limit to the individual?
- Poley: No, I don't think so.
- H.M.Jr: And no insurance plan, just the straight loan?
- Cohen: That is right.
- H.M.Jr: This is no insurance plan.
- Cohen: No. Of course, the RFC by its participation powers has virtually the right to insure loans if they want to exercise it.
- Poley: Well, under 5-D, the RFC has the broadest kind of power and if that power were exercised liberally I don't think you would need much more. Don't you agree, Tom?

- 4 -

Corcoran: Yes.

H.M.Jr: What I want to say is this: I have been thinking this thing over during the week-end. I think we have got a pretty good record about what we have done for the sharecropper and the unemployed, and so forth and so on, but what we have done for the little business man "ain't so hot". Right?

Corcoran: Well, Mr. Secretary, I think politically you have got to make up your mind whether you are going to try to do something or make a noise about doing something.

H.M.Jr: Well, I am only for doing something, not a noise.

Corcoran: If you want to do something --

H.M.Jr: I want to do something.

Corcoran: The wisest way politically to do something is to simply have the President order Jesse Jones under the authority that Ed now says he has to announce a plan, under his existing authority, so we won't have to wait for the Banking and Currency Committee, to insure these banks and then Jesse announces it in such a way that instead of saying the Government is going to lend to these fellows, on which we will disappoint them sure as hell, we simply say the Government has forced the banks to loosen up. That sounds much better, because I know the RFC.

H.M.Jr: I know you do.

Corcoran: And I know perfectly well that it has been trained in such a way that it will never be able constitutionally - it won't be able to make enough loans to make any difference between now and election, and furthermore, such loans as they do make will be tied up with such impossible conditions that the fellow that gets the loan will hate you more for the conditions than he will be grateful to you for making the loan. That is why I asked George, "Are those loans closed or not?"

- 5 -

- H.M.Jr: Well, following your avenue, there would be the way of going down that road and doing what Stewart McDonald did in FHA and have a local campaign and an appeal to the people and lots of radio publicity and asking the people to come in and all that, but the thing that I don't know is the pulse of Jesse Jones today.
- Corcoran: I understand that.
- H.M.Jr: Whether he would do it; and the other avenue would be to take his competitor, Mr. Marriner Eccles --
- Corcoran: Who also won't make any loans, Mr. Secretary, no matter what statute you give him, because --
- H.M.Jr: And the other one is have Marriner go up and make a fight on the Hill and get a fight on this thing and having the Republicans vote against it and the liberal Democrats for it. Let's just talk about that.
- Corcoran: If that is all you want to do, to make a noise, you don't want a statute on the books --
- H.M.Jr: No, we are talking politics here. It is not what I want, I am asking advice. My mind is open. This is a conference.
- Cohen: I am wondering if at this time the fight will make the impression on the country we want, one, that a Republican will probably oppose it for one reason or another and some of the Democrats. Both Marriner and Jesse's performances before the committee actuated in part by their mutual jealousies of one another has not created a very happy atmosphere in the committee. Wagner is frankly, I think, puzzled. He doesn't know much about it and he is fearful.
- H.M.Jr: And isn't much interested.
- Cohen: And isn't much interested, and in the platform he intended to water it down before he took

it out to Chicago. Then we got him to stiffen it up a little and then some of the provisions were left out by the committee out there, so how far he will go really fighting for you is a question and whether under those circumstances a Republican may not give the country the impression that we are hopelessly at sea in trying to deal with the problem and that we have brought it up at this late date simply as a political move. I would like to do something, but I am troubled --

H.M.Jr: You mean on the Hill?

Cohen: Yes. I would like to do something, but I am troubled as to how it can be done effectively.

H.M.Jr: What do you think, John?

Sullivan: Well, I don't know. The situation up there, I am afraid, after yesterday afternoon's conference, is not as happy as I hoped it would be and I am impressed by Ben's remark that the demonstration that Jones and Eccles will put on, combined with the remarks that will come out of the not so liberal Democratic members, might defeat the very purpose we are seeking to accomplish. I also think if it is going to be kept down to \$25,000 loans, we are restricting it too much.

H.M.Jr: This legislation doesn't say that. I gather it doesn't say the amount or the number of years, does it?

Foley: No, it doesn't say the dollar amount or the number of years. There is a five-year limitation.

H.M.Jr: Are either of these the so-called Mead bill?

Foley: Yes, one of them is the Mead bill and --

Cohen: They are both Mead bills.

Foley: Both Mead bills, and Ford, I think, in the Banking and Currency Committee in the House, has got them, John Ford.

- 7 -

- Corcoran: Mead has his name on a series of bills.
- Cohen: Mead is willing to take any bill he thinks the Administration wants and he first picks up one bill and then another.
- Foley: I think, Mr. Secretary, our legislative record in so far as loans to small business is concerned is pretty bad. In so far as expanding the RFC powers, the two Banking and Currency Committees, particularly Steagall's committee, has gone out of its way to indicate to Mr. Jones that the committee would like to have Mr. Jones exercise that power very liberally and in 1938 they added loans of sound value to the reasonable security provision because Jesse said reasonable security meant that he had to have collateral, so they added sound value and they went out of their way to point out that that was quite a liberalization and that meant you don't have to have security, all you have to do is to have a sound corporation and the loan sound value in the opinion of the RFC.

I think at this late date the best thing to do politically would be to have the President call in Jesse and have Jesse set up a separate corporation and turn over 250 million dollars or more to the separate corporation and announce that the corporation would make loans to small business men on liberal terms.

- Corcoran: Either that way, Mr. Secretary, or to go the whole hog the other way and set up a statute which you never expect to operate in time but which looks like a whole new picture; give it to Marriner and then your excuse, if the loans aren't made - and they will not be made by Federal Reserve Governors because these business loans are bad loans - the excuse that doesn't get operating before November is the machinery hasn't had time to be set up and you will have a promise that it will begin to operate after November. That is another political objective, but you ought to play it either to produce results now,

- 8 -

which means you haven't got time to get a statute, or set up new machinery, that is Jesse, or separate Schram out and have Schram do it, or you ought to play the game way over to the other side and have a brand new approach and the fact that it doesn't get going in time for November and is only a promise - well, you had to set up whole new machinery. But you ought to slide it one way or the other and not get caught in the middle.

- Foley: Tom, do you think if you draft a new bill and everybody gets behind it you can get it through?
- Corcoran: No, I don't, because I think there will be mutual throat cutting. The people who want the jurisdiction in that business will see that it never gets out of the committee.
- Cohen: The Republicans will say this is a last minute effort. "They have had seven and a half years to do something and now they are trying to rush the thing through." You will probably find Republicans on a committee like that. Usually they are unwilling to play with us. It seems to me the best avenue is to see if Schram can be induced to do something in order to cover up the seven years delay and make the announcement that is specially designed to help the small business man take part in the national defense program.
- Gaston: Right.
- H.M.Jr: You have taken the words out of my lips, except that I would like to make it a little bit broader. I think the thing - do you want to talk first?
- Gaston: No, I was just checking --
- H.M.Jr: It crystallized in my mind as I was listening to you two gentlemen.
- You (Gaston) talk first.

- 9 -

- Gaston: I agreed entirely with what Ed said. I prefer the avenue of doing something. The other is just no good, as I see it, and I think that the separate corporation out of which you can make an announcement of something new starting and then introducing this defense explanation as a reason for doing it now while it has not been done over these seven years is the best you can do, and I think there are real possibilities in it.
- Corcoran: May I just add one thing, Mr. Secretary?
- H.M.Jr: Please. I wasn't summing up.
- Corcoran: If you are going to do that, the thing you ought to do is to handle it not only so you get the national defense angle but that you get somebody to blame for these last seven years and therefore what you ought to do is to have Schram --
- Haas: I am just agreeing with you.
- Corcoran: Then you ought to have Schram make the announcement that in the interests of a sound economic system we have been trying to keep these loans in the banks as much as possible, but they just haven't done it and apparently they are not going to do it in time to let the little business man participate in the system and therefore he is putting the squeeze on to give them no excuse for not helping the little business man get into the defense situation, and you blame somebody and you get a new out.
- H.M.Jr: Well, what I think --
- Corcoran: The RPC has to be taken out. It won't play ball. If it is going to be blamed, you have got to blame the banks. That is the way you have got to do it or they won't play with you.
- H.M.Jr: Well, to be sincere on this thing--

- 10 -

Corcoran: Well, I am sincere, Mr. Secretary.

H.M.Jr: I mean for me, and I think - that is all right. Well anyway, listening to you people, I think you are absolutely correct, we can't go on the Hill at this time. I think if we sent Marriner and Jesse up there to put on a show, it would just hurt like hell. Therefore, it gets down to this idea of a separate corporation, but the trouble we have been having is absolutely outrageous. I talked with Guy Vaughn of Curtiss-Wright and the man from Pratt & Whitney and we practically, in the case of Vaughn, had it ready in the middle of May, to have them build a plant in the Middle West. The thing is still hanging fire.

They are going to meet here at 10:00 o'clock this morning on this thing and now Knudsen has to run around yesterday and last night to Ed and try to get a ruling so he can say today to Jones, "It is all right to build a plant in the United States, even though this plant will be producing partly for the English." We haven't crossed that bridge. Here it is only the 23rd of July, see. There is no plant in the Middle West and the President wants two plants and so they are coming in here this morning at 10:00 o'clock to take the engines away from the English instead of doing what I want them to do, increase the pool, you see. I want to increase the pool so there are more engines instead of trying to take them away from the English.

Just this morning, the Army has asked Knudsen - production chief - to prevent new British orders for about 1200 American planes from interfering with the production of this country's defense program. Instead of doing everything - I've spent half or three quarters of my time keeping this fellow Purvis' flag flying and nobody helps me and instead of saying, "Good boy, you have done a wonderful job, six planes yesterday," and all that, which all comes down to this: I think the President ought to set up some corporation,

- 11 -

national defense lending corporation, and get it out from under Jesse, but word it so we want the small business man to have his share of this new production, work the two things in together. We don't want all of this going to the business giants. In other words, on the sub-subcontractor, the fellow who has to buy twenty-five or fifty thousand dollars worth of this special tool or bolt, that fellow should be able to get part of that contract, which he can't today, and this man is going to make it possible for the fellow who is in the country and has got a little one man machine job with 20 or 25 people to get part of this thing and stress that in the national defense program, not, if you don't mind, making a goat, because that reflects on Mr. Roosevelt just as much. If you can't run your own shop after seven and a half years, it is just too bad.

Corcoran: No, it is Jesse's shop.

H.M.Jr: Well, Jesse is appointed by the President and reappointed by the President. I think I am right, am I not? I think he has been re-appointed.

Foley: Sure, he has been made loan administrator, too.

H.M.Jr: So blaming Jesse is - in the first place, "If he was no good, why didn't you fire him," or "You are sore because he bucked you in Chicago."

Corcoran: No, it is because I have got to have somebody to blame other than ourselves. The real reason is, Mr. Secretary, no direct lending business will work in this field because the business is too intricate and too varied and the stuff is too important alone. You have just got to throw the insurance in and take long risks.

H.M.Jr: Correct, but I think - just think it over, Tom, of not trying to blame a Presidential appointee but setting this thing up, but emphasizing in the announcement the fact that the thing that Sidney Hillman said, which impressed me very

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much at one meeting that I attended at the White House, that he wants to get a lot of these plants out in the country and get the farm boys working and not all in the industrial centers, but work the thing - in order to do that you have got to finance it, but we want the little fellow to have just as good a chance to get an opportunity at this national defense, whether he has got \$10,000 capital or whether he has got 10 million and emphasize that. Just think about that, not blaming somebody who has worked for Mr. Roosevelt for eight years.

Corcoran: I say I am not blaming Jesse, I am taking the blame off Jesse, because Jesse isn't to blame.

H.M.Jr: Yes he is.

Corcoran: No he isn't. When you actually get down into the guts of lending to this little tannery, Chicopee Falls, you find you have been using a pile driver to drive a tack and most of the time the pile driver hits the tack at the wrong angle and smashes the tack.

H.M.Jr: Tom, who wrote the regulations to the RFC that you have got to be turned down three times before you can come to the RFC?

Corcoran: That won't make any difference.

H.M.Jr: But that is true.

Corcoran: But the difficulty is that once the loan gets in, it just doesn't --

H.M.Jr: You mean you don't --

Corcoran: To mass production.

H.M.Jr: You mean you don't think even if we set up a separate corporation with a man of good will and good heart --

Corcoran: We will have to fake him.

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H.M.Jr: You mean you won't --

Corcoran: Oh yes, we will get them out but you will have to say, "Don't kid yourself about following any standards for loans."

Foley: I think the Secretary agrees with that, Tom. You write it off. You set it up and say, "There is the national defense finance corporation. Go out and get this money into the hands of small business men and don't worry about getting it back."

Gaston: Don't you really mean this, what you are making is not bank loans, not short term loans, security loans, collateral loans, but what you can make here is capital loans. That is what the demand has been --

H.M.Jr: What kind of loans?

Gaston: Capital loans.

H.M.Jr: I thought you said cattle loans.

Corcoran: We started on cattle loans.

Gaston: But that is the difference about trying to force the bank loans. They want to make bankable loans and these are capital loans.

Corcoran: I agree with you, but you see what Ben and I were trying to do in the RFC last year was take the psychology of loan out of the RFC mind. You can't train a bunch of bank examiners in seven years and expect them not to roll over on any loan that isn't a bank loan. You can't make bank examiners make capital loans. I mean, as a sheer matter of administration, it just doesn't work, no matter what instructions you give them. Everytime you come along - you have to find a formula that doesn't look like loans.

H.M.Jr: I don't think I have got my point over to you yet. My point is, these loans that we are talking about now to build munitions, the Government has got to take all the risk because

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on a cancellation we have got to take all the risk and this is not a bankable loan. There is a national defense loan and therefore we don't - we don't have banking standards or bank examination standards and therefore all the things which you say are true but wouldn't apply in this instance, and where you start in talking about lending 25 or 50 million dollars to Curtiss-Wright to build a plant in Ohio, I wouldn't - I personally wouldn't want any national bank to participate in that, but I do say the United States Government should and we are just about six weeks slow in doing it.

I think you could do something if you had the right man and if you had made ten thousand loans to small fellows and this fellow says, "Well, gentlemen, I've got a piece of this business. I am helping this country. I have got a twenty-five thousand or fifty thousand or hundred thousand dollar contract to help. I am a part of this thing," rather than have him sit back and just see this thing going over him as an airplane 15,000 feet in the air and he just doesn't even sense the thing.

But it is going to take a big fellow and a fellow who - and I said if somebody is willing to sit there and hold down his chair and lend a billion dollars in the next six months for plant expansion, knowing that he is taking a chance, he may lose about 50 to 75% of it, that is the kind of fellow that has got to be the head of this thing. You can put out a billion dollars and under this quick - why, they have got Ed Foley nuts around here. He runs from Knudsen to Jones to Stimson and to Knox and they go round and round and round, and they are not doing anything.

Cohen: And we have to take all the risk anyway.

Corcoran: Mr. Secretary, you talk like a Secretary of the Treasury. You think a billion dollars

is a lot of money. I don't think a billion dollars is a lot of money.

H.M.Jr: Well, I work myself up to that gradually.

Foley: Don't be belittling us, now.

H.M.Jr: I am wearing him down. Listen, you name a fellow who can lend a billion dollars in this corporation between now and the first of January and I will kiss him on both cheeks and give him the croix de guerre. Where is the fellow?

Corcoran: They are there.

H.M.Jr: Where?

Corcoran: They are over there now.

Gaston: Couldn't leave it nominally in RFC and give them a board that would force them along?

Corcoran: I have been worrying about this problem ever since we worked that RFC statute through. The men are there and I think I know the combination you can put together. I would like to talk with you sometime about that. The combination - the men are there but you have got to cut them out from --

Gaston: Give them a separate advisory board.

Corcoran: That is right. You see the difficulty is that - here is the way it is set up over there. Instead of taking the fellows that had enough feeling for the thing to do the job, we have split our business up with the old members of the board. For instance, Marion is running rubber, isn't he, or is he running tin?

H.M.Jr: Who is running tin?

Corcoran: Marion.

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H.M.Jr: Is he still over there?

Corcoran: Yes, and he is in charge of tin.

H.M.Jr: How is his insurance business in Kansas?

Corcoran: His son's business is doing very well.

H.M.Jr: I wish he wouldn't write me letters on his insurance company stationery.

Corcoran: But that is the problem. There again you have got this problem. If you set up completely new men, you have got not sabotage, because it will never be conscious, but you will get jealousy. Your business is to cut out from the present RFC men whose relationships are close enough so that they are the RFC and yet men who will do the job. Your difficulty is, if you set up a new corporation you will have trouble.

H.M.Jr: Well, of course, I am discouraged because I don't think any corporation that you set up will be anything but Jesse Jones, Incorporated.

Corcoran: Well, that depends.

H.M.Jr: Well, we were lead to believe that when Mr. - what is the fellow's name?

Gaston: Schram?

H.M.Jr:Schram would go in there, he was going to show independence. He calls up here. It is pitiful after something has been accomplished. He tried to get posted from Ed as to what is going on in his own shop.

Corcoran: That is due to some other factors over there.

H.M.Jr: Well, you have got the --

Corcoran: And I also have the wisdom to know how to stay out of things, too.

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- H.M.Jr: Do you think you can set up a corporation that we can go to this President and say, "Here is the thing," in a day or two, and say, "This is the thing that you need"? Do you think you can do that?
- Corcoran: I know it can be done.
- H.M.Jr: Well, if you gentlemen will set something up, I will ask for the appointment or you ask for the appointment, either one.
- Corcoran: Well, I would rather tell you what I think about it after twelve hours and then let you do it.
- H.M.Jr: All right.
- Corcoran: After all, I am just moving into a new model office in the RFC tomorrow. We are moving into the new building, you know.
- H.M.Jr: The RFC?
- Corcoran: Yes, we are bigger than you are now. We have got three-quarters of a block.
- Gaston: Is that the Lafayette Building?
- Corcoran: Yes. New furniture and soft lights and everything. We are, like the Federal Reserve and Supreme Court, going into a mausoleum. I am going to San Francisco.
- H.M.Jr: Are you serious that you could give me a set-up in 24 hours?
- Corcoran: Mr. Secretary, it is just a matter of picking men. It is a matter of picking men in the RFC whom you know in combination would do these things. One would get the thing done and two would have the nerve not to let anybody boss them.
- H.M.Jr: Do you like this hour for meeting?
- Corcoran: It is a little early for me.

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H.M.Jr: 9:00 o'clock too early?

Corcoran: Oh, yes. I am just beginning to wake up now and it is nearly 10:00.

H.M.Jr: What about you?

Cohen: It is all right.

H.M.Jr: It is good for him, don't you think so?

Cohen: Sure.

Corcoran: It implies, Mr. Secretary, that you go to bed. That is the difficulty that I have. That is the end at which it is hard for me.

H.M.Jr: Do you want to come back in 24 hours?

Corcoran: Yes.

H.M.Jr: What time?

Corcoran: All right, 9:00 o'clock, just as a gambling proposition.

H.M.Jr: Maybe you are right. It leaves me a little sunk, but I get all worked up on these things - maybe you are right, but I have yet to see that Jesse doesn't kill everything sooner or later.

Cohen: Is time actually being lost on the building of those plants by this --

H.M.Jr: Nothing has happened, absolutely nothing.

Corcoran: Of course, Mr. Secretary, what you have --

Cohen: But the war is going on.

H.M.Jr: But nothing is happening. Has Packard's contract been signed?

Foley: Nothing has been signed.

H.M.Jr: There hasn't been, in the airplane field, one dollar of new production added through any Government action today.

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Corcoran: Mr. Secretary, are you sure --

H.M.Jr: Not a dollar.

Foley: In this Government.

Corcoran: Are you sure that Mr. Jones, if he is falling down on this, knows what is expected of him?

H.M.Jr: Well, Ed can answer that better than I can.

Corcoran: But you know, he is the kind of a man, particularly after what happened in Chicago, he is the kind of man that if he gets his orders, "I expect this much to be done by Monday," well, somehow he will get it done by Monday. Are you sure the line of command has really been straight?

Foley: Well, Tom, in 1938 when they added sound value to reasonable security, he never accepted what the committee meant by sound value and now he is construing this new national defense power that he has been given to mean that he can't loan money if any of the facilities are to be used for other than Government production.

Corcoran: I know, but just the same, I mean on the sound value thing, I understand perfectly why.

Foley: That is sabotage, Ben, of the worst kind.

Corcoran: Just be awfully sure before you say sabotage. You can't make dogs change their tricks and no matter how many words you put in a statute, you can't make a fellow who, as Herbert says, has been making banking loans all his life, left to his own judgment, do anything but make banking loans, but if you say to him, "Mr. Jones, march those troops over the precipice, throw the money away by Monday," and say it to him like that, he will do it.

Cohen: No, but the point Eddie is making is the same point that Ford is raising. I mean,

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Jesse - that is the same point Ford raised.

Corcoran: And I construe the statute and the Attorney General construes the statute the other way and that is the end of it.

Foley: I said, "Jesse, let's put it up to the Attorney General. Your General Counsel doesn't agree with me and I think I am absolutely right and I think the Attorney General will agree with me." He said, "That is only an opinion and I wouldn't follow it anyway."

Corcoran: But if the President said, "Mr. Jones, I want this done --"

H.M.Jr: But Tom, the President has told him he wants two plants built for engines in the Middle West and the President has told me and everybody this, "Why do you always have to run to the President to get him to tell Jesse Jones he wants every single --" and Jesse is taking exactly the same position as Henry Ford is taking.

Corcoran: But what I think you do is this; I think it is a matter of getting on the record with an instruction that is large enough and at the same time specific enough so that he has running orders for two months.

Foley: Well then, Tom, wouldn't the thing --

Corcoran: Instead of playing with indirection, I have seen it happen. Instead of pressing on him this way and that way, you just hit it once and he will do it. I mean, Jesse does carry out orders.

Foley: Well, why don't we set up a national defense financing corporation and why don't we put down on a sheet of paper what is intended to be done by that corporation and come back here tomorrow --

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- H.M.Jr: And working in - stressing the small business man angle of it.
- Foley: That is right, and the fact that the capital can be lost but it is to be put out in the interest of plant expansion, large and small, for national defense purposes.
- Corcoran: Just let me clear one more thing.
- Foley: And then let the President tell him that that is what he wants.
- Corcoran: Now, remember, this business of small loans in detail is a terribly energy-swallowing device. When you take and put in the same corporation the small loans and the Curtiss-Wright loans, it is an unnatural combination. You have got, therefore, to permit --
- Foley: But they are all risk loans, Tom.
- Corcoran: But you have got to permit the corporation that makes small loans in the same bracket in the interest of saving energy and getting results, you have just got to let them go high, wide and handsome and slap it on according to certain cut and dried rules and know - and you are going to lose most of the money.
- Foley: Sure. I am willing to agree to that, but do you think if you set it up that way and the President is agreeable and the President tells Jesse to do it, that Jesse will do it?
- Corcoran: Yes, I know how it can be done.
- H.M.Jr: Let's do it this way for tomorrow to save time. Let's do it in the form of a letter from the President to Jesse Jones. Now, I did that once before. He didn't sign it, but he kept it on his desk and sent for Jesse and talked to him and used it and I got what I wanted. It was in connection with the Bank of America - no, it wasn't, it was on that legislation on the Hill this year on

those two things you (Foley) were up there fighting for.

Foley: Sure.

H.M.Jr: And we wrote this letter and he kept it on his desk, sent for Jesse, told him what was in the letter, but he never signed it.

Well, think it over, anyway.

Corcoran: You know, it is a complicated business, this first meeting.

H.M.Jr: You fellows have got what is in my mind. I think the best possible combination is national defense and small business men, bringing the small business man in, but this situation here of getting new plants started is just tragic. Let me leave this thing for a minute.

There are two other things I want to mention along the same lines. Number one, if and when, for instance, anybody needs - the Government, for instance - I was going to start with a duPont plant somewhere down in Tennessee, I don't know where - I saw it in the paper - but immediately as part and parcel of that thing, as they begin the plant, they should be planning to house those workers, which they aren't. I heard at this same meeting they are going to put up wooden shacks or tents for single men at first. Now, Straus' organization are only now figuring on building things on Government Reserves in connection with the Army and Navy, but we could make a magnificent record and do a social service if as part and parcel of any plant expansion for munitions purposes, a decent housing for married families were begun so we don't have them living in tin shacks and what have you, and keep these people happy. Straus ought to get something as an amendment through that in this plank; if the Government is going to loan 20 million dollars to duPont to go to a powder factory, there ought to be half a million dollars or a million dollars

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to go with it to house the workers and that is part of our social program and it isn't there and there isn't a dollar to do it. That is number two.

- Cohen: Wasn't there someone inquiring about it in the Army or Navy?
- H.M.Jr: I may be wrong. He can do it in connection with the Government Reservation if the Navy or the Army is doing something, but not if duPont is building this for them. I was with this Ernie Bowen yesterday and I asked him about it. He says there is nothing in the bill.
- Cohen: But that large powder plant, though --
- Foley: That would be an unhappy example. An example of what you have in mind would be where we loan the money to Curtiss-Wright and Curtiss-Wright puts up the plants.
- H.M.Jr: But not in the case of duPont. Check it.
- Foley: I think in so far as the duPont situation is concerned, that is direct Government construction and the Government has title to that --
- Cohen: And by the way, if Jesse is blocking those claims, I don't see why they don't do the same way. We wanted it the other way, because we thought it was simpler and --
- Foley: The trouble with your way, Ben --
- H.M.Jr: One second, Ed. Just hold your thought for one minute. Just for fun, with the plant, if the Government is doing it for duPont, is there a housing plan that goes with it to house the workers? I will bet you five cents to a penny there isn't.
- Foley: Well, I wouldn't be surprised.

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- H.M.Jr: But there is no plan to take care of the workers and you are going to have a lot of disgruntled people saying, "Under the New Deal we live in shacks and have no homes. Why, even if we had a private contractor he would give us a decent house to live in," you see.
- Foley: They have just hired this fellow Palmer, who is the head of these Housing Authorities.
- Corcoran: He is from down in Atlanta.
- Foley: To be the liaison fellow for national defense.
- H.M.Jr: He is a pretty good man, but I still say that when they lay down the plant for duPont, if it is a hundred percent Government or whether it is private, that there should be with that plant a place to give these married families a decent place to live, and I am pretty positive that that is not in the program.
- Foley: Well, on your point, Ben, if you do it the direct way by utilizing the appropriated funds for the Army and the Navy, I am afraid that those facilities can't be used except for Government order, since the Government owns them, and then you have to go through the rigmarole of determining that the property is surplus and then selling it and then making a report to the committees on the Hill and all that sort of thing.
- Corcoran: Why can't you put that in and make the FHA put up 80 or 90 percent of it? In fact, what you are doing there is tapping another appropriation. Then you throw out an FHA mortgage on it and the banks won't take it up.
- Foley: I don't know whether that appropriation can be used as equity money. I don't think it can. I think it can only be used for capital improvements to be owned by the United States. But you could do that with your RFC money.
- H.M.Jr: Tom, to save my time a little bit, I have got one other thing and then I am through.

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Two weeks ago I brought to the attention of the White House - it was about two weeks ago on Leo Crowley?

Klotz: Yes.

H.M.Jr: Please send for Leo Crowley and either ask him to resign from Standard Gas & Electric or from FDIC, to do either. He is only staying here because he thinks the President - he thinks he is doing the President a favor and I notice in Kiplinger this week a little squib that it would be very difficult for the Administration to go after public utilities with Mr. Leo Crowley --

Corcoran: Oh, but that is a good public utility, you don't understand. It has come in and gone through a thorough laundry. This isn't like Willkie's.

H.M.Jr: I still say it is an impossible situation for Leo and for anybody who wants to make any campaign speeches. It is ridiculous and Leo is only doing it because he thinks he is doing the President a favor. He is getting \$50,000 a year from Standard Gas & Electric and acting as Chairman of FDIC. It is crazy. It ought to be changed right away.

Corcoran: If you can't change it --

H.M.Jr: You can change it.

Corcoran: It isn't as difficult a situation as it might be.

H.M.Jr: Leo will do anything. He is only staying here because he thinks he is doing the President a great favor and I understand he would be willing to give up his position with Standard Gas, which would be unfair to ask him, if the President wanted him to stay, but he is Acting FDIC Chairman, drawing no salary there, but he runs the shop, and drawing \$50,000 from Standard Gas & Electric and I think it is very, very bad.

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- Corcoran: You don't think politically - you probably are dramatizing the situation to your disadvantage in having him go, because he has been in that utility now for nearly five months.
- H.M.Jr: The normal thing would be just to have him resign and the President put in some lame duck that he has got to take care of as Chairman of the FDIC.
- Corcoran: One of the guys in this lame duck conference, Burke, might come back if we gave him a job.
- H.M.Jr: But just don't brush this aside. I have pushed the President and I am going to push him again this week and I think it is just an oversight. Leo is swell on this thing. He will do anything anybody asks him to.
- Cohen: I think that is right. It is embarrassing to everybody.
- H.M.Jr: Including Leo. This is a silly thing.
- Foley: What may happen, Ben, they may open up on it and then you may have to do it. You may have to ask him to resign.
- Cohen: He can say his banking situation is such that the President has said he would like to have him stay on.
- H.M.Jr: What he wanted was to have him handle the Wisconsin situation, which he evidently has, and now that is over. But Leo is a good guy and he will do whatever the President asks him to do, but if Kiplinger has it in his letter, that is a tip-off like Arthur Krock's column, where he said that we had better get busy and save the situation before they make an actual issue out of the thing.
- Corcoran: Well, I think it is an issue already.
- H.M.Jr: I don't think so. He could slip out of there and the President could put in somebody. He

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has got two or three people he is looking for jobs for. He could just put them right in there. Leo's great personal sacrifice has continued, waiting until the President could find somebody. The President has found somebody and now he goes on as President of Standard Gas. I just thought of it. How about Stewart McDonald? Isn't he in the same boat?

Corcoran: He is not in the utility company. He is over in the mortgage company in Maryland.

H.M.Jr: Isn't he drawing a salary from there?

Corcoran: Yes.

H.M.Jr: Well, he ought to get it.

Cohen: Willkie would just love to point out those things and while he resents the theoretical criticism of the New Deal, those are things that would never exist in the Government under his administration.

H.M.Jr: Don't you agree with me, Ben?

Cohen: Yes. I think he would like to say --

Corcoran: It was six months ago it happened. At that time I thought they shouldn't put those jobs together, but I just wonder how you can be holy about it after it has been six months.

Cohen: You are not holy, you don't make any announcement at all.

H.M.Jr: Look, if Stewart McDonald slipped out this week and Leo dropped out this week and then next week the President announced some successors, I don't think it would draw any attention, but let Willkie make a speech on those two guys --

Cohen: Give him a chance to talk first and then they would say something. This way it is all out before he talks.

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- Corcoran: You see, in that company you not only have Leo, you also have the President of the main subsidiary of that company, who is a former SEC Commissioner, Matthews.
- Foley: He is out, he is not in the SEC now.
- H.M.Jr: The President has got several fellows he has asked me for jobs for.
- Cohen: I think really they ought to go before August 1st; that is, before Willkie has a chance to make a speech.
- H.M.Jr: Absolutely, Ben. It is just crazy to keep those fellows in those two jobs and give them that ammunition. It is just crazy.
- Cohen: And it is exactly the time.
- H.M.Jr: This is not economics I am talking about.
- Corcoran: I am not either. My feeling is, the lady is just a little bit pregnant already.
- Cohen: You don't make an announcement of it. You simply fill the post and it looks as though each of them stayed on a couple of months as a mere matter of courtesy to the President until he finds someone, but if you let it continue much longer and let Willkie speak first, you can't do that.
- H.M.Jr: Ben, you and I think alike.

July 23, 1940
3:04 p.m.

Edward
Stettinius: Yes.

H.M.Jr: Look, if either the President or I were to ask you on an hour's notice to give us a justification for clamping on an embargo on scrap iron or scrap steel products, whatever you call it, how long would it take you to get it ready?

S: The justification?

H.M.Jr: Yeah. Justification is a good word.

S: It'd be pretty tough to really justify it

H.M.Jr: Can't you do it on

S: do it on certain qualities, but there's a very large stock pile of stuff on the Pacific Coast and also in Texas -- this low grade -- and it would never be used out there or any place and could probably lay there for ten years.

H.M.Jr: Well, that stuff

S: From our standpoint, it won't be needed by the industry.

H.M.Jr: But on this taking good stuff

S: Yes, some. Some.

H.M.Jr: Well, could we classify this stuff and let them have that?

S: I think so. But, Mr. Secretary, wouldn't it simplify it if the State Department could -- in other words, you want an

H.M.Jr: Now, listen, young fellow, you haven't been in town long enough to pass the buck to the State Department. Now, come, come, come, come.

S: (Laughs).

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H.M.Jr: Now, wait a minute. (Laughs). Don't you go Washington on me.

S: You're getting into territory

H.M.Jr: All I want are the facts and I'd like to sit down and talk to you because I know what's in the President's mind and mine and would you get the facts.

S: On the whole scrap situation.

H.M.Jr: Scrap iron and scrap steel they talk about -- is there such a thing as scrap steel?

S: Yeah, there is.

H.M.Jr: Could you get it all together when you got it?

S: We'll get the whole works -- I'll get the whole works together and be prepared to talk to you anytime you give me a ring.

H.M.Jr: Well, I'll do it the other way. When you've got it ready, call me.

S: O. K.

H.M.Jr: How's that?

S: In the next 48 hours. Is that too soon -- too long?

H.M.Jr: No, I

S: Say Thursday?

H.M.Jr: Not later than Thursday.

S: Thursday morning.

H.M.Jr: And I don't want to ask the State Department -- (laughs).

S: (Laughs). O. K.

H.M.Jr: All right, Ed.

S: Thank you.

H.M.Jr: Good-bye.

July 23, 1940
3:46 p.m.

H.M.Jr: Hello.

Secretary
Ickes: Hello, Henry.

H.M.Jr: Yes, Harold.

I: I have some dope here on shipment of petroleum products to Spain.

H.M.Jr: Oh, have you?

I: Apparently we're sending -- we're shipping -- this year to date we've shipped daily 16,400 barrels.

H.M.Jr: How much?

I: 16,400.

H.M.Jr: Daily.

I: Which is equal to $\frac{4}{10}$ ths of 1% of the total demand for oil in the United States. Now I have that broken down into gasoline, kerosene, gas, oil, fuel oil, lubricating oil. Now all of this stuff goes to a government monopoly.

H.M.Jr: That's right.

I: Now, it's been suggested over here that we might very well refuse to ship oil into any country where American citizens are not on a parity with the -- won't have the same rights in that country that the citizens of that country would have here. For instance, on the public domain we won't allow any foreign citizen to explore for oil or to operate an oil well -- we won't give them any rights unless our citizens are given similar rights in that country.

H.M.Jr: I see. Well, it's an idea. Now, let me tell you what the situation is. Since Saturday a week ago I have refused to let

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any American flagships sail for Spain with oil. I've got no authority but I've just done it. Hello?

I: Yes, Henry.

H.M.Jr: Now, I sent up last night to the President two Executive Orders, one forbidding all export of oil and oil products out of the United States so that he could add Spain if he wanted to, or Japan, and the other one having to do with scrap iron and scrap steel. Now, I have a whole group of statistics on oil consumption in Spain which we've collected here and I'd like to send those over to you by hand.

I: All right.

H.M.Jr: for this year. But I'm sitting on it right now -- oil -- and supposedly this week -- today or tomorrow -- Sumner Welles is supposed to talk to the American companies doing business in Venezuela and Colombia about shipping oil to Spain.

I: Yeah.

H.M.Jr: Now that's the situation.

I: What authority does the Maritime Commission have about permitting oil to be shipped.

H.M.Jr: I have it all; they have none.

I: Oh, you have the authority.

H.M.Jr: And they're no God-damn good anyway. Do you know what they tried to get me to do the other day?

I: No, I can't imagine.

H.M.Jr: Well, they wanted us to sell some Matson Line ships today to a French company -- this was this week.

I: Yeah.

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H.M.Jr: They don't know that France is no longer France.

I: (Laughs).

H.M.Jr: But the authority to let the steamers leave the harbor rests with me.

I: I see.

H.M.Jr: And I'm just not giving any permits, but I've got no authority and now I need some, so

I: Well, suppose you put your people to work on this other

H.M.Jr: Have you got anything in writing that I could give Ed Foley?

I: I think we have the order on that reciprocity on oil wells, (haven't we?-- aside). Yes.

H.M.Jr: Could you send it to me by hand?

I: Yes. I'll send it right over to you.

H.M.Jr: I'm glad you've got the old bean on it. You're getting -- it's very encouraging.

I: All right, Henry.

H.M.Jr: And I'll send you over all of my statistics on oil in Spain. Did you get my figures on oil to Japan?

I: Yes, it just got in.

H.M.Jr: Right-o. And I got hold

I: We're sending a lot over there, aren't we?

H.M.Jr: And I've got old Stimson all excited about this.

I: Who?

H.M.Jr: Stimson.

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I: I'll bet you have.

H.M.Jr: Yeah.

I: I'll bet you have.

H.M.Jr: Yeah.

I: Hell, if we'd stopped sending scrap iron to Japan a couple of years ago why the world would be different today.

H.M.Jr: Right. Thanks

I: If we hadn't shipped to Italy at the time of Ethopia, the world would be different today.

H.M.Jr: You bet.

I: I wanted to.

H.M.Jr: Well, if you'll send me what you have, I'll send you my oil statistics on Spain and have them checked by your people.

I: All right. I'll do that.

H.M.Jr: Thank you.

I: All right.

July 23, 1940
4:39 p.m.

H.M.Jr: Hello.

Sen. Pat
Harrison: Henry?

H.M.Jr: Yes, Pat.

H: How are you?

H.M.Jr: Oh, I'm wonderful. I'm just sitting in an air-conditioned room and I don't want to go home.

H: Oh, I see. Henry, I called up while you were at dinner to talk to you about this conference in the morning.

H.M.Jr: Oh. When was that you called me up. I didn't get the message.

H: Huh?

H.M.Jr: I didn't get the message.

H: I know you didn't but I got word back and they've fixed it at 9:30. Now, I tell you, I find -- I've got a telegram that I've got to leave here at 6:45 -- there's a death in my family and so I've got to go to Mississippi.

H.M.Jr: I'm sorry.

H: Now I'll tell you what the conference is about so I hope you can see them. Now it's the two Louisiana Senators and they want it put through pretty quick to save because they don't it to get out who they're recommending and they've agreed on it and so on. And the fellow that they're recommending is 100%. I just as soon -- if I should pass out of the picture -- he could work on me without any bond as an executor.

H.M.Jr: Uh-huh.

- 2 -

H: You know him and he's all right.

H.M.Jr: What's his name.

H: Paul Maloney.

H.M.Jr: Paul Maloney?

H: Yeah. He's on the Ways and Means Committee of the House.

H.M.Jr: Oh.

H: So he's all right, but they don't want it to get out and then Paul don't want it to get out because he's down there, but he will accept and it will save them and save the situation.

H.M.Jr: I see.

H: So what they want to do, I called up the President but of course he won't be back until Thursday, so I wish Thursday when he comes that you'd undergo all this stuff about investigating a-body because you know him thoroughly and he's just all right in every way.

H.M.Jr: I see. Well, thanks for calling. I'm sorry you've had this trouble, Pat.

H: Well, I appreciate that.

H.M.Jr: Right.

H: It's about that collector business down there.

H.M.Jr: Right. Thank you, Pat.

H: And, Henry.

H.M.Jr: Yes, sir.

H: If you can get the President to shoot that in right away without these boys having to go up there to bother him about it -- the quicker it's done, the better for you and me.

- 3 -

H.M.Jr: Right, Pat.

H: So I'll go tell them that I can't go with them up there because I've spoken to you about it.

H.M.Jr: Well, are they coming here tomorrow?

H: They'll be there in the morning at 9:30 if that's agreeable to you.

H.M.Jr: Well, why don't they wait until I get a chance to talk to the President?

H: Well, they want to tell you about this business first just to give you the facts and so forth.

H.M.Jr: Well, do you think I ought to see them?

H: Oh, yes, I think you ought to see them. If the time isn't satisfactory, all right.

H.M.Jr: Oh, sure. I've got you down for 9:30.

H: Yeah.

H.M.Jr: Right.

H: Now if you don't want -- if you'd rather not -- if you'd rather wait and see the President Thursday and then if the President wants to see them, all right. But they want it shot through pretty quick.

H.M.Jr: Well, what do you recommend? I'll do what you tell me.

H: Well, I'd like to see them go through, but of course, I've got nothing to do with it. These two Senators are the persons that ought to make the recommendation.

H.M.Jr: Well, do you think I ought to see them tomorrow or

H: Well, if you want to, all right. If you want me to tell them that it's not necessary

- 4 -

to see them that you'll talk to the President about it and tell him what I say. I've had luncheon with them today.

H.M.Jr: Well, I hate to have them come down here and that gives me a chance to talk to the President on Thursday and then I'll get in touch with them.

H: Well, suppose you do that.

H.M.Jr: I'll do that.

H: And then I'll tell them they needn't come down there tomorrow that I talked to you about it and that's what you want to do.

H.M.Jr: Tell them in all this heat I want to save them a trip.

H: Yeah, that's all right. And then you can get in touch with Overton in the Senate, you know.

H.M.Jr: I understand.

H: All right.

H.M.Jr: Thank you.

H: All right. Good-bye.

H.M.Jr: Good-bye.

July 23, 1940
4:43 p.m.

John
Sullivan: Yes.

H.M.Jr: Ed, what Harrison was coming down with tomorrow, the old fox

S: This is John.

H.M.Jr: John who?

S: John Sullivan.

H.M.Jr: Well, that's who I asked for.

S: Oh. I thought you said Ed.

H.M.Jr: Well, isn't your name Ed Sullivan?

S: O. K.

H.M.Jr: All right, John.

S: Yes.

H.M.Jr: What Harrison was coming down for, the old fox, he was bringing the two New Orleans Senators with him, see?

S: Uh-huh.

H.M.Jr: But, he's got to leave town tonight because he's had a death in his family, see.

S: Oh, Pat has?

H.M.Jr: Yeah, somebody died and so he can't come because he's got to go down back to Mississippi, see?

S: Yes, sir.

H.M.Jr: Now. The fellow they want for collector is Paul Maloney, who is on the Ways and Means.

- 2 -

S: Paul Maloney.

H.M.Jr: Yes.

S: On what Ways and Means?

H.M.Jr: Of United States Congress.

S: Oh, yes.

H.M.Jr: See?

S: Yeah.

H.M.Jr: Do you know anything about him?

S: No. I'll find out for you.

H.M.Jr: Suppose you try to move in on this fellow because they want me to talk to him. They say they want it done kind of quick before anybody knows they're for him.

S: Oh, I see.

H.M.Jr: They don't want nobody to know it.

S: Well, of course, he has to have the usual investigation.

H.M.Jr: I know. Give him the New Hampshire bum's rush.

S: Well, are they coming to see me?

H.M.Jr: No, I saved you that, honey.

S: My goodness! Ickes certainly gave you the business. He made a new man of you, didn't he?

H.M.Jr: He sure did. Now, you go on. You go on now. You get busy.

S: All right. You want an immediate investigation of Paul Maloney.

- 3 -

H.M.Jr: That's right.

S: Right-o.

H.M.Jr: Good-bye.

S: Good-bye.

COMPLIMENTS
OF
MR. H. K. HOCHSCHILD

Copy of Letter from Monterrey July 23, 1940.

Although the labor situation in general throught Mexico shows every sign of becoming disturbed now that the elections are over, we have so far had nothing more than routine difficulties at our smelting plants.

The Mining and Metallurgical Syndicate are holding their convention in Mexico City, and they have requested a personal interview with President Cardenas for the purpose of explaining to him the difficulties which they are having on account of the Cenasa strike as well as their difficulties due to low metal prices, etc.

A committee of railroad employees had a personal interview with President Cardenas and advised him that to save the railroads it would be necessary for the Government to advance the railroads 150 million pesos for the purpose of purchasing new equipment and rolling stock, and that higher freight and passenger rates should be authorized and the Government should discontinue the construction of additional highways. President Cardenas advised them that under no consideration would they be allowed to increase their rates.

While there is very little political agitation in Monterrey at the present time, we understand that there is considerable in other parts of the Republic, and quite a few seem to think that there will be trouble over the presidential elections between August 15th and September 1st, when the Mexican Congress will announce the election results. General Almazan has stated that there will be a meeting of his political supporters August 15th for the purpose of naming their own Congress, and that he will be declared President of Mexico. Should this threat be carried out, there will unquestionably be serious disturbances, as the congressmen elected by the P.R.M. (Government party) will convene on the same date for the purpose of declaring Avila Camacho President of Mexico.

Rumor has it that the trip of General Almazan to Havana is for the purpose of securing an interview with Secretary of State Hull, and that if he receives any encouragement he will proceed with his plans as above outlined and that if he does not receive any encouragement he will not proceed with his plans.

The Communist Party in the State of Nuevo Leon recently held a meeting for the purpose of uniting their members for protection against what is termed by them "reactionary Groups".

Exchange: 4.90.

July 23, 1940

I suggested to Archie Lochhead that they hire a boat at Rangoon on the Irawaddy River and fill her up with gasoline and send her upstream and see what happens. I told him not to put munitions on but just gasoline.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

FROM Mr. Haas *[Signature]*

The Work Projects Administration experienced a slight increase in employment, the first since the last week of February. The report for the week ended July 10, 1940 shows 1,619,000 workers compared with 1,611,000 for the previous week.

decrease of 8,000

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1939-40	
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611
July 10	1,619

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

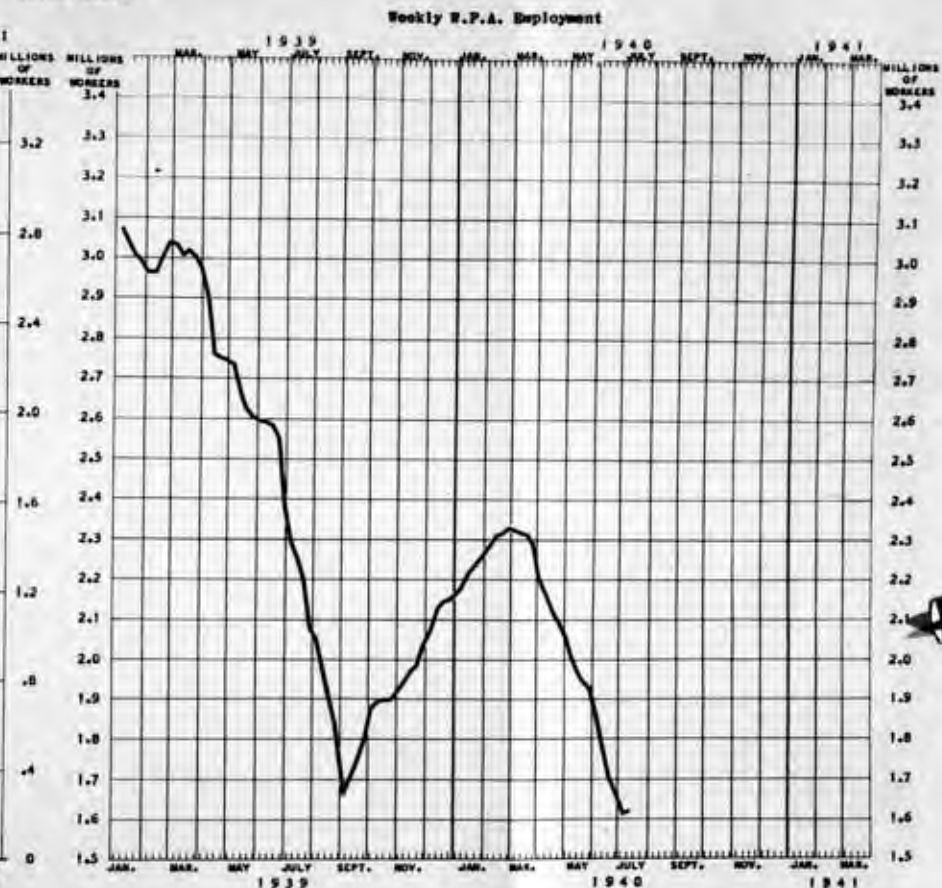
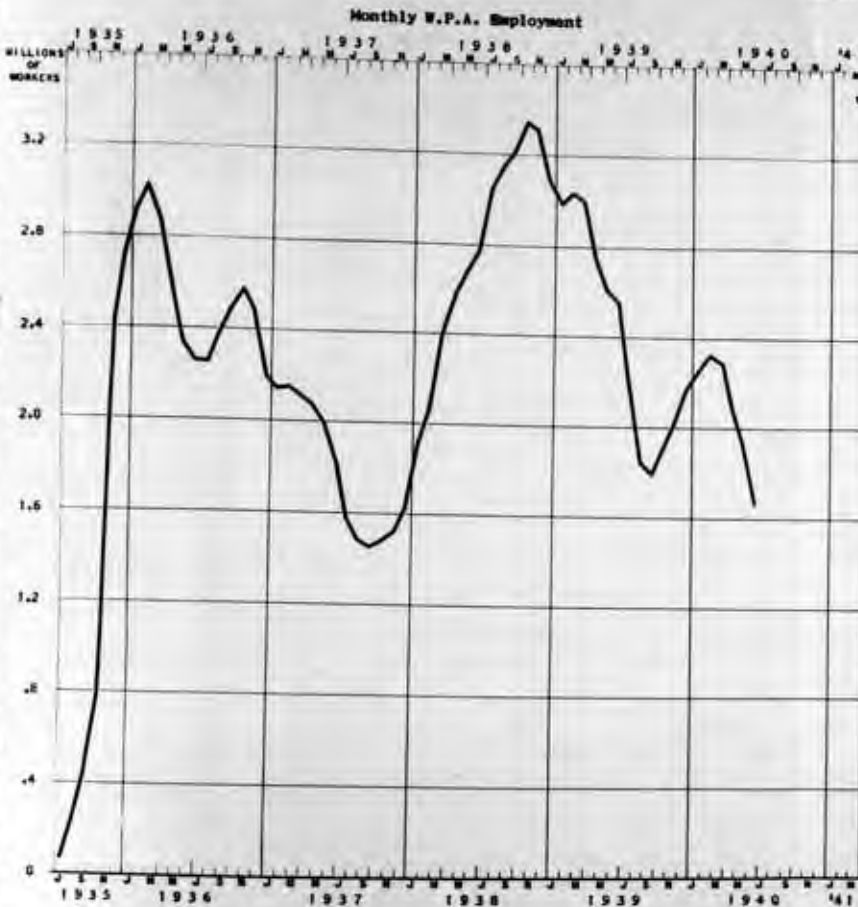
	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
July 15	1,500	5,730	28,000	27,266
16	3,210	25,800	59,000	38,122
17	500	1,854	93,000	70,092
18	1,450	43,448	37,000	26,976
19	1,665	107,970	86,000	77,532
20	10	929	7,000	5,368
	<u>8,335</u>	<u>185,731</u>	<u>310,000</u>	<u>245,356</u>
Sales from February 22 to July 13	<u>1,379,748$\frac{1}{2}$</u>	<u>48,085,013</u>	<u>2,419,000</u>	<u>2,152,579</u>
TOTAL FEBRUARY 22 TO JULY 20	1,388,083 $\frac{1}{2}$	48,270,744	2,729,000	2,397,935

Mr. Finsent reported that non-vested securities for the week ending July 13 totaled \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

Activity of the six reporting banks in registered sterling was as follows:

1. Purchased directly from authorized banks in London.....£20,000
 Purchased from the Federal Reserve Bank of New York.....£28,000
 Total purchased.....£48,000
2. Sold directly to authorized banks in London.....£ 1,000

Of the above-mentioned purchases, £30,000 were bought by the banks for their customers; the remaining £18,000 were probably used to increase registered account balances in London.

The Federal Reserve Bank of New York also stated that £164,500 in registered sterling was purchased from it by the non-reporting banks listed below:

£159,000 by J. P. Morgan and Company (for tin)
 5,000 by the American Express Company
 500 by Kidder Peabody and Company
 £164,500 Total

The rate for open market sterling opened at 3.79 and moved up to a high of 3.82-1/2 by late afternoon. It closed at 3.81-3/4. The reporting banks executed orders to sell £47,000 and to purchase £57,000 in open market sterling.

The other currencies closed as follows:

Swiss franc	.2273
Canadian dollar	11-7/16% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	9-15/16% discount
Mexican peso	.2010 bid, .2040 offered

There were no gold transactions consummated by us today.

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

\$8,395,000 from Canada, shipped by the Bank of Canada for its own account, for sale to the U. S. Assay Office.
 1,185,000 from England, shipped by the Bank of England for the account of the Bank of Greece, disposition unknown.
 \$9,580,000 Total

The report of July 17 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 currencies was short the equivalent of \$12,904,000, a decrease of \$415,000 in the short position. The net changes in the positions are as follows:

Country	Short Position July 10	Short Position July 17	Decrease in Short Position
England *	\$ 1,434,000	\$ 947,000	\$487,000
Europe	7,590,000	7,572,000	82,000 (Increase)
Canada	253,000 (Long)	445,000 (Long)	192,000 (Increase in Long Position)
Latin America	326,000	272,000	54,000
Japan	3,192,000	3,325,000	133,000 (Increase)
Other Asia	1,055,000	1,170,000	115,000 (Increase)
All others	25,000 (Long)	37,000 (Long)	12,000 (Increase in Long Position)
	<u>\$13,319,000</u>	<u>\$12,904,000</u>	<u>\$415,000</u>

* Open market sterling

The equivalent of the Bombay gold price worked out to \$33.78, off 6¢.

Spot silver in Bombay was slightly lower at the equivalent of 43.97¢.

The London price for spot silver was fixed at 22-7/16d, up 1/4d. Forward silver was unchanged at 22-1/16d. The U.S. equivalents were 40.79¢ and 40.11¢ respectively.

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

We made two purchases of silver totaling 175,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented inventory silver for spot delivery, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

B. M. J.

CONFIDENTIAL

July 23, 1940

Under Secretary Hall

Mr. Godeaux

STRICTLY CONFIDENTIAL

Mr. Maurice Boyer, whose American address is 44 North Broadway, Matthews Park, Irvington on the Hudson, New York, called on me at 10:15 this forenoon. He showed me a copy of a letter which he addressed to Under Secretary Hall on July 19. In the letter it was noted that the American banks having accounts of the Banque Francaise of Itallenne pour l'Amerique du Sud were making application for removal of the arrangements, made effective on June 25, for the utilization of 25% of their assets.

Mr. Boyer requested, however, that complete freedom be given to the accounts of the above-mentioned bank. He stated that he had taken the initiative when war broke out of blocking funds of this bank which he regrets. If French interests were in the least jeopardized he said he would be the last to recommend the lifting of our restrictions at this time. He felt, however, after his experience to date that the Italian and French business interests concerned in the bank are operating perfectly and that there is absolutely no danger to French interests through lifting of the freezing regulations. He stressed the importance of this bank in Latin American economic life, and mentioned American interest in doing everything possible to aid Latin America in the present circumstances. Boyer hopes to have a reply from Mr. Bell as early as possible, and that this may be favorable. He emphasized his opinion that when the French interests concerned, for whose benefit our freezing regulations were instituted, learned from experience that this protection is not needed, the American Treasury should not insist upon its imposition.

Boyer stated that he still has power as a managing director to represent the Banque de Paris et des Pays Bas and full power to act for the Banque Francaise of Itallenne pour l'Amerique du Sud.

Mr. Boyer left with me the attached translation of a cablegram to him from Kellogg, the Italian Controller General, and Devlin, the French manager of his bank at Buenos Aires.



TRANSLATION

ALL AMERICA CABLES AND RADIO

"VIA ALL AMERICA"

DELR037 JUL 17 40

RNF65 BAIRES 106 17

RNF CHATELAIN FOR MAURICE BOUTER NYE -

WE TENDER YOU OUR VERY BEST THANKS YOURS GAVIN JUNE 24
 WE REQUESTED HENRIER TO COMMUNICATE TO YOU OURS TODAY
 WE SHOULD BE GRATEFUL TO YOU FOR RECORDING OUR REQUEST
 HENRIER'S POSITION HAS REMAINED FORMAL
 SOUTHAMERICAN BRANCHES MANAGED BY GENERAL CONTROL AND
 MANAGEMENT BUREAUX IN ACCORDANCE WITH AGREEMENT
 OUDOT MATTEOLI IN SOUTHAMERICAN INTEREST EXCLUSIVELY
 STOP WE RECEIVED THROUGH HENRIER CABLE OUDOT JULY 10
 CONFIRMING EXPLICITLY NEUTRAL CHARACTER SOUTHAMERICAN
 BRANCHES URGING US TO OBTAIN FREEDOM DOLLARS OFFERING TO
 COOPERATE FULLEST POSSIBLE EXTENT WE REQUESTED HIM
 JULY 12 THROUGH SAME MEDIUM TO CABLE YOU ALONG THESE LINES
 CABLE PROBABLY NOT YET ARRIVED STOP OUDOT STILL CHATELAIN
 OUR OFFICE THINGS PUT TOGETHER UNOCCUPIED TERRITORY PARIS
 OFFICE STILL CLOSED THANKS

MALAGODI GAVIN

RNF

July 23, 1946

Under Secretary Hall

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Edward Shepard, Vice President of the National City Bank of New York in Charge of European Business, telephoned me yesterday afternoon. His bank is particularly anxious to see a decision by us which will permit transfers abroad on the part of individuals in this country to friends and relatives in Europe. I told him that we expected shortly to have a definite decision on this question.

As a second problem, Mr. Shepard stated that his New York bank might be requested to repay to its Paris bank French francs owed the latter. Such a transaction might involve the sale of a dollar draft in Paris. Could the Treasury get any other bank to consent to such a transaction? If and when the National City responds in Paris its important need will be for French francs, but to supply this demand the National City in New York will most likely have to provide dollars to repay francs which it owes Paris.



July 23, 1940

Under Secretary Bell

Mr. Graham

STRICTLY CONFIDENTIAL

At 3:15 yesterday afternoon Mr. Lively telephoned me from the State Department to the effect that the Detroit Trust Company had telephoned Mr. F. B. Stevens in the State Department, requesting the transfer to Bordeaux, France of \$5,000 for the relief of Mrs. Maglietta, a non-resident American citizen. This sum was stated to be necessary for her maintenance and support. It was explained that she maintained a villa and a staff of servants.

Mr. Lively told me that he had had conversations with Mr. Feltz in the past in regard to the amounts which might properly be allowed to be transmitted to invaded territory for the subsistence and transportation of American citizens. While a maximum remittance of \$1,000 had been first considered, this had subsequently been extended to permit a \$2,000 release. Should it be further extended to permit a \$5,000 remittance?

Mr. Lively also mentioned the question raised by New York State Insurance Fund in regard to making payments to European countries. It seems that the United States has treaties with certain European countries, including Norway and Latvia, which have specific arrangements for transmission through consular officers of payments due under labor compensation provisions, etc. I believe Secretary Perkins has had this matter up with the State Department, as we might desire to consult with the State Department on applications for transfers of this type.

Mr. Lively added that the Brazilian Embassy had submitted a note for the relief of its diplomatic offices in Germany and Denmark which have their balances with the Bank of Hollandia, which matter Mr. Lively mentioned to me orally last week. He stated that Mr. Welles was personally interested in an adjustment of this matter being expedited favorably, and that a communication to this effect would be sent to us by the State Department.

EMC:dml7.23.40

July 23, 1940

My dear Mr. Secretary:

I have your letter of July 23, 1940, transmitting a certified copy of your order of the same date determining, ordering, and directing, subject to my approval, that there be issued \$250,000,000, or thereabouts, of notes of the Commodity Credit Corporation designated Series F, to be dated August 1, 1940, to mature May 1, 1943, and to bear interest at the rate of $\frac{3}{4}$ of 1 percent per annum, to be sold to the public at par and accrued interest. The issuance of the Series F notes has my approval. The text of the notes proposed to be issued, and the terms and conditions under which they are to be issued, also have my approval.

The Treasury will be glad to comply with your request and arrange for the sale and delivery of these notes through the facilities of the Treasury and the Federal Reserve Banks, any expense in connection therewith to be borne by the Commodity Credit Corporation. In accordance with your request instructions will be given for the deposit of the proceeds of sale of these notes for the account of Commodity Credit Corporation in Reconstruction Finance Corporation's Symbol Account No. 13-892.

There is transmitted herewith a copy of Treasury Department Circular No. 638, the official circular prepared to govern the offering of the new notes, and the press statement to be issued in connection with the offering.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of Agriculture.

Enclosure
ELH:arp*Not mailed from Secy's office*

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS
Wednesday, July 24, 1940.
7/23/40

Press Service
No. 21-69

The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, is today offering for subscription, at par and accrued interest, through the Federal Reserve Banks, \$250,000,000, or thereabouts, of 2-year 9-month notes of the Commodity Credit Corporation, designated $3/4$ percent notes of Series F. The notes will be dated August 1, 1940, and will bear interest from that date at the rate of $3/4$ percent per annum payable on a semiannual basis, the first coupon being for the fractional period ending November 1, 1940. They will mature May 1, 1943, and will not be subject to call for redemption prior to maturity.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes).

The notes will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Subscriptions will not be received at the Commodity Credit Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be

- 2 -

received without deposit, but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. A new certification has been added to the subscription blanks to be used for this offering, designed to eliminate the practice of making formal or informal contracts for the sale of subscriptions or allotments before the closing of the books. This practice has been discouraged by the Treasury and the Federal Reserve Banks, but has still persisted to some extent on recent issues.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be received subject to allotment. Payment for any notes allotted must be made or completed on or before August 1, 1940, or on later allotment.

The text of the official circular follows:

COMMODITY CREDIT CORPORATION

3/4 PERCENT NOTES OF SERIES F, DUE MAY 1, 1943

Dated and bearing interest from August 1, 1940

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL STATES, WHICH GUARANTY IS EXPRESSED ON THE FACE OF EACH NOTE

Exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes)

1940
Department Circular No. 638

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 24, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Commodity Credit Corporation, designated 3/4 percent notes of Series F. The amount of the offering is \$250,000,000 or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated August 1, 1940, and will bear interest from that date at the rate of 3/4 percent per annum, payable on a semiannual basis on November 1, 1940, and thereafter on May 1 and November 1 in each year until the principal amount becomes payable. They will mature May 1, 1943, and will not be subject to call for redemption prior to maturity.

2. These notes are issued under the authority of the act approved March 8, 1938, (Public No. 442-75th Congress), as amended,

which provides that these notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States; that they shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes); and that the notes shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Commodity Credit Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such obligations, the Secretary of the Treasury shall pay to the holder the amount thereof which is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such obligations.

4. Bearer notes with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury

Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before August 1, 1940, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make

allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

EXPENSES OF LOANS ARE

WHERE WRITTEN:

Washington,
To Presidents, Federal Reserve Banks.

July 24, 1940.

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio.
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas.
San Francisco, Calif.

PERSONAL AND CONFIDENTIAL: Subscription books for the current offering of Commodity Credit Corporation notes of Series F will close at the close of business today July 24, 1940 STOP Any subscription addressed to a Federal Reserve Bank or Branch and placed in the mail before midnight tonight, as evidenced by post office cancellation, will be considered a timely subscription STOP Federal Reserve Banks will use their discretion with respect to subscriptions from small towns, postmarked tomorrow, where there is evidence the subscription was placed in the post office but not postmarked prior to midnight tonight.

Please file GREEN reports of subscriptions promptly at 4 o'clock p.m., Eastern standard time, tomorrow and Friday, showing (a) total subscriptions today and (b) total subscriptions to date.

GREENWOOD wire giving final report of subscriptions, unclassified, should be filed on Saturday, July 27 STOP Should any timely subscriptions be received after final report is filed, you will please wire the Department for special allotment instructions.

It is the present intention to wire instructions as to allotments on the morning of Monday, July 29.

Please acknowledge receipt of this telegram by wire.

(Signed) H. Morgenthau, Jr.

MORGENTHAU

(Initialed) H.M.Jr.

ELK:mp
Sent at:

Private Wire.

TREASURY DEPARTMENT

Washington

**FOR RELEASE, MORNING NEWSPAPERS,
Thursday, July 23, 1942.
7/23/42**

Press Service

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3/4 percent notes of Series F of the Commodity Credit Corporation closed at the close of business Wednesday, July 22.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock, midnight, Wednesday, July 22, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Monday, July 29.

(Initialed) H.M.Jr.

[Handwritten signature]

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Riga, Latvia.

DATE: July 23, 1940, 10 a.m.

No. 217

Banks transportation of large and commercial enterprises was nationalized yesterday by Sasime and a maximum of thirty hectares is the limitation placed on private utilization of land. Collectivization is not compulsory. There has been no change in the currency and the lat remains. The full equivalent would be paid if the currency is changed in the future.

WILEY

10 JUL 23 1940

TO THE SECRETARY
LEGATION OF THE UNITED STATES
RIGA, LATVIA

RECEIVED
U.S. DEPARTMENT OF STATE

21 JUL 23 1940

TO THE SECRETARY
LEGATION OF THE UNITED STATES
RIGA, LATVIA

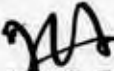
THE WHITE HOUSE
WASHINGTON

July 23, 1940

My dear Mr. Secretary:

Thank you very much for your thoughtfulness in sending me the memorandum from Mr. Irigoyen, which I will hold in strictest confidence.

Sincerely,


JAMES FORRESTAL
Administrative Assistant
to the President

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

REB

PLAIN

London

Dated July 23, 1940

Rec'd 2:30 p. m.

Secretary of State,
Washington.

2353, July 23.

FOR TREASURY FROM BUTTERWORTH.

Today in this the eleventh month of the war the third of the war budgets was introduced in the House of Commons by Sir Kingsley Wood, the recently appointed Chancellor of the Exchequer. The utter inadequacy of Simon's second war budget was recognized shortly after its introduction in April. It failed in three respects.

(1) It grossly under-estimated the expenditure necessary for the prosecution of the war, (2) it provided for revenue to meet only 46 percent of the inadequate expenditure estimate and (3) it indicated a complete lack of realization of an essential function of a war budget, namely, that it should play its part, in a coordinated economic and financial plan, in the reduction of consumption in the face of rising incomes and thus avoid an inflationary spiral. In today's budget as regards (1) while Wood has budgeted for an expenditure of £3,467 million as compared with Simon's £2,667 million he,

like

REB -2- #2353, From London, July 23.

like Simon, has assumed the current weekly expenditure as remaining static throughout the remainder of the year. As regards (2) although he has levied increased taxation to yield £126 million this year and £239 million in a full year, this revenue will only provide 36.4 percent of his estimated expenditure as compared with Simon's 46 percent, the latter not including the yield of the purchase tax. As regards (3) his tax increases are unimaginative, traditional in character and are only a partial remedy in preventing purchasing power from causing an inflationary price rise in the face of reduced supplies of consumption goods.

The Chancellor himself stressed in his speech the interim character of this budget. He admitted that the situation was "fundamentally dangerous" and that inflation could endanger the successful prosecution of the war but he was confident that it could be avoided. Therefore if these statements are to be taken literally it may well mean that another budget will have to be brought in before the end of the financial year, March 31, 1941. The revenue increase from Simon's £1,234 million to £1,360 million is to be produced by an increase in the standard rate of income tax from 7 shillings 6 pence to eight shillings 6 pence in the pound, (the lower rate charged on the first

£165

REB -3- #2353, From London, July 23.

£165 of taxable income to be 5 shillings instead of half the standard rate) to produce £60 million this year and £74 million in a full year: surtax on incomes of £2,000 to be raised from 1 shilling 3 pence to 2 shillings in the pound and the 9 shillings 6 pence rate to reach down to incomes of £20,000 instead of £30,000 all of which to yield £8 million this year and £11 million in a full year: a 10 percent increase in estate duties to yield £1 million this year and £6 million in a full year: an increase in the beer duty amounting to 1 penny a pint and 2 shillings per gallon on wines and 2 shillings per pound on tobacco to yield together £15 million this year and £24 million in a full year: an increase in the entertainments duty to yield £1.8 million this year and £4 million in a full year; and a purchase tax to yield £40 million this year and £110 million in a full year at 33 1/3 percent on luxuries and purchases "which could be postponed" with 16 2/3 percent on other goods subject to the tax as described in my telegram No. 1961 of July 3 the purchase tax to be assessed on the wholesale price when goods are purchased by the retailer. These rates are roughly equivalent to 24 percent and 12 percent respectively on the retail price. Wood's purchase tax will be more restricted in character than

Simon's

REB -4- #2353, From London, July 23.

Simon's and apply to only about £640 million out of the national income which in peacetime is generally estimated at £5,000 million. Incidentally the House of Commons was apathetic during the budget speech.

KENNEDY

HPD

TO THE SECRETARY
FOR THE SECRETARY
OF THE SECRETARY

20 JUL 24 1941

RECEIVED
SECRETARY

JR

PLAIN

London

Dated July 24, 1940

Rec'd 6:15 a.m.

Secretary of State,
Washington.

2358, twenty-fourth.

My 2353, July twenty-third, in second paragraph,
penultimate sentence, substitute "39 per cent" for
"36.4 per cent."

W. E. KENNEDY

DDM

THE UNDER SECRETARY OF STATE
WASHINGTON

July 23, 1940

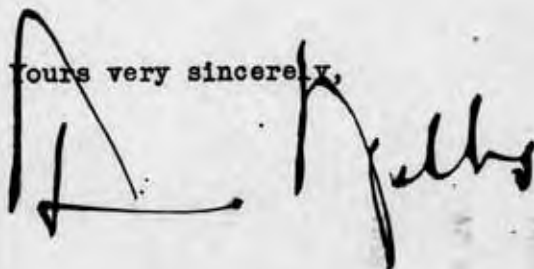
My dear Mr. Secretary:

I greatly appreciate your courtesy in sending me with your letter of July 22 a copy of a memorandum delivered to the Treasury Department by the Financial Counselor of the Argentine Embassy containing a personal message addressed to you by the Argentine Minister of Finance.

I have telegraphed the text of this telegram to Secretary Hull at Habana.

Believe me

Yours very sincerely,

A handwritten signature in black ink, appearing to read "H. Morgenthau, Jr.", written in a cursive style.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

With reference to the question which we had up some weeks ago of permitting the Vatican State to open an earmarked gold account with the Federal Reserve Bank of New York, it is noted that such an account, in the amount of \$7,665,000, appeared on the confidential statement of earmarked gold sent to us under date of July 17 by the Federal Reserve Bank of New York. Mr. Knoke explained to me that all of the gold intended to be placed in this account had now been received, according to his information. One lot of Vatican gold reaching New York had been sold for dollars and had not been placed in the earmarked account.

