

SECRET

WASHINGTON, D C 13 JUNE 40

MR. HENRY MORGENTHAU, JR.

HAVE JUST SEEN BEAVERBROOK WHO SAYS BY ALL MEANS
PRODUCE MERLIN 20 THE GRIFFEN ENGINE TOO FAR AWAY FROM
ACTUAL PRODUCTION TO MAKE A JUDGMENT ON ITS VALUE.
ALL OF HIS EXPERTS AGREE ON THIS ABOVE.

KENNEDY

J. M. ...
TOR:- 0100

June 13, 1940

My dear Admiral Moyes:

Will you please send for me the following confidential cable to Ambassador Kennedy via secret naval code:

QUOTE - Army is prepared to turn in on June 14th 93 Northrop A-17A planes with bombs furnished by Navy. Rolls Royce plans will arrive in Washington at noon today. Many thanks for your cooperation. UNQUOTE

Yours Sincerely,

H. H. Magenthan, Jr.

Rear Admiral Leigh Moyes, U.S.N.,
Director of Naval Communications,
Room 2622, Navy Building
Washington, D.C.

Sent by Secret Service -

6/13/40

June 13, 1940

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Yours Sincerely,

H. Morgenthau, Jr.

Rear Admiral Leigh Noyes, U.S.N.,
Director of Naval Communications,
Room 2622, Navy Building
Washington, D.C.

*Sent by Secret Service
6/13/40*

June 13, 1940

Captain Kraus was in and I let him read the cable from Kennedy, dated June 12, which said the plans were in Montreal at the Royal Bank of Canada. I asked him to transmit the gist of it to Knudsen and Mead.

June 13, 1940
9:27 a.m.

H.M.Jr: Hello.

Arthur Purvis: I was a little optimistic in that figure.

H.M.Jr: I thought you were.

P: \$200 million.

H.M.Jr: \$200 million.

P: Yes.

H.M.Jr: All right. Well, I can make

P: Which is about half air.

H.M.Jr: Pardon?

P: About half air -- in the air end.

H.M.Jr: Oh, yes.

P: While you're on, may I just make one remark that Maurice Wilson, the ginger-upper - that Beaverbrook appointed for Canada is in - who sent you the plans yesterday is in Wqshington today.

H.M.Jr: Yes.

P: Could he come and have a -- shake hands with you?

H.M.Jr: Oh, I'd love it. What's his name?

P: All right. Maurice Wilson

H.M.Jr: Maurice Wilson.

P: He's Chairman of the Royal Bank of Canada and one of the most active, quick fellows we've got in the country.

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H.M.Jr: Now, just a moment. Ah -- just a second, I don't understand my program here. Just a moment.

P: Yes, no hurry.

H.M.Jr: Just a moment. (Talks aside. Mac, have I got anything on at three?)
Hello?

P: Yes.

H.M.Jr: At three o'clock.

P: I'll tell him. Thank you very much.

H.M.Jr: And

P: He tells me the plans weigh $2\frac{1}{2}$ tons, not $1\frac{1}{2}$.

H.M.Jr: The other thing that I want to ask you

P: Yes.

H.M.Jr: Send me a little note when Canada actually signs for those Jacobs engines, will you?

P: Yes. The financial condition of the firm, they told me yesterday, has delayed the completion of the contract for a few days.

H.M.Jr: Yes, you pushed me a little bit on that; I just want to see how fast you gentlemen are.

P: Yes. Well, this I'm going to pass the buck to Canada.

H.M.Jr: All right.

P:

H.M.Jr: All right. You wrote me about having to wait a week or ten days, now I'm checking off each day from the time you got the green light until you sign.

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P: Yes. (Laughs) Very well, you're talking
Jacobs.

H.M.Jr: Jacobs?

P: Yes. Yes, I'll ring Howe today myself
and tell him that you're checking him off.

H.M.Jr: Right.

P: All right, fine.

H.M.Jr: Thank you.

P: Thank you.

June 13, 1940
9:55 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Captain
Kraus: Captain Kraus.

H.M.Jr: I've been waiting to hear from you, Captain.

K: Well, I've been trying to get an answer, Mr. Secretary, but they grabbed everybody that I wanted to see and they're off in a conference now. Do you think that -- we want them here in Washington and they have to be sorted out, so I'd suggest that you turn them over to the Secretary of War.

H.M.Jr: Turn them over to the Secretary of War.

K: Yes, sir, and we'll get them laid out over here and sort them out. I understand that there's some stuff in there that may want to be taken out -- separated.

H.M.Jr: I see.

K: So I think -- I've been trying to get this thing settled; I haven't neglected it, but I couldn't get any answer, but I think Secretary of War is the best thing to do.

H.M.Jr: O. K.

K: But we have not coordinated with him.

H.M.Jr: All right, thank you.

K: All right, thank you.

June 13, 1940

Phil Young told Mrs. Klotz that General Brett had called him and said that he would like the Treasury to have a Coast Guard officer present when the Rolls Royce boxes are unpacked. Mr. Young also asked Mrs. Klotz to call to the Secretary's attention the fact that even though Dr. Mead was told that Mr. Olley should not be present, Dr. Mead had gotten in touch with General Brett and requested that Olley be present.

After this message was given to the Secretary, he called for Mr. Nelson and Phil Young and the attached conversations took place with Mr. Knudsen, Secretary Woodring, and Admiral Waesche.

* * *

Over the White House phone, Secretary Woodring called HM, Jr back again (at 4:20 p.m.) after the whole thing had been apparently settled and asked HM, Jr to have a Secret Service man go on the train in addition to the Coast Guard officer Kossler. Woodring said they had decided not to send an Army officer because it would attract too much attention. HM, Jr called Chief Wilson and arranged for him to send a Secret Service agent to Dayton.

June 13, 1940
3:54 p.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Right.

Operator: Go ahead.

Wm. S.
Knudsen: This is Knudsen.

H.M.Jr: Hello.

K: This is Knudsen.

H.M.Jr: Yes. Morgenthau.

K: The Boss said O. K.

H.M.Jr: Wonderful. Now, I'll -- he liked it?

K: What's that?

H.M.Jr: He liked it?

K: He brought up the point that you brought up,
no monopolies.

H.M.Jr: Well -- about the Aluminum Company.

K: Yeah.

H.M.Jr: But everything else O. K.

K: Everything else O. K. Now, you send Foley
over here and we'll write it up, huh?

H.M.Jr: Sure. When do you want him?

K: Yeah.

H.M.Jr: When would you like him?

K: Any time.

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H.M.Jr: Well, you name the time.

K: Well, I'll see him this afternoon still.

H.M.Jr: Well

K: Say 5 o'clock.

H.M.Jr: I'll have him there.

K: And then you'll approve it?

H.M.Jr: Yes.

K: I see. Then I can go ahead.

H.M.Jr: Yes, and then you'll be here at 9:00 tomorrow morning?

K: I'll be in your place at 9:00 tomorrow morning, yeah.

H.M.Jr: Yeah. Now look, Knudsen, do me a little favor, will you?

K: Yes.

H.M.Jr: I'm really annoyed. At 2:00 o'clock Nelson, Don Nelson, came in and asked me whether this man, Olley, of Rolls Royce could be present when they unpack that material from England, you see? And he sent word through Philip Young to Mead-- to Mead that we did not want Olley there.

K: Yeah.

H.M.Jr: Now Olley -- somehow or other he's arranged through General Brett he's going to be there.

K: When?

H.M.Jr: Well, whenever it's going to be unpacked -- tomorrow afternoon.

K: Oh, yeah, unpacked.

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H.M.Jr: Yeah, when they're going to unpack it. Now, I don't want Olley there. There's other things in there -- it's important enough that the head of the Bank of Montreal personally came down to see me today.

K: Yes.

H.M.Jr: Now, Mead ought not to do this.

K: All right.

H.M.Jr: And nobody but United States Army officers should be present until they see what is in those boxes and then we can decide whether or not Mr. Olley

K: Who has given Olley permission?

H.M.Jr: General Brett

K: General Brett.

H.M.Jr: But Mead knows that I did not want Olley present and I don't understand all of this stuff that's going on between Mead and Olley. I don't like it.

K: All right.

H.M.Jr: And I'd appreciate it very much if you'd put a stop to it.

K: All right, and did you want me to see Mead or Olley or Brett?

H.M.Jr: Well, I think -- --tell Mead that he got the message once today that the Treasury did not want Olley present and that that ought to be enough.

K: Yeah. All right.

H.M.Jr: You and I talk the same language.

K: All right.

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H.M.Jr: And can I leave it with you, please?

K: Sure.

H.M.Jr: And then I'll see you at 9:00 o'clock tomorrow
 morning and I'll have Ed Foley at your office
 at 5:00.

K: Thank you.

H.M.Jr: Thank you.

K: Fine.

June 13, 1940
11:22 a.m.

H.M.Jr: Hello.

Operator: Secretary Woodring. Go ahead.

H.M.Jr: Hello.

Secretary Woodring: Hello.

H.M.Jr: Harry, Henry talking.

W: Yes.

H.M.Jr: I don't know whether you are familiar with the fact that through Ambassador Kennedy the British Government has given me the license on the Rolls Royce engine.

W: Yes, I heard that.

H.M.Jr: Now, the plans are arriving at Washington at 12:30.

W: Who is?

H.M.Jr: The plans.

W: Oh, yeah.

H.M.Jr: They weigh 2½ tons, and I have written a formal letter to you because I'd like to turn them over to you to go out to Wright Field or to whatever your aviation people want. See?

W: Yes.

H.M.Jr: And if you could receive Mr. Foley and Mr. Young, they could give you more background.

W: All right.

H.M.Jr: And they can come over now if you

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W: All right.

H.M.Jr: Could they come over now?

W: Wait just one minute. (Pause) Look, I have my War Council at 11:30. I wonder -- could they come at 12:00?

H.M.Jr: Surely.

W: All right. Ask them to come at 12:00.

H.M.Jr: 12:00 and then

W: We'll work out all the arrangements if they'll tell us what they want done at that time.

H.M.Jr: Well, what we want to do is to have the Army and Navy get the benefit of them.

W: Yes, I know.

H.M.Jr: And -- but I want something formally because I've gone back several times -- the British Government for some reason wants to keep it between Governments.

W: Yeah, now this weighs how much?

H.M.Jr: 2½ tons.

W: All right.

H.M.Jr: There may be an engine in it for all I know.

W: Yeah, there probably is.

H.M.Jr: Well, Foley and Phil Young will be at your office at 12:00.

W: All right.

H.M.Jr: Thank you so much.

W: O. K. Thank you for calling. Good-bye.

June 13, 1940
4:09 p.m.

Operator: Operator.
H.M.Jr: Secretary Woodring.
Operator: Right.

4:10 p.m.

H.M.Jr: Hello.
Operator: Secretary Woodring. Go ahead.
H.M.Jr: Hello.
Secretary Woodring: Yes.
H.M.Jr: Harry?
W: Yes.
H.M.Jr: I need your help.
W: All right.
H.M.Jr: There's something very funny going on about these plans that -- from England which came today and which -- I sent this letter to you.
W: Uh-huh.
H.M.Jr: And a lot of people want to see these when they're unpacked, particularly the representative from Rolls Royce.
W: Of what?
H.M.Jr: Of the Rolls Royce Company.

- 2 -

W: Oh, yeah.

H.M.Jr: Now for some reason or other the British Government seems to want to keep the Rolls Royce Company at arms' length, and I'd like to make this suggestion.

W: All right.

H.M.Jr: When they're unpacked, your people have invited us to send a representative and we're going to send a Coast Guard officer.

W: Well, now, the last word I got was that you'd phoned over and said you didn't want to send anyone.

H.M.Jr: No, we'll send a Coast Guard officer who can also represent Customs.....

W: Yeah.

H.M.Jr: at the same time.

W: All right.

H.M.Jr: He'll be there and then if I may make this suggestion, except for United States Army plus this Coast Guard officer, I don't want any civilians present until it's unpacked and listed.

W: Well, I think that's smart.

H.M.Jr: Because I know -- the head of the Bank of Montreal was in at 3:00 o'clock.

W: Uh-huh.

H.M.Jr: He was directed by Lord Beaverbrook to go to Halifax and take these off this battleship himself, and he accompanied this stuff all the way down here. That's a tremendous bank, you know.

W: Yes, I know.

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H.M.Jr: And he tells me there are other things in there besides Rolls Royce.

W: Oh, yeah.

H.M.Jr: There are other airplane plans and there are too many people who want to see those.

W: Well, I'll just say to you this that there will be no one see it until I've talked to you again and until you ask us to release it outside the Coast Guard representative and United States Army.

H.M.Jr: That's right.

W: Now, look, Henry, you want me -- to check on that. I asked your boys to send me over the name because I wanted the name of the man and they phoned over and said that they had decided not to send anybody.

H.M.Jr: Well, there must have been cross wires and I'll

W: Will you give us the name so that when I write to -- this letter of instructions to Dayton that I can give them his name.

H.M.Jr: I will give you the name, myself, within three minutes.

W: And -- well, how will we identify him out there?

H.M.Jr: Ah -- I'll have to have him identify himself

W: I don't want just somebody to come and say that they're the representative.

H.M.Jr: He'll have a letter from me.

W: All right.

H.M.Jr: He'll have a letter from me.

- 4 -

W: All right.

H.M.Jr: And I'll give you his name and -- ah -- the other thing -- hello.

W: Yes.

H.M.Jr: I think that those boxes should have a guard on the way out.

W: Well, I under -- yes, I understood that they were.

H.M.Jr: Well, my people said not, but that may be wrong.

W: Well, I'll check on that.

H.M.Jr: But they should have a guard.

W: Yes, I think so.

H.M.Jr: I'll call

W: They will have.

H.M.Jr: Good. Then, well, I'm awfully glad I called you and I think you had better tell General Brett about this because I

W: I'll tell him.

H.M.Jr: also understood that he was considering giving permission to this Rolls Royce representative to be there.

W: Uh-huh. All right, I'll call him right away.

H.M.Jr: Thank you so much.

W: All right. Good-bye.

June 13, 1940
4:18 p.m.

H.M.Jr: Hello.

Operator: Woodring. Go ahead.

H.M.Jr: Harry?

Secretary
Woodring: Yes.

H.M.Jr: The officer's name of Coast Guard is
W. J. Kossler, K-o-s-s-l-e-r.

W: K-o-s-s-l-e-r?

H.M.Jr: K-o-.....

W: Yes.

H.M.Jr: s-s-l-e-r.

W: Oh, Kossler.

H.M.Jr: Yes.

W: W. J.

H.M.Jr: And I've written a letter to Colonel Echol
out there introducing him, you see?

W: All right.

H.M.Jr: And I am putting him on the same train
tonight -- the 8:20 train -- that, as I
understand it, this shipment is going on.

W: That's right. Uh-huh.

H.M.Jr: But he's going to be on that train.

W: All right. We -- General Brett's in here
now and we're carrying out the whole thing
just as you requested it.

H.M.Jr: And thank you so much.

W: All right.

H.M.Jr: Thank you.

W: O. K.

June 13, 1940
4:14 p.m.

H.M.Jr: Hello.

Operator: Admiral Waesche. Go ahead.

H.M.Jr: Waesche.

Admiral
Waesche: Yes, sir.

H.M.Jr: I want to send an officer out to Dayton who can also represent Customs to be present when they unpack this Rolls Royce stuff which has come in today from England.

W: Yes.

H.M.Jr: Now, it ought to be somebody -- an engineering officer -- you haven't got an engineering officer who also knows aviation or plans

W: Yes, we have. We've got an excellent aviation

H.M.Jr: Who?

W: officer, just brought in in charge of aviation engineering -- Kossler:

H.M.Jr: Well, give me his name.

W: W. J. Kossler. K-o-s-s-l-e-r.

H.M.Jr: W. J.

W: Yes, K-o-s-s-l-e-r.

H.M.Jr: K-o-s-s-l-e-r. Now

W: He's both an aviator and an engineer.

H.M.Jr: Right. Well, now I'll write a letter which I'll send over to you so that he can identify himself and he should be at Dayton, Wright

- 2 -

Aeronautical Field -- ah -- tomorrow morning.
Hello?

W: Tomorrow morning.

H.M.Jr: And he can -- let him come over and see
Philip Young in my office and he'll give
him all the details.

W: Philip Young.

H.M.Jr: What?

W: Philip Young.

H.M.Jr: Yes. Room 296.

W: This evening.

H.M.Jr: Room 294.

W: Room 294, and he's to come over there right
away.

H.M.Jr: Right, and he'll give him the details and I'll
have a letter of instructions.....

W: All right.

H.M.Jr: for him. Thank you.

W: Ah

H.M.Jr: Thank you.

June 13, 1940.

MEMORANDUM FOR THE SECRETARY'S DIARY

At the Secretary's request, Phil Young and Ed Foley saw Secretary Woodring at 12 o'clock noon today in regard to the Rolls-Royce patents which are arriving in Washington by railway express at 12:30 P.M. today. Secretary Woodring indicated his approval of Secretary Morgenthau's proposal to turn the plans over to the War Department by signing the copy of the letter which Mr. Foley gave to Secretary Morgenthau.

Secretary Woodring called in Colonel Ward and instructed him to communicate with the railway express and have the plans and specifications trans-shipped immediately to Wright Field, Dayton, Ohio. Colonel Ward was instructed, should he encounter any difficulty, to communicate with Phil Young.

P. H. - F. L.

June 13, 1940.

Dear Mr. Knudsen:

I am attaching a copy of a letter which I have today sent to Secretary Woodring in regard to the Rolls-Royce patents consigned to me through Ambassador Kennedy by the British Government. Secretary Woodring has indicated his approval on a copy of my letter and has arranged for the material to be trans-shipped at once to Wright Field, Dayton, Ohio.

Yours sincerely,

(Signed) H. Morantau, Jr.

Secretary of the Treasury.

Hon. W. S. Knudsen,
Chairman, Advisory Commission to The
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

Enclosure ✓

EHF:akm 6/13/40

S. W. 76.

By Messenger *on 6/14*
at 4²⁵ pm

June 13, 1940.

Dear Mr. Knudsen:

I am attaching a copy of a letter which I have today sent to Secretary Woodring in regard to the Bells-Royce patents consigned to me through Ambassador Kennedy by the British Government. Secretary Woodring has indicated his approval on a copy of my letter and has arranged for the material to be trans-shipped at once to Wright Field, Dayton, Ohio.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

By Messenger

EHF:akn 6/13/40

June 13, 1940.

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. W. S. Knudsen,
Chairman, Advisory Commission to The
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

By Messenger

EHF:skm 6/13/40

June 13, 1940

Dear Mr. Secretary:

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

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

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

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

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

HWTr/En

Approved:

151 Harry H. Woodring

Secretary of War
June 13, 1940

WASHINGTON D.C.

13 JUNE 1940

SECRET

FOR THE HONORABLE SECRETARY OF TREASURY
FROM MR. KENNEDY

BEAVERBROOK NOT AVAILABLE TODAY IMPORTANT MEETINGS
ELSEWHERE. XM

HOPE TO GET INFORMATION TO YOU TOMORROW

TOR CODER ROOM 2030

*Telephoned to Secretary Morgenthau
at 4:20 pm. E.M.*

June 13, 1940

My dear Colonel Echels:

The bearer of this letter, W. J. Kessler, United States Coast Guard, will represent the United States Treasury at the time that you unpack the boxes which have been sent by the British Government to me and will assist you in making an inventory of the same. (Kessler / Kessler)

Any courtesies that you can extend to Mr. Kessler will be appreciated by me.

Yours sincerely,

Colonel Oliver P. Echels,

Commanding Officer, Wright Field,
Dayton, Ohio.

June 13, 1940

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My dear Colonel Echels:

The bearer of this letter, W. J. Kessler, United States Coast Guard, will represent the United States Treasury at the time that you unpack the boxes which have been sent by the British Government to me and will assist you in making an inventory of the same.

Any courtesies that you can extend to Mr. Kessler will be appreciated by me.

Yours sincerely,

Colonel Oliver P. Echels,

Commanding Officer, Wright Field,
Dayton, Ohio.

June 13, 1940

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My dear Colonel Rebels:

The bearer of this letter, W. J. Kessler, United States Coast Guard, will represent the United States Treasury at the time that you unpack the boxes which have been sent by the British Government to me and will assist you in making an inventory of the same.

Any courtesies that you can extend to Mr. Kessler will be appreciated by me.

Yours sincerely,

Colonel Oliver P. Rebels,

Commanding Officer, Wright Field,
Dayton, Ohio.

June 13, 1940.
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Good morning, everybody. Herbert?

Gaston: I don't know of anything. The Coast Guard are trying to settle the status of an Italian tanker in the New York Harbor, whether she is a commercial vessel or a naval ship.

H.M.Jr: Ed?

Foley: I have that draft.

H.M.Jr: Kraus was here. He kind of thought maybe they might like those things up at the aircraft factory of the Navy at Philadelphia. But, he was to come back at nine and he hasn't shown up yet. I told him the story and he said he didn't know they were going to work - he thought they might want their men in Philadelphia. The letter can be written to the Navy.

Foley: Sure. I should think --

H.M.Jr: My first choice was Navy.

Foley: You mean Army?

- 2 -

H.M.Jr: No, if the Navy wanted them, I would rather give them to the Navy because the Army is prejudiced against the Rolls anyway, and in about a year from now they will be wishing they had it. The Navy can't use this, so they will be more disinterested. The Navy doesn't use them.

Cochran: There was an item on the ticker that I don't think was in the press, that the Commanding Officer in Paris said he declared it an open city with the idea of not defending Paris but fighting in the suburbs.

H.M.Jr: What does that mean?

Cochran: It wouldn't be a military controlled city. They would not fight, barricaded.

H.M.Jr: They would not?

Cochran: They would not.

H.M.Jr: Is that good or bad?

Cochran: Captain Buleston was hoping that that is what they would do, that they would barricade the streets.

H.M.Jr: Is that what they will do?

Cochran: No, they will not.

H.M.Jr: He was hoping they would. He was hoping they would fight right through the city like Madrid.

Cochran: Yes, sir.

H.M.Jr: Phil?

Young: I have no problems.

H.M.Jr: Nelson, I have talked with Phil earlier this morning and it seems to me the thing we ought to do now is to try to tie up all these loose ends we were discussing here yesterday with the Army and Navy before we take on anything new.

- 3 -

Nelson: Yes, sir.

H.M.Jr: I mean a lot of - well, they say they will have those 93 planes ready tomorrow and I read in the paper about the 80, but I think all the loose ends ought to be sewed up, don't you agree?

Nelson: I agree definitely, sir. You might be interested to know that on those 93 planes, Sir Henry Self said, "Well, that is just one and a half sorties," the bombs we gave them.

H.M.Jr: Well, Stettinius is getting for me directly from U. S. Steel how many bombs were ordered, when delivery begins, and when delivery will be completed. I am going to have that in a couple of hours. I said, "Please get it directly from U. S. Steel," and we have that. We will take a look at it. I think there was some nice bluffing going on, but I don't like to bluff, I want the facts. This thing takes a year to make a hundred pound bomb. I think they are nuts.

Nelson: It sort of seemed so to me.

H.M.Jr: I don't know what there is in a bomb other than a hollowed out piece of steel stuffed with powder.

Nelson: I got a letter from Bill Witherow who was down here in N.R.A. that he had worked out a method of making a bomb from cast iron and hadn't yet gotten approval from the War Department. We might put them in touch with the Allies. Perhaps they could do it much quicker.

H.M.Jr: Maybe it would be a good idea. I think right now from all I can tell the Allies are moving quicker than we are. I mean, they are placing their orders faster than we are.

Nelson: Yes, sir.

H.M.Jr: What else have you got?

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Nelson: Nothing serious.

H.M.Jr: I am seeing you at noon, am I not?

Nelson: Yes, sir.

H.M.Jr: One o'clock?

Nelson: Yes, sir. Everything else is moving along smoothly.

H.M.Jr: Chick?

Schwarz: I have nothing.

H.M.Jr: I loved that picture on the - of Vandenberg and myself. You know what happened, don't you?

Schwarz: He called you over.

H.M.Jr: Vandenberg called me over and he thought he would be smart and scold me. He was very serious. He saw the photographer and as soon as he started to do that to me, I did it to him. I will circulate the picture. You can see LaFollette in the background. Just as soon as he started doing like that, (shaking finger) I did that too. I made him laugh. It didn't work, you see. He wanted to have a picture scolding the Secretary of the Treasury. I think it is a marvelous picture.

Klotz: LaFollette is laughing.

Schwarz: Your trips to Hollywood haven't been in vain.

H.M.Jr: Did those news photographers mind my asking them to atop?

Schwarz: No, they realized it was warm and crowded.

H.M.Jr: It wasn't warm, it was just that to have a fellow sitting right on top of you --

Schwarz: The flash bulbs.

H.M.Jr: But I asked them myself finally if they would stop.

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Schwarz: The clerk asked them at one time.

H.M.Jr: I asked them.

George? You are stopping those Italian statistics, aren't you?

Haas: Yes, sir. (Handing report to Secretary.)

I heard a story that will amuse you. This man Lombard that works for Dr. Mead told me that the Air Corps was having trouble with the airplane companies getting information and one of them, at least, Consolidated, told him that they were giving it to the Secretary of the Treasury and if they wanted the information, get it from him.

H.M.Jr: That makes for good feeling. I signed all those letters yesterday.

Haas: Good, that is fine. That will help out a lot.

H.M.Jr: Harry?

White: Nothing.

H.M.Jr: It is a good crowd this morning. If we get through, maybe you and Nelson will stay behind and we can talk a little bit about the Procurement and you can tell me what is happening.

Dan?

Bell: I think Harry ought to tell you about the conversation with Berle.

White: Berle said they had taken the matter up with the State Department and their views are those of Secretary Hull's also, since they took it up with him.

H.M.Jr: A little louder, Harry.

White: That they now feel that any attempt to extend the control over any broad area would be unwise.

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because the reaction, public reaction, Congressional reaction, might be in the opposite direction in which things are now going, and they don't feel they want to disturb the desired trend of affairs, particularly since the gains to be achieved are not very great. They did feel, however, that they would be quite satisfied to have exchange control extended to Switzerland if the Treasury wished to. There was one objective that they would like to attain, and that is to prevent any foreign funds from being used for propaganda purposes or any other purposes of a similar character, and they propose that new legislation be drafted and they would want to know whether you would care to sponsor it. If you don't, they will or the F.B.I., and they would, in any case, like your cooperation in preparing the draft of the bill at once, and they think it will go through.

H.M.Jr:

To do what?

White:

To prevent foreign funds being used for propaganda purposes. The administration of it may be in the Treasury, depending on how it is drafted. It may be elsewhere. They said if you wanted to sponsor the bill they would be very glad to cooperate, if not, either they or the Department of Justice would sponsor it.

H.M.Jr:

Supposing we take it up with Bob Jackson and see how he feels about it.

Foley:

All right.

H.M.Jr:

Will you take the responsibility on it?

Foley:

Yes. Bob isn't here. He won't be back until Monday. I will talk to Francis.

H.M.Jr:

Will you take that?

Foley:

Yes.

White:

The decision as to whether you want to extend the aid to Switzerland will be whether you want

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to take up at present the whole matter. Danny can tell you how we feel about it.

H.M.Jr: Okay.

Bell: We have a feeling that you should not extend it to Switzerland alone. It would be very difficult to explain.

H.M.Jr: Have you talked to Dr. Somary?

Bell: No, I have not.

H.M.Jr: Have you?

White: Merle has and --

Cochran: I gave them my memo on it.

H.M.Jr: He is coming in at eleven. Are you doing anything around eleven?

Bell: No.

H.M.Jr: Are you, Harry?

White: No, sir.

H.M.Jr: Do you think he would talk just as freely?

Cochran: I am a little hesitant to say that, because he wanted to come in to tell you some other information, not on that particularly but on the Italian lineup.

H.M.Jr: Supposing I see him alone, then, and I will pass it along. Now, have you fellows got through passing the buck to each other?

White: Well, we are in agreement.

H.M.Jr: It is a beautiful job.

White: We learned that from watching you testify.

H.M.Jr: I am glad at least you can learn.

White: What is this - yes I saw this.

H.M.Jr: What else, Dan?

Bell: The exchange last night amounted to only 243 million. Of course, we will get --

H.M.Jr: How much?

Bell: Two hundred forty-three million. There is about 110 million outstanding yet. Of course, we will get some in the mail, but it won't go near as high as the notes.

H.M.Jr: You are getting 300, aren't you?

Bell: I hope it will be 300, between 300 and 320, but it might not go over 300. We are going to call New York and Chicago to see whether or not we can get some preliminary information on the reports this morning before your ten thirty press conference.

H.M.Jr: Thank you.

Bell: The Finnish Minister wants to come in Saturday.

H.M.Jr: Yes, and I --

Bell: And give you a check.

H.M.Jr: And you are going to be here. I read Merle Cochran's memoranda and I am so glad he couldn't have the check on Friday and you are going to be here and I read that the photographers will be in the hall. Last time we went down on the steps.

Schwarz: Do you want to issue any instructions to the Under Secretary?

H.M.Jr: He will be Acting.

Bell: Photographers not allowed in the office.

H.M.Jr: He is Acting, so it is entirely his responsibility.

Bell: The main thing I want to do is to cover in the December payment. I don't think we ought to hold it over the fiscal year. The Roumanian

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Minister has been in a couple of times, and he wants to write a letter to the State Department in response to the debt note saying that they are willing to refund their debt on a basis of paying off the original principal and without interest, and he wants to pay a hundred thousand dollars into a special account to be held until that arrangement is consummated. We are drafting a letter saying we will accept the hundred thousand and put it in a special account, but it is understood by so doing this we have not in any way altered the debt agreement.

- H.M.Jr: Well, look, Dan. I would go through the motions, but there isn't one chance of getting it through.
- Bell: That settlement. I don't believe I would make any statement today on the Bank of America.
- H.M.Jr: I see that the public just rushed in for the stock and took a million and a half of the thirty million and just fell all over each other.
- Bell: They got about 27 million from Jesse and he sold them the San Francisco Bridge Bonds, 20 million of them, for 21½.
- H.M.Jr: Sold who?
- Bell: Giannini.
- H.M.Jr: Which part of Giannini?
- Bell: The bank. Sold them those bonds and they invested 21½ million of the 27 million in the bridge bonds. Jesse just told me about it this morning and I asked him if that in any way violated the law in respect to the 10% and he said no, these were municipal bonds and were exempt. I didn't know municipal bonds were exempt from that provision.
- Foley: Yes, I think they are, Dan.
- Bell: If these are municipal bonds, they are all right.

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- Foley: I don't know if those bonds are municipal bonds, though. That is the San Francisco Bay Bridge Commission.
- Bell: Somebody ruled that they are municipal bonds.
- Foley: It is a public authority, but I don't know whether the statute is broad enough to include authorities. I think the statute specified state and municipal and those aren't municipal obligations. They are public obligations.
- H.M.Jr: He lends them the money at $3\frac{1}{2}\%$ and municipal bonds pay what percent?
- Bell: They are $4\frac{1}{8}\%$ and I think there is some arrangement made with the authority out there whereby he will refund them in 4% bonds. The arrangement is all right if they are allowed to hold the full 20 million.
- H.M.Jr: That is up to the controller, isn't it?
- Bell: Yes, but he doesn't know --
- H.M.Jr: Well, he had better find out and I wouldn't be mealy-mouthed about it, gentlemen. I wouldn't stretch the law one one thousandth of an inch.
- Bell: We don't know about it and won't know about it except just through this means until an examination is made.
- H.M.Jr: We know about it now. I went all through that with the SEC and there was no objection to an agency of the Government lending 30 million dollars to another agency which was under serious investigation.
- Bell: Well, it is as far as we can go. It is all settled up to this point.
- H.M.Jr: If I am asked at my press conference about this thing - do you suppose I am going to be asked about it?

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Bell: I shouldn't think so. It is several days old.

Schwarz: You might well be asked about it, nevertheless.

H.M.Jr: Should I say that when this was originally brought to my attention that RFC was going to loan this money to Trans-America, I asked the SEC Commission and they told me they had no objection?

Foley: No.

H.M.Jr: Why not say - put it another way, that it is a matter between - we have no interest in Trans-America.

Bell: It is a matter between Jesse Jones and the Bank of America.

Schwarz: It was made public - their statement said at the time that RFC would make available 30 million.

H.M.Jr: This is what arms length means, as I understand it, but certainly Mr. Giannini made sure that the RFC was kept at arms length from the Bank of America so they would have no control over the directors or anything else. I don't know why Jones is so scared of Giannini.

Bell: I take it they could get control by foreclosing, couldn't he, Ed?

H.M.Jr: Foreclose on Trans-America?

Bell: He can't foreclose on the note, capital stock.

H.M.Jr: No. Well, my record is available to the public.

Bell: I think I would let it ride along for a while and see.

H.M.Jr: I disagree with you, Dan. You know this thing, and if you don't mind, I think you could immediately inform the Comptroller.

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Bell: Oh, the Comptroller, yes.

H.M.Jr: Of the fact that the bank has invested 20 odd million dollars in one security.

Foley: You mean about the press conference?

Bell: Yes.

H.M.Jr: Oh, I see. I agree with you. But I think the Comptroller should be --

Foley: I think that is right, and he will check up right away and see whether or not those securities can be held.

Bell: I think that is right.

H.M.Jr: But after all - well, I definitely think the Comptroller should be advised.

Bell: There is an old revised statute that prohibits the assignment of Government claims of any kind, and Jesse Jones - or not Jesse Jones, Marriner Eccles testified yesterday before the Banking and Currency Committee and I understand that he recommended that that statute be repealed, so that many of the plans in carrying on this national defense program can expand and they can place their claims against the Government for loans, against expansion purposes. Jesse Jones, I think, is in favor of it, too, and he wants to testify like Eccles has. He wants to know if the Treasury has any objection. I suppose we haven't. On the other hand, that restriction was put on there because of some abuse way back there. I think there still ought to be some control.

Foley: Who writes it up, Dan, Marriner?

Bell: Marriner Eccles brought it up yesterday and Jesse is going to follow it today.

H.M.Jr: I am going to have to stop now. Would you talk it over?

Bell: Yes. I just wanted to know your attitude on it.

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H.M.Jr: Well, could you talk to me later in the day?

Bell: I think Ed ought to look it up, first.

H.M.Jr: Norman?

Thompson: Admiral Waesche's commission expires today.

H.M.Jr: Oh. Two forty-five?

Thompson: Yes.

H.M.Jr: Mr. Nelson, do you want to take this and give it back to me at lunch?

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HQ.



HEADQUARTERS

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

WASHINGTON 13 June, 1940.

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

Message from Mr. Nicholson.

It is reported that a hundred American trucks in Hanoi and Haiphong, destined for the interior of China, are now held up following a recent decree of the French Indo China Government banning the export of these vehicles. Hongkong French Intelligence state that the French Government may commandeer these trucks for its own war purposes and that the Chinese Government has previously been told many times to remove said trucks but has failed to do so.

COPY

PARAPHRASE OF TELEGRAM

From: Lima

Dated: June 13, 1940

Rec'd: 5 p.m.

One. Yesterday, the Minister of Finance called to express appreciation for the assistance given through the credit extended by the Export-Import Bank.

Two. The Minister of Finance said that it is his intention to hold the \$2,000,000 credit in reserve at present in view of the favorable developments arising from the cooperative measures adopted between the banks, business, gold producers, and the Government and the curbing of speculation which had brought the exchange situation under control at least temporarily.

Three. The Minister said that the extension of the credit would have an important effect psychologically and that before utilizing the credit for exchange advances for imports he is prepared to permit a moderate orderly decline in the sol. He said that he hoped that some arrangement might be made to apply the credit to the development of economic measures which would create additional exchanges for its repayment in the event the credit were not utilized for the exchange advances mentioned.

Four. The Minister now apparently foresees the possibility that the credit may not be required wholly for the purpose for which originally granted, and he believes that the credit might be used to increase production of exportable commodities and to increase consequently the volume of exchange if the loan were invested in the development of new enterprises. An increase in gold production was one of the enterprises particularly mentioned by the Minister. It would appear that such enterprise might be covered by the terms of an Export-Import Bank credit if he has in mind the purchase of machinery from the United States.

Five. The Peruvian Government has made no announcement of the credit, and no notice of it has appeared in the local press.

Six. It was stated by the Minister of Finance that the projects he has in mind in connection with his long-term cooperation program would be studied by personnel which he would designate immediately for the purpose.

Seven. My conversation with the Minister of Finance is being reported in my despatch No. 157 which is going forward tomorrow by air mail.

CONFIDENTIAL

Law
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OFFICE OF FOREIGN AGRICULTURAL RELATIONS

June 13, 1940

FOR CABINET MEETING

SIGNIFICANT FOREIGN DEVELOPMENTS
(Received June 7 to June 13, 1940)

DENMARK: Danish agriculture, particularly the livestock industry, faces a critical situation as a result of the war. Livestock production and exports of animal foodstuffs depend almost entirely upon imported raw materials in the form of feedstuffs and fertilizers. The Allies have now cut off Denmark's overseas sources of supply for imported feedstuffs while Germany has cut off the Danish exports of livestock products to its formerly important markets. Prospects for supplementing home grown feeds by imports from Germany, Russia, and the Danube Basin are not encouraging. Without imported feedstuffs Denmark's livestock industry will have to be greatly reduced.

EGYPT: The British Government announced that effective June 15 the Navicert System will be applied to Egypt for all export shipments to all European neutral countries. The system, however, will not be applied to other countries or to the Soviet Union.

GERMANY: The German Under Secretary of Agriculture issued an announcement on May 31 for the stated purpose of "refuting reports about the imminence of Germany's collapse for lack of food in the coming winter." The statement of that official brought out the following points:

"Germany will enter the new harvest year on August 1, 1940, with the same grain reserves that it possessed at the outbreak of the war. No European country ever held such a large grain reserve as Germany will have at the beginning of the new crop year.

"Nothing can be said as yet about the final outcome of this year's crop but the damage done by an unusually severe winter has been offset by a number of favorable factors, such as assuring farmers their normal quantities of seed and fertilizers and sufficient supplies of motor fuel to facilitate completion of spring planting. By May 25 approximately 95 percent of the sugar beet area and about 83 percent of the late potato crops had been planted.

"Owing to extraordinary efforts on the part of farmers it has been possible to plant not only the usual spring acreage but also the acreage that could not be planted last fall owing to unsatisfactory weather conditions. A decline in

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winter barley acreage had been offset by increased plantings of spring crops, especially of root crops. The area in root crops has been expanded by 10 percent over last year. The acreage under potatoes alone is 250,000 to 300,000 hectares higher than a year ago, while the acreage under sugar beets has also been increased.

"As regards the fat situation, actual developments have been more favorable than anticipated. Increased butter production has resulted in an upward revision of the butter ration and a consequent saving of margarine. Beginning July 1 the margarine ration will be entirely replaced by butter. Nevertheless, at the beginning of the winter 1940-41 Germany will have a much larger reserve of butter than at the outbreak of the war. Notwithstanding the increase in the cheese ration a month ago there will be a further increase of 25 percent at the beginning of July.

"Germany will enter the winter of 1940-41 with stocks of eggs at least 50 percent above those of September 1939. The hog population is being reduced to correspond to the available supply of feedstuffs but the large reserve of frozen pork created by such slaughter will offset reduced supplies of fresh pork during the coming winter. In addition, there will be available larger supplies of beef since the number of cattle which was already very large at the beginning of the war has increased in the meantime.

"Finally, in regard to supplies of vegetables, a proposed increase of 25 percent in the acreage planted will probably be reached."

In commenting on the statement made by the Under Secretary of Agriculture, Backe, to the effect that Germany's reserves of grain at the beginning of the second year of the war will be equal to those a year earlier, the American Embassy in Berlin points out that the statement refers for both years to the situation which prevailed before the crops were harvested. The grain crop of 1939 was a good one and amounted to 27,400,000 tons, which amount, according to estimates made by official sources in September 1939, was considered to be at least 1,400,000 tons in excess of the consumption of the Reich's requirements for a period of a year.

It is clear from Backe's statement, however, that expectations were not fulfilled and that no additional reserves were accumulated. This was probably due to increased requirements on the part of Poland as a result

of the German occupation. Backe admitted tacitly that the prospects for this year's crop are unfavorable, though he tried to divert attention from this fact by claims that the farmers were well supplied with seeds, fertilizers, gasoline, etc. This may be taken to mean, at the most, that the supply of these factors of production is more or less normal.

According to some agricultural authorities it is practically certain that this year's grain harvest in Germany will be very unfavorable. The publication "Wirtschaft und Statistik," in its April number, reported that crop prospects were poor for practically all non-German European countries, but the customary forecast of German crops was omitted. This is taken to mean that neutral European countries, which are heretofore only other sources of imports while the war lasts, will not be in a position to supply Germany with any substantial quantity of grain. Up to now, according to one report, Russia has exported to Germany only 25 percent of the one million tons of grain which were agreed upon.

According to Backe, Germany still possesses the same grain reserves as last year. At the beginning of the war Darre stated that these grain reserves amounted to 8.6 million tons, which was equal to almost one-third of the grain harvest of last year. It is doubtful, however, if the war should be prolonged beyond this summer, that Germany could afford to consume its entire reserves in one year.

Furthermore, in spite of the record crop, consumption requirements, which were so great this year that nothing could be added to reserves, will increase significantly. Possible additional requirements are indicated by the fact that Denmark, Norway, Holland, Belgium and Luxemburg in 1937 imported approximately 6.5 million tons of grain. The wheat supply of Belgium, according to one report, is now sufficient for only 50 days.

The admission by Backe that the hog population had to be reduced confirms previous reports. This statement of Backe constitutes a tacit admission that the fodder situation is not as favorable as was claimed previously.

Backe also claims an increase in the potato acreage, which it is stated shows an increase of 8 to 10 percent over last year. Nevertheless, this falls somewhat short of the plans. It may be noted, for instance, that Goering in his radio address to the farmers of Germany on February 15 demanded that the planting of potatoes should be augmented in Germany by 10 to 15 percent.

Apart from increased butter production, resulting from sharp restrictions on milk consumption, the improved butter situation is probably due to greater supplies from Denmark and Holland. Total fat rations have

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not been increased so far, however, although the allocation of butter has been suggested, but with proportionate decreases in the margarine ration. Since the ration of fat in Germany is admitted to be inadequate the very fact that it has not been increased, in spite of the greater supply of butter, leads to the conclusion that stocks of other fats are not as ample as claimed officially.

With regard to the German egg supply it may be said that reserves are undoubtedly being built up and that present stocks in Germany are 70 percent above those of September last year. But the present improved situation with respect to eggs and also to dairy products is due largely to supplies from Scandinavian countries which countries will undoubtedly encounter shortages of feedstuffs, notably oil cake, on account of the blockade. In all probability the advantage accruing to Germany is therefore a temporary one, from a half year to a year.

Although the general impression of the food situation presented by Backe is favorable, his admissions of weaknesses may be taken as serious, particularly in regard to bread and feed grains, in which Germany's position when the war started was on the whole considered favorable. If this year's grain harvest turns out to be as poor as imagined, and if the war continues, it is hard to see how Germany will be able to maintain not only her bread but also her meat and fat rations at present levels throughout the coming winter except by making a heavy demand on reserve supplies.

JAPAN: It is believed that Japanese purchases of Indian raw cotton are far below normal and not in accordance with the ratio stipulated in the Japanese-Indian Trade Agreement. Japanese merchants fear that they will be required to make up the deficit in their purchases of Indian cotton and that future exports of piece-goods to India may suffer. If Japanese mills should revise their mixing formula for spinning in order to consume a greater percentage of Indian cotton the American cotton interests would be adversely affected.

Published figures on cloth stocks are no longer available but it is estimated that they are in excess of 900,000,000 square yards, which is about 300,000,000 square yards above normal. The decline in the value of the pound sterling has caused great anxiety in the Japanese cotton industry. Most of Japanese export sales are to countries whose currencies are either directly or indirectly linked to sterling. Increased costs of Japanese cloth in terms of sterling, plus yen price increases through internal inflationary developments, have deprived Japanese cloth of its price advantages in low purchasing power countries of that type.

NETHERLAND EAST INDIES: It is impossible to estimate the future production and exportation of tapioca, which is partly produced by natives

and partly as an estate crop. About 50 percent of the production comes from each source. However, indications are that exports of tapioca flour to the United States during the remainder of this year and next year will continue at present levels despite the war. There is no reason at present why shipping space to the United States should not be adequate to handle all of the tapioca requirements of the American market for some time to come.

With regard to the production of commodities in the Netherland East Indies that are subject to control and regulation it is stated that the Government will maintain its production regulations only on broad lines but that licensing of exports will remain unchanged.

PHILIPPINES: Intensified war activities in Europe have had serious repercussions on Philippine economy. Trade with Europe is almost completely stopped while business with the United States is seriously hampered by the general uncertainty, shipping scarcity, and high freight charges. Prices of major Philippine products have declined greatly as a result of war developments. By the end of May prices had fallen to a level that can only be described as very serious. With purchasing power seriously impaired as a result of the abnormally low prices, normal business is practically impossible.

SPAIN: The Managing Director of the Banco Espanol de Credito informed the American Embassy that a credit of \$3,500,000 for the purchase of Argentine cotton has been obtained by the Spanish Government from cotton exporters in the Argentine, repayment to be made with interest at 3 1/2 percent over a two-year period.

The American Embassy in Madrid was informed confidentially that a definite agreement to provide wheat to Spain had been made by the British Government. The Embassy was also advised that a representative of a Brazilian cotton exporter had made a proposal to sell 10,000 tons of cotton on the following terms: 1/4 of the price to be paid at port from which shipped and the remainder over a 9-months period. The Spanish government insists, according to reports, upon the extension of payment over 2 years. Ferrari and Torrens, the negotiators of the Argentine cotton sale, referred to above, are reported to be negotiating with the Spanish authorities for the sale of an additional 50,000 bales of cotton from the Argentine to be paid for over a long period.

UNITED KINGDOM: The American Embassy learned from Trade sources that tobacco manufacturers have indicated to the Board of Trade their acceptance in principle of a tobacco control scheme along the following lines: (a) 1941 tobacco allotments for the domestic market estimated at 90 percent of net clearance from bond in year ending March 31, 1940; (b) admixture to any present mixture of 4 percent Turkish or Greek tobacco in 1941 and 3 percent thereafter; (c) pooling of all stocks in excess of the average stocks; and (d) scheme to be voluntary but legally binding. Apparently no undertaking on prices was offered.

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Lord Essendon advised the American Embassy that British authorities would make no specific allocations of Australian wools for the American market in the 1940-41 season but that they would undertake instead to make such wools available to meet all reasonable American requirements. As in this season no allocations are contemplated for New Zealand wool.

The Cereals Control announced a uniform selling price of 45s. per quarter (\$1.13 per bushel) less 16 $\frac{1}{2}$ s. (42 cents per bushel) rebate to millers for all imported wheat. The rebate represents in part the tentative subsidy arrangement to keep the price of bread pending a settlement agreement between the Ministry and millers. Fixed prices of maize, barley, oats, rye not yet designated for feeding purposes, remain unchanged. However, some changes in the prices fixed for various types of peas and beans were announced.

The Ministry of Food expressed a desire to acquire an emergency reserve of American refined lard and asked whether the Department of Agriculture would be good enough to assist, as with milk products, in making the necessary arrangements. If so the Department was authorized to communicate immediately to the Packers Institute, or to the appropriate industry representation, an offer by the British Ministry to buy 9,000 long tons of refined lard, packed 2/28's, at a price, cost and freight United Kingdom, equivalent to the June 12 Chicago price, for prompt shipment via Montreal. The Ministry restricted its offer to one or more of the following brands: Swift's, Armour's, Heteley's, Sinclair's, Kingan's, Harrison's, Rath's, Hormel's, Morell's, and Wilson's. The Ministry will leave it to industry to work out such allocations among themselves as may be desired. The Ministry also suggested that the business be handled through the respective packers' English agents on a non-commission basis, the agents to get their commission when the lard is distributed.

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

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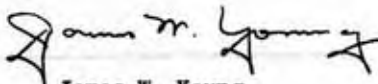
June 13, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.
Secretary of the Treasury.

For

Sent at the request of Mr.
Noble, Under Secretary of
Commerce.



James W. Young,
Director.

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June 13, 1940.

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ECONOMIC DEVELOPMENTS

EXPORTS OF UNITED STATES MERCHANDISE in May held at the April total — \$317 million—despite the virtual cessation of shipments to Norway and Denmark and, after May 10, to the Netherlands and Belgium. Maintenance of export volumes occurred not because of increased shipments to the Allied belligerents but primarily because of an expansion in trade to Latin America. Important changes were:

1. Sharp drop in exports to Low Countries and continued small shipments to Northern Europe. Finnish trade alone increased.

	<u>March</u>	<u>April</u>	<u>May</u>
	(Billions of dollars)		
Denmark	1.2	.1	.0
Norway	5.5	.5	.0
Sweden	9.0	2.1	2.1
Finland	4.6	.8	3.3
Belgium	4.4	4.2	1.9
Netherlands	7.6	4.6	1.3

2. Exports to Allies in toto declined slightly. Large declines to France and United Kingdom almost offset by increases to Canada and Australia.

	<u>March</u>	<u>April</u>	<u>May</u>
	(Billions of dollars)		
United Kingdom	51.9	53.0	49.3
France	42.0	44.5	36.6
Canada	48.9	51.2	59.4
Australia	7.9	3.9	6.6
Union of South Africa	6.0	7.5	7.2

3. Shipments to Russia fell off to \$5 million, largely, we believe, because our pressure has now practically eliminated Russian purchasing in this country. Trade to Italy in her last month as a neutral increased \$4 million.

	<u>March</u>	<u>April</u>	<u>May</u>
	(Billions of dollars)		
Russia	9.1	6.0	0.5
Italy	10.1	8.6	12.6

4. Losses noted above were more than offset by substantial increases in exports to Latin America. All countries now taken listed except Brazil and Colombia showed stable increases.

March April May
(Billions of dollars)

Argentina	10.8	8.3	10.7
Chile	4.4	3.0	3.6
Peru	8.4	6.4	7.4
Venezuela	6.5	5.4	6.4
Cuba	7.4	6.9	7.0
Brazil	10.4	10.3	10.3
Colombia	5.0	4.9	4.1

5. Net gains also recorded in Far East and Philippines.

March April May
(Billions of dollars)

China	6.9	5.6	8.7
Japan	17.8	15.1	13.5
British India	3.0	4.1	3.6
Philippine Islands	9.5	8.4	9.9

6. Far countries now tabulated the gains are much larger than losses. Other countries will, therefore, show decreases—probably Central European countries supplied via the Mediterranean.

RESTITUTIONS Considering the narrowing of the foreign trade area caused by the spread of the war, the volume of exports in May was quite favorable. The serious decline in exports to Latin America, noted in April, has been reversed, and it is evident that the countries to the South are looking to the United States for goods formerly purchased from Europe. The loss of large European markets for American commodities is being replaced by an enlarged market in the Western Hemisphere. With increased exports to the Allies abroad, so long as the war lasts, it seems that total exports will not be sharply curtailed despite further restrictions in trading areas; e.g., the Mediterranean.

COMMODITY GAINS AND LOSSES during May were relatively few. Cotton shipments were off \$7.4 million, largely because of smaller British purchases combined with a normal seasonal decline. The price of wool-working machinery, which have been at record levels, fell \$2.3 million, though in this case Allied takings increased. Aircraft shipments at \$11.4 million were little changed from March and April—the Allies receiving somewhat less than before. The price of petroleum products, other than aviation gasoline, trousers, jeans, gunnery generating machinery, and certain food products, declined slightly.

One of the few agricultural staples to show improvement in May was leaf tobacco, which increased from \$2.2 to \$3.9 million upon the resumption of large purchases by the United Kingdom. Industrial products to make gains were confined largely to the following items.

EXAMPLES:

	<u>April</u>	<u>May</u>	<u>Increase</u>
	(Millions of dollars)		
Iron and Steel-mill Products	32.6	35.9	+ 3.3
Automobiles, Parts and Accessories	19.5	21.4	+ 1.9
Ferro-alloys and Aluminum	3.5	4.4	+ 0.9
Chemical Specialties	2.9	3.7	+ 0.8
Aviation Gasoline	0.8	3.0	+ 2.2
Bituminous Coal	5.3	8.5	+ 3.2

SIGNIFICANCE: With the exception of bituminous coal and leaf tobacco, the export gains listed above are in commodities which have been at high levels since the beginning of the war. The significant fact is rather that other commodities held steady in the face of the loss of additional European markets, because of increased demand elsewhere.

CLOSING OF THE MEDITERRANEAN AREA to American commerce will materially curtail trade which in 1939 averaged almost \$9 million monthly, and in recent months more than \$15 million. Including Central Europe, normally fed through the Mediterranean, makes the total possible loss from recent months' shipments more than \$25 million. The following commodities indicate the industries that will be adversely affected in the immediate future.

Exports to Mediterranean Countries in 1939:
Italy, Greece, Yugoslavia, Tunisia,
Algeria, Turkey, Palestine, Egypt, and
Syria.

	<u>Total</u>	<u>Italy</u>
	(Million of dollars)	
Raw Cotton	22.	19.5
Metals and Products	22.	14.6
Machinery	14.	7.6
Automobiles and Trucks	8.	0.3
Petroleum Products	19.	13.7
Chemicals	4.	1.5
All Other Commodities	<u>19.5</u>	<u>6.7</u>
TOTAL	104.5	58.9

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	<u>Monthly Average</u>	
	<u>Total</u>	<u>Italy</u>
1939	8.7	4.9
January-March 1940	15.1	9.3

SIGNIFICANCE: While the Mediterranean trade is quite substantial the bulk of it, apart from cotton, is in commodities for which we should find larger markets elsewhere.

FOREIGN TRADE NOTES

Germany: German retailers in their desire to conceal the scarcity of merchandise on their shelves have resorted to the practice of continuing to display articles in the show windows which were really no longer on sale. As a rule, a small notice was placed in the corner of such windows, indicating that the exhibited articles were not for sale; in some cases, labels "sold" were attached to such articles as refrigerators, electrical stoves, etc., which were sold out in the first months of the war and since then have been practically unobtainable. In order to prevent misleading the public, the "Economic Group for Retail Trade" has issued instructions to the effect that show window displays may contain only such non-rationed goods as are offered for sale by the retailer. It has also forbidden them to mark exhibited articles with labels bearing the inscription "sold" or "sample."

Japan: The authorities are evidently disturbed about the effect of the shortage of certain essential commodities on the morale of the fighting forces in China. The welfare minister, upon return from a trip to China, has recommended that the Government take steps to dispel the rumors of commodity shortages. He also accused the press of exaggerating actual conditions. According to our report of May 4, the commodity shortages are more acute than they were six months ago. Beginning May 1 the only rice available in Tokyo is that containing a 6 percent mixture of a foreign product. Matches and sugar are difficult to obtain and there is a great scarcity of charcoal, which is a very essential commodity in the Japanese household.

Trade reports indicate that there is a scarcity of imported special steels, pig iron, scrap iron, non-ferrous metals, lumber, fertilizers, chemical salt, and industrial equipment. In fact, there is a shortage of most of the important raw materials with the exception of cotton, which is available in large quantities owing to the policy adopted by American cotton exporters in extending liberal credits to Japan.

Latvia: According to a statement made by a Latvian official to our minister, the country is rapidly entering a period of economic strangulation, owing to the fact that her trade is restricted almost entirely to Germany and the Soviet Union, and is done principally on a barter basis. Under the circumstances, foreign exchange, even if it could be obtained from a country like Sweden, would no longer be of much use, since Latvia has no facilities for making purchases in the free exchange countries. Germany, according to that statement, is no longer in a position to make any exports of commodities containing imported raw materials, while the Soviet Union does not seem to be interested in obtaining additional foreign exchange.

Bureau of Foreign and Domestic Commerce,
June 12, 1940.

WEEKLY WHOLESALE PRICE INDICES

(1926 = 100)

Group	1939			1940		Percentage increase, June 8, 1940 from—	
	June 10	Aug. 26	Sept. 16	June 1	June 8	June 10, 1939	Aug. 26, 1939
All commodities	75.6	74.8	79.3	77.8	77.4	2.4	3.5
Farm products	62.7	61.1	69.7	67.8	66.7	6.4	9.2
Foods	67.3	66.7	75.5	70.8	70.5	4.8	5.7
All commodities other than farm products and foods	80.6	80.4	82.4	82.5	82.4	2.2	2.5
Hides and leather products	92.8	92.6	98.3	100.5	99.6	7.3	7.6
Textile products	66.9	67.4	71.4	72.2	71.9	7.5	6.7
Fuel and lighting materials	73.9	73.2	74.1	72.3	72.2	- 2.3	- 1.4
Metals and metal products	93.5	93.5	94.9	94.7	94.8	1.4	1.4
Building materials	89.8	89.7	90.7	92.5	92.1	2.6	2.7
Chemicals & allied products	(1)	(1)	(1)	76.6	76.4	—	—
House-furnishing goods	86.9	87.0	87.1	89.9	89.9	3.5	3.3
Miscellaneous	73.6	73.1	76.1	76.9	77.0	4.6	5.3
Raw materials	67.9	66.2	73.0	71.4	70.7	4.1	6.8
Semimanufactured articles	74.2	74.4	82.0	78.0	77.7	4.7	4.4
Finished products	79.8	79.3	82.3	81.1	80.9	1.4	2.0

/ Comparable data not available.

Sources: Bureau of Labor Statistics, U. S. Department of Labor.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		June 14	August 30	Sept. 13	June 5	June 12
Copper, electrolytic, New York	\$ per lb.	10	10 1/2	12	11 1/2	11 1/2
Lead, prompt shipment, New York	do	4.80	5.05	5.50	5.00	5.00
Zinc, New York	do	4.84	5.14	6.64	6.64	6.64
Rubber, straits, New York	do	48 3/4	49 3/4	1/ 75	54 3/8	56 5/8
Latex, plantation, N.Y.	do	16 5/16	16 13/16	22 1/2	21 1/2	23
Cows, light native cows, Chicago.	do	10 7/8	11	15	10 1/2	10 1/2
Wool, 13-15 denier, 78% merino, N. Y.	\$ per lb.	2.63	2.72	3.21	2.65	2.79
Cotton, middling, aver- age, 10 markets.	\$ per lb.	9.54	8.53	9.01	9.87	10.35
Print cloth, 60 x 64, 38 1/2 inches, N. Y.	\$ per yd.	4 1/2	4 5/8	5 3/8	4 1/2	4 3/4
Wool tops, July 1940 futures, New York.	\$ per lb.	2/81.0	2/81.5	2/111.9	95.0	97.0
Wool, raw, 96 ⁰ , duty free, New York	do	2.80	2.92	3.70	2.70	2.77
Cocoa, Acara, New York	do	4.35	4.38	6.45	4.75	4.85
Coffee, Santos, No. 4, New York	do	7 1/2	7 5/8	7 3/4	7 1/4	7 1/4
Ward, cash, Chicago.	do	6.20	5.65	7.75	5.07	5.55
Cottonseed oil, July 1940 futures, N. Y.	do	2/ 6.63	2/ 5.61	2/ 7.30	5.95	6.24
Wheat, July 1940 fu- tures, Chicago	\$ per bu.	2/ .73 5/8	2/ .67 1/4	2/ .85 3/8	.79 3/8	.82
Hogs, good and choice, 220-240 lbs., Chicago	\$ per cwts	4/ 6.45	6.88	8.13	5.40	5.30
Steers, beef, medium, 750-1,100 lbs., Chi.	do	8.63	8.38	8.88	8.63	8.50

/ Nominal. 2/ July 1939 futures. 3/ December 1939 futures. 4/ Hogs weighing 220-250 lbs.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron 1/	Steel Scrap 2/	Finished Steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
June 13	20.61	14.79	2.236
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940:			
June 4	22.61	18.58	2.261
June 11	22.61	19.17	2.261

1/ Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

2/ Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

3/ Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary ~~M~~ *HA* ~~argent~~hau
FROM Mr. Haas *HA*
Subject: Railroad freight movement for export.

Receipts of freight for export at New York in the week ended June 8 held near to the high level of the previous week, totalling 4,888 cars. Receipts at 9 other North Atlantic ports declined by more than the previous week's gain to a total of 1,698 cars. (See Chart 1 and table attached.) Freight receipts at ports last week may have been affected by the Memorial Day holiday in the previous week, which sharply reduced freight loadings.

The volume of freight exported from New York increased to 4,871 cars (see Chart 2), practically equalling the volume of receipts for export. The tendency of freight to pile up in New York, which was noticeable last week, is therefore no longer apparent. The volume of lighterage freight in storage and on hand for unloading in New York harbor now equals 8,403 cars, an increase of only 19 cars as compared with last week. (See Chart 3.)

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1940	New York <u>1/</u>	9 other North Atlantic ports <u>2/</u> In carloads	Total
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,493	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620
June 1	5,071	2,361	7,432
June 8	4,888	1,693	6,586

1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Seaport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

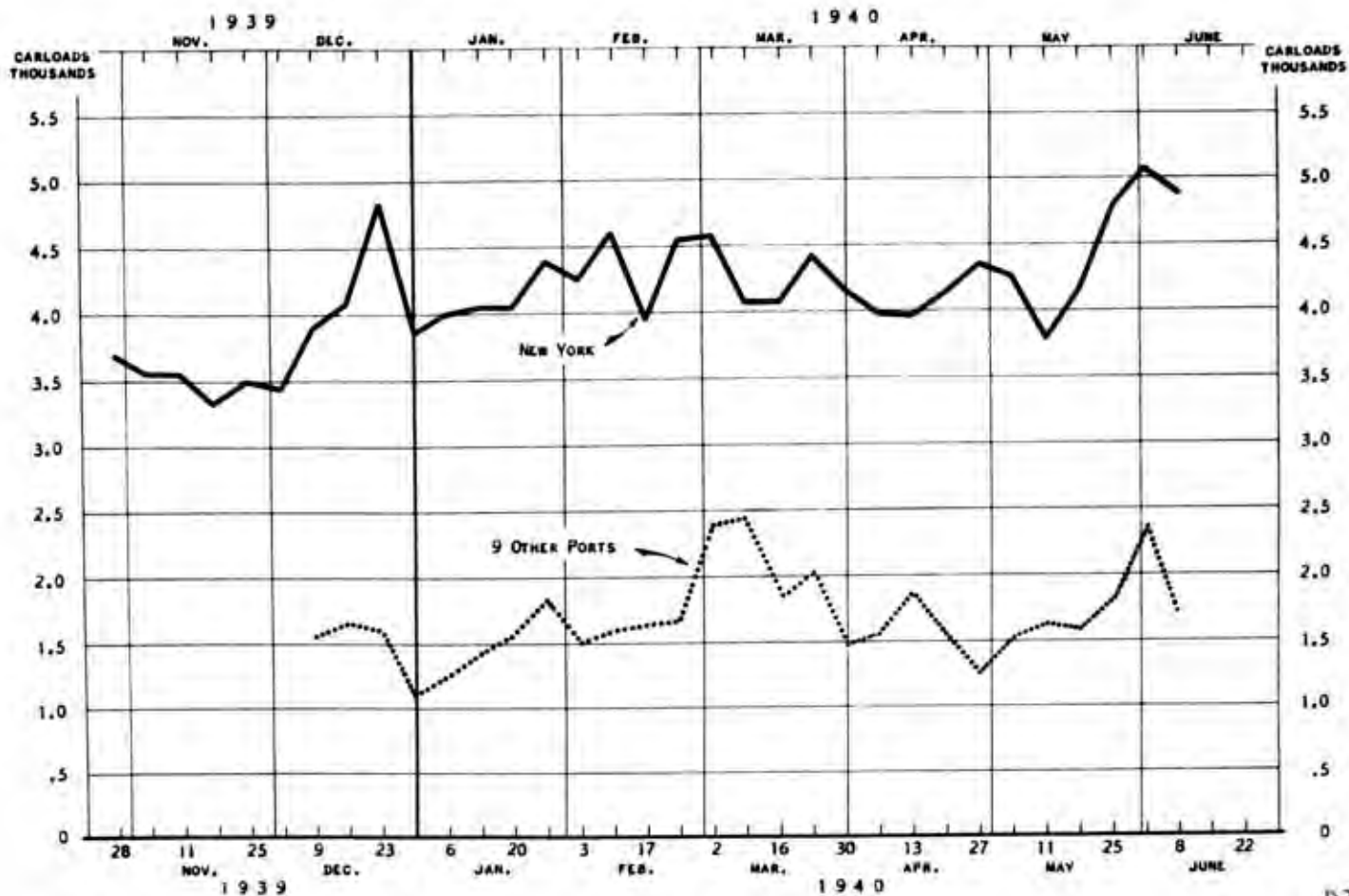
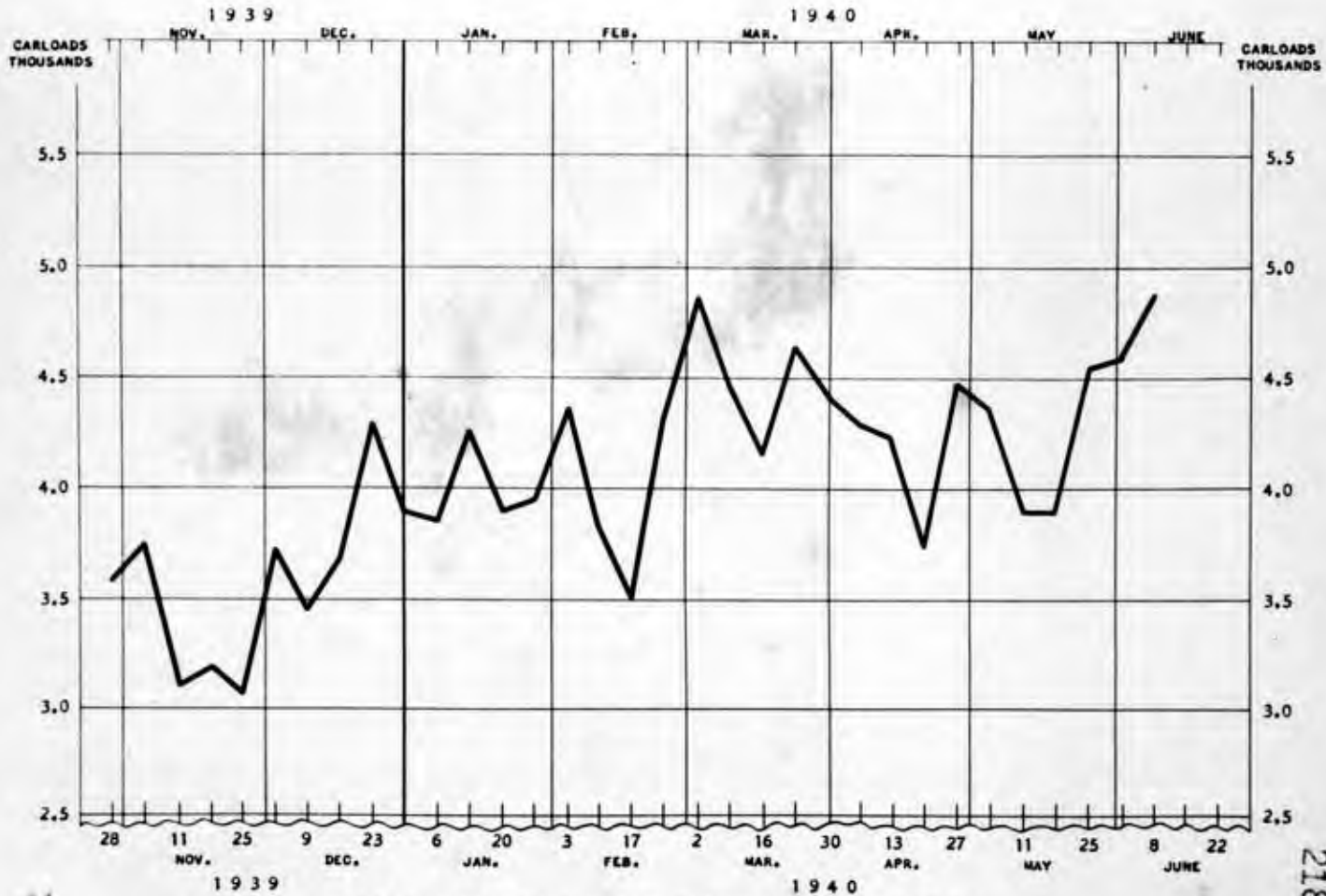


Chart 1

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CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

U.S. Department of the Treasury
Bureau of Research and Statistics

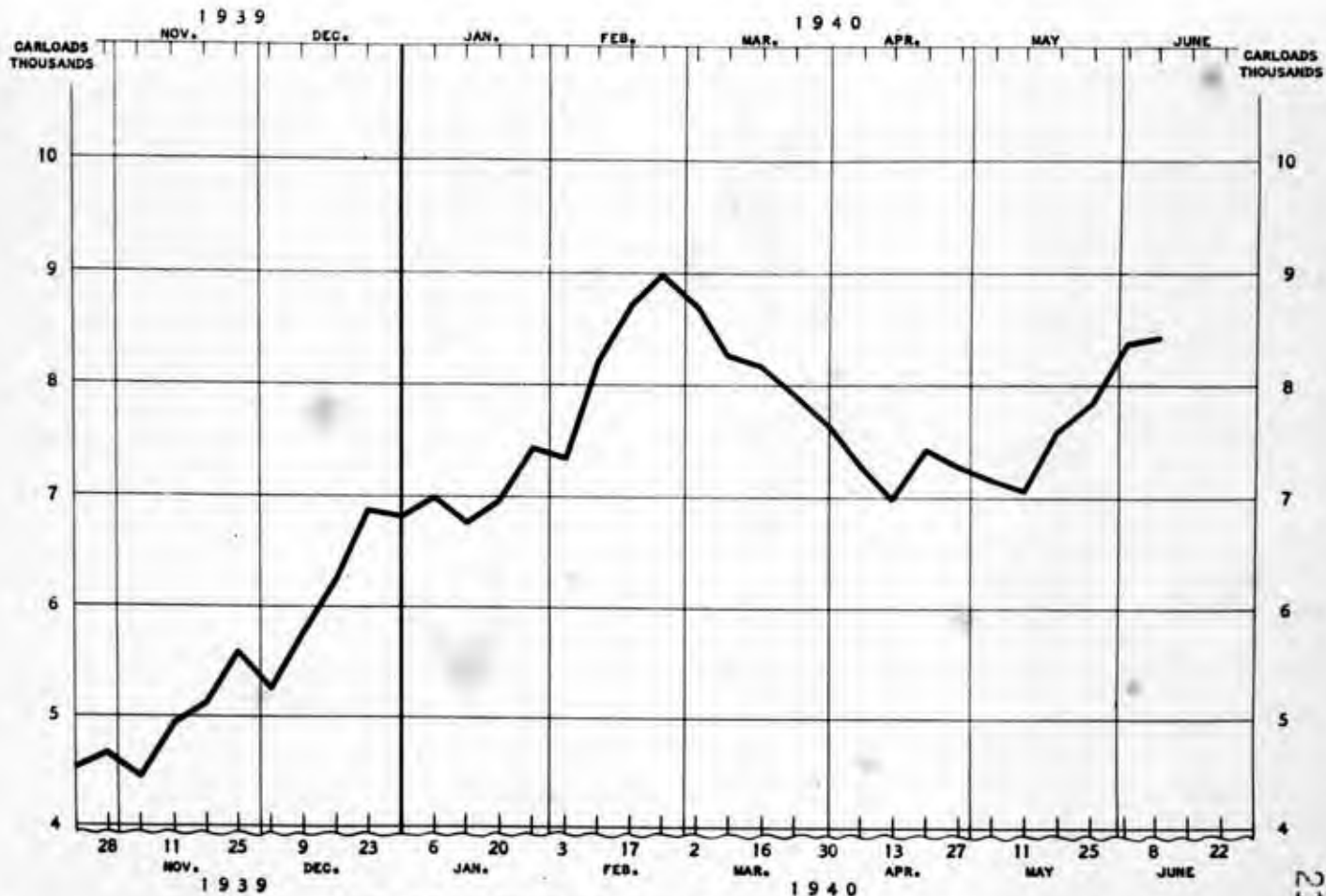
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Chart 2

C - 308

Regraded Unclassified

LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



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

* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

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Chart 3

C - 303

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Russell Leffingwell visited with me this morning while waiting to be received by the Secretary of the Treasury. He emphasized to me, as I understand he had earlier made clear to Mr. Bell, his willingness to be of any possible service to the Government in Washington, and particularly to the Treasury, during the crisis which has now come.

In discussing the general outlook, Mr. Leffingwell mentioned that while the Johnson and Neutrality Laws might be considered as undesirable at present since they ban our former Allies from contracting loans in this country to fight Germany, the value of abrogating such laws would be in a large degree psychological, since the New York market is so afraid of the European situation that there would be no possibility at present of floating loans here for the Allied countries.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 13, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu telephoned me from New York at 12 noon today. He asked if the Treasury was taking any steps toward freezing German assets in this country. I answered in the negative. Leroy-Beaulieu stated that he had heard the question discussed by some newspaper people in New York who thought that such a move could possibly be based on the ground that the use of German funds for possible sabotage in this country would be dangerous to our national defense program. I told him that the Treasury had not mentioned any possibility of freezing German funds to any press officials.

At three o'clock this afternoon, Leroy-Beaulieu telephoned me again. He stated that at a lunch with Messrs. Perkins and Rentschler of the National City Bank, Mr. Perkins had told him in strict confidence that German funds had been withdrawn from the National City to Sweden the past few days. Mr. Rentschler said the amount could not be very large since German deposits with them were not important. Leroy-Beaulieu referred to a press story which suggested the possibility of freezing funds in other European countries, possibly including the invaders, and thought that this story may have given rise to the exodus of German funds.

Incidentally, Leroy-Beaulieu mentioned to me that he had just received word from Europe that one of his brothers, who was a neighbor of mine in Paris, had been seen by one of his brother officers to fall in a village captured by the Germans. No further word has been received as to whether the brother was killed or taken prisoner. Leroy-Beaulieu is to mail me data for the basis of an inquiry through our embassy in Berlin.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu telephoned me from New York yesterday evening to inquire whether the Treasury knew the address of the Ministry of Information, which department is understood to have left Paris for the provinces. I told Leroy-Beaulieu that the cablegram of June 10 from Matthews, which I had mentioned two days ago, did not give the address of the Ministry of Information, but that it was my recollection that this had been the first ministry, according to the press, to leave Paris for Tours. I told Leroy-Beaulieu that I would comply with his request that I obtain from the Department of State any information on this subject and relay it directly to Mr. Dumaine in the French Embassy.

After terminating this conversation, I telephoned Mr. Lewis Clark, the officer in the State Department who handles the French desk. Mr. Clark had no information in regard to the whereabouts of the Ministry of Information, but thought it was close to the Ministry for Foreign Affairs, which is situated at Langeais, in Touraine. Mr. Clark volunteered that most of our Embassy people had left Paris, but that the Ambassador and perhaps Secretaries Murphy and Barnes, together with the Military and Naval Attaches were still in Paris. I telephoned the foregoing information to Mr. Dumaine at the French Embassy yesterday evening.

B.M.R.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Yesterday morning, I received by mail from Mr. Knoke, a copy of a cablegram from the Vatican to Morgan and Company in New York, in regard to formalities regarding the opening of a gold account with the Federal Reserve Bank of New York. In accordance with the request made by Mr. Knoke the preceding day, as reported in my memorandum dated June 11, I took up with Mr. Livesey of the State Department, the question as to whether the Federal Reserve Bank of New York could communicate with the Apostolic Delegate in Washington through the Department of State. I provided Mr. Livesey with a file of correspondence on this subject, including the cablegram of June 11 and the letter which the Treasury addressed to the Federal Reserve Bank of New York under date of May 24.

Mr. Livesey telephoned me at 1:00 o'clock today to the effect that since the question which had been raised was a political one, he had brought the matter to the attention of the European Division of the Department of State, explaining to that Division the manner in which the Department of State has recently certified to the official status of Minister Loudon of the Netherlands and otherwise facilitated the drawing by the Minister on the account of the Netherlands Government since the latter was set up in London. Mr. Livesey told me that he had now received a memorandum signed by Mr. Dunn, the Advisor to the Secretary on European Political Questions, which read: "It is the definite opinion of the European Division that this matter should be handled through direct dealings between the Bank and the Apostolic Delegate, as suggested by the Vatican."

At 3:00 o'clock this afternoon, I reported this memorandum to Mr. Knoke. He understood that this definitely shut out any possibility of his communicating with the Apostolic Delegate through the Department of State. It was recalled, however, that the letter of May 24 which the Treasury sent to the Federal had been approved by the President, and in it the Treasury definitely undertook "*** to be of any necessary assistance in obtaining through the State Department any information, authorizations, instructions, signatures or other documents, including verification or authentication thereof, which you may need in connection with this matter." I told Mr. Knoke that this letter had been approved by the Department of State and that I did not take the memorandum above quoted as precluding communication with the Vatican through the American Embassy in Rome, so long as this is physically possible. I told Mr. Knoke that if he desired to communicate any message to the Vatican through our diplomatic channels rather than work directly with the Apostolic Delegate in Washington, I would ask the State Department to forward the message to Ambassador Phillips at Rome for further transmission. Knoke promised to let me know later of his desires.

B. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

As reported a couple of days ago, Mr. Knobe confirmed this evening that there had been a drop in one week of \$20,000,000 in Italian funds on the New York market. Of this amount approximately \$13,000,000 went into American securities, principally United States Government bonds, for the account of the Italian Exchange Institute. Of the balance, some \$6,000,000 were transferred to Argentine, Swiss and American names. In the latter category were two transfers, one of \$1,000,000 from an account with the Chase Bank in New York to an account with the Chase Bank in Shanghai, and a similar transfer of \$1,000,000 from an account with the National City in New York to an account with the National City in Shanghai. The impression in New York is that this tendency to reduce Italian funds may reflect some fear of the extension of the Treasury's freezing system to include Italy.

The National City Bank reported that the Bank of Naples was today withdrawing \$200,000 in small bills.

On June 10 the Banco Commerciale Italiano drew a check for \$250,000 for cash on the Chase Bank.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling opened at 3.74, one cent lower than last night's close. After experiencing minor fluctuations in the morning, it receded during the afternoon and reached a low of 3.70 just before the close. The final quotation was 3.71.

Sales of spot sterling by the six reporting banks totaled £423,000, from the following sources:

By commercial concerns.....	£ 57,000
By foreign banks (Europe, South America and Far East).....	£366,000
Total.....	£423,000

Purchases of spot sterling amounted to £404,000, as indicated below:

By commercial concerns.....	£281,000
By foreign banks (Europe, Far East and South America).....	£123,000
Total.....	£404,000

There were no reported sales of sterling to the British Control on the basis of the official rate of 4.02-1/2.

Spot sterling in the amount of £6,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£4,000 by the Guaranty Trust Company (for rubber)
2,000 by the Bank of Manhattan (for rubber)
£6,000 Total

Developments in the other currencies were as follows:

The French franc's movement was similar to that of sterling. It closed at .0217. The relationship between the franc and the pound experienced little change today, and the final cross rate was 171.00 francs per pound. Most of the rates quoted for the franc were again of a nominal character.

The Swiss franc was steady and closed at .2243.

The Canadian dollar, which improved to 19-3/4% discount yesterday afternoon, experienced another slight gain today. It closed at 19-1/2%.

The lira and reichsmark remained stationary at .0505 and .4000 respectively.

The Cuban peso improved slightly to a discount of 10-5/16%.

The Mexican peso continued to show a firm tendency, with the bid price moving up to .1923 from yesterday's quotation of .1818. The offered price remained unchanged at .2000. The New York banks reported that very little business in this currency was transacted here, and that their quotations were mainly derived from rates received from Mexico City.

The yuan in Shanghai moved off 3/16¢ to 5-1/16¢.

We purchased \$600,000 in gold from the earmarked account of the Central Bank of Venezuela.

The State Department forwarded to us a cable stating that the following shipments of gold were made from England, for sale to the U.S. Assay office at New York:

\$249,000 shipped by Samuel Montagu & Co., London, to the Central Hanover Bank and Trust Company, New York.
 228,000 shipped by the Chase National Bank, London, to its head office at New York.
\$477,000 Total.

Since there was a holiday in Bombay today, no quotations for gold or silver were received from that center.

In London the prices fixed for spot and forward silver both declined 1/8d to 23-3/8d and 21-3/4d respectively. The U.S. equivalents were 42.50¢ and 39.54¢.

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

There were no purchases of silver made by us today.

Today's press carried reports from Tokyo and London that Great Britain and Japan had reached an agreement which included disposition of the silver stored five years ago in the British Concession of Japanese-occupied Tientsin for the Chinese Government. It was understood that about \$400,000 worth of this silver would be used for the purchase of Canadian and Australian wheat to be distributed through an international commission to North China flood sufferers, the balance of the silver being sealed in Tientsin. The reports differ as to the total value of the silver -- the Tokyo and London dispatches mentioning \$12,000,000 and \$3,400,000 respectively. No official confirmation of the British-Japanese accord has yet been received by the Treasury.

B.M.F. **CONFIDENTIAL**

REASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau

FROM Mr. Hagg *HA*

Subject: Current Developments in the High-grade Security Markets;
Adjustment of the Market to the New Issue

SUMMARY

- (1) United States Government securities rose sharply on Tuesday and Wednesday, following a period of stability. Government security prices and stock prices have moved in sympathy during the current crisis, in contrast to their behavior last September. During the recent period of stability 3 to 5 year notes were relatively weak (Chart I). This was probably due to the general expectation that the supply of securities of this maturity class would be increased by the issuance of national defense bonds and by the June financing.

The average yield of long-term Treasury bonds was 2.42 percent at yesterday's close as compared with a crisis high of 2.49 percent. High-grade corporate bonds did not improve in yield on Tuesday and Wednesday as did Treasury bonds (Chart II).

- (2) The price of the maturing 3-3/8 percent bonds rose 10/32 on Tuesday, reflecting the satisfaction of the market with the exchange offer (Chart III). The new note is still selling at a considerably higher yield than adjacent outstanding issues (Chart IV).
- (3) Italian dollar bonds fell sharply on Italy's entrance into the war on Monday, but have since staged a partial rally. German dollar bonds have followed a parallel course (Chart V).

I. Domestic Security Markets

The United States security market rose sharply yesterday (Wednesday) accompanied by a substantial rise in the stock market. The rise in the Government security market (23/32 for bonds with over 15 years to call) was the greatest on any day since October 17, and that of the stock market (5.49 points for the Dow-Jones industrials) was the greatest for any day since September 5. Government bonds and stocks are thus continuing the sympathetic movement which they have been following during the entire current crisis. This is in sharp contrast to their quite opposite behavior at the outbreak of war last September.

The stock market fell rapidly from the commencement of the invasion of the Low Countries through May 24, when the Dow-Jones industrials closed at 113.94. Between then and the close on Monday, June 10, the Dow-Jones industrials fell only an additional 2.10 points to 111.84. On Tuesday and Wednesday of this week, they rose a total of 9.62 points to 121.46. Similarly, long-term Treasury bonds, after declining rapidly through May 24, lost only an additional 1/32 between then and Monday's close. On Tuesday and Wednesday they rose a total of 1-3/32 points.

During the period in which the price of long-term Treasury bonds was continuing relatively stable, there was considerable weakness in the 3 to 5 year notes. This weakness was probably due in part to the prospective increase in the supply of securities of this maturity class due to the proposed national defense bonds, and in part to the growing belief of the market that the June financing would also fall in this maturity range. This weakness in the 3 to 5 year notes is brought out in Chart I and in the following table, showing the price changes of United States securities, by maturity classes, for the period from May 25 through June 10, and for Tuesday and Wednesday of this week:

	Average price change	
	May 25-June 10	June 11 - 12
	(Decimals are thirty-seconds)	
<u>Notes</u>		
1 - 3 years	+ .02	+ .01
3 - 5 years	- .09	+ .05
<u>Bonds</u>		
5 - 15 years to call	- .03	+ .25
15 years and over to call	- .01	+1.03

Secretary Morgenthau - 3

High-grade corporate bonds followed substantially the same course as long-term Treasury bonds during the greater part of the crisis, but have not risen with Treasury bonds this week (Chart II). Our average of the yield of high-grade corporate bonds stood at 2.98 percent on Wednesday's close, as compared with a crisis high of 3.00 percent. The average yield of long-term Treasury bonds on Wednesday's close was 2.42 percent, as compared with a crisis high of 2.49 percent.

II. Adjustment of the Market to the New Note Offering

The price of the maturing 3-3/8 percent bonds rose 10/32 on Tuesday, reflecting the satisfaction of the market with the par-for-par exchange offer into 1 percent, 3-1/4 year notes (Chart III). The gross price of the maturing bonds had been declining gradually since the break which accompanied the invasion of the Low Countries. Most of the decline, however, represented the decrease in interest still to accrue to June 15, as is indicated by the fact that the excess of the bid price over a zero yield (or "rights" value) held fairly steady during this period. Upon the expiry of the exchange privilege the price of the bonds, of course, dropped abruptly to par.

The market was evidently taken somewhat by surprise by the new offering. This is shown both by the sharp rise in the price of the "rights" and by the decline in early trading of 6/32 each in the prices of the two outstanding Treasury notes of adjacent maturities. At the close on Wednesday, June 12, the new note was still selling considerably out of line on the downside. This is indicated in Chart IV, which shows that the yield of the new note is considerably higher than that of adjacent outstanding Treasury notes.

Chart IV also shows, for purposes of comparison, the yields of Treasury notes on April 8, at the eve of the Scandinavian invasion. During the intervening period the yield on the longest note has increased by .37 percent, while the number of issues selling at negative yields has been reduced from five to three.

III. Foreign Government Dollar Securities

Italian 7 percent dollar bonds, due in 1951, declined four points to 36 on Monday, the day of Italy's entry into the war. German 5-1/2's of 1965 lost 1-1/2 points on that day.

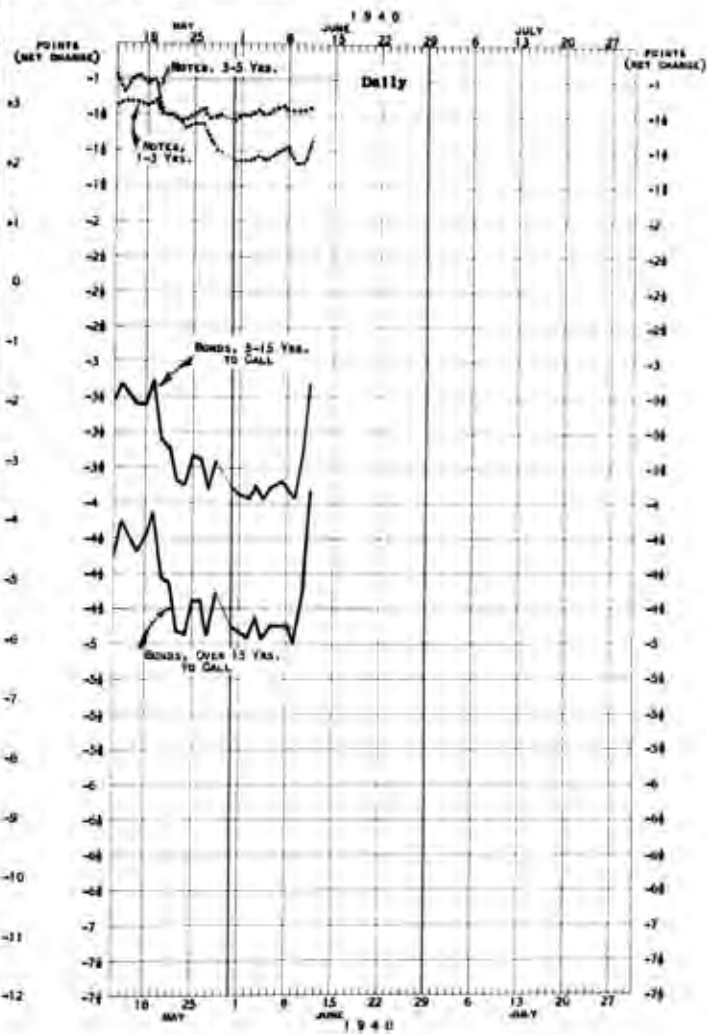
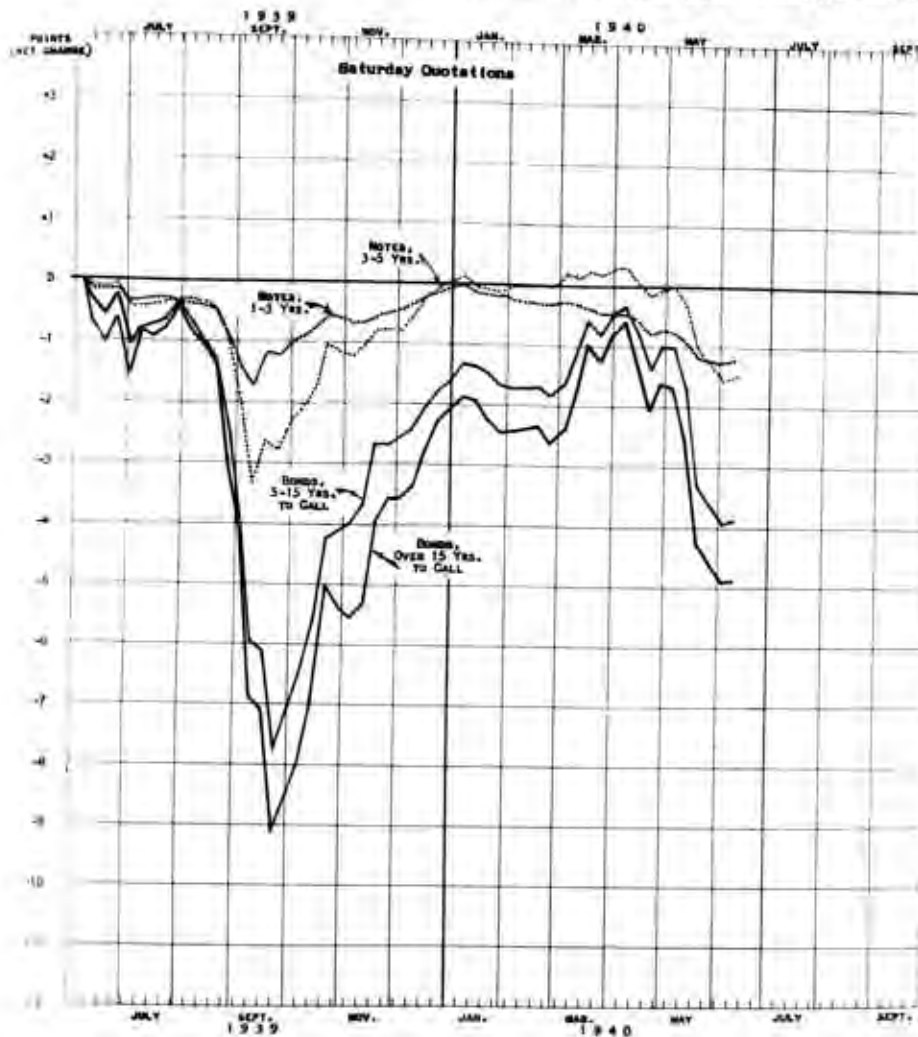
Secretary Morgenthau - 4

The dollar bonds of Canada, Australia, and Japan, on the other hand, remained fairly stable on Monday. Italian, German, and Canadian bonds showed strength yesterday (Chart V).

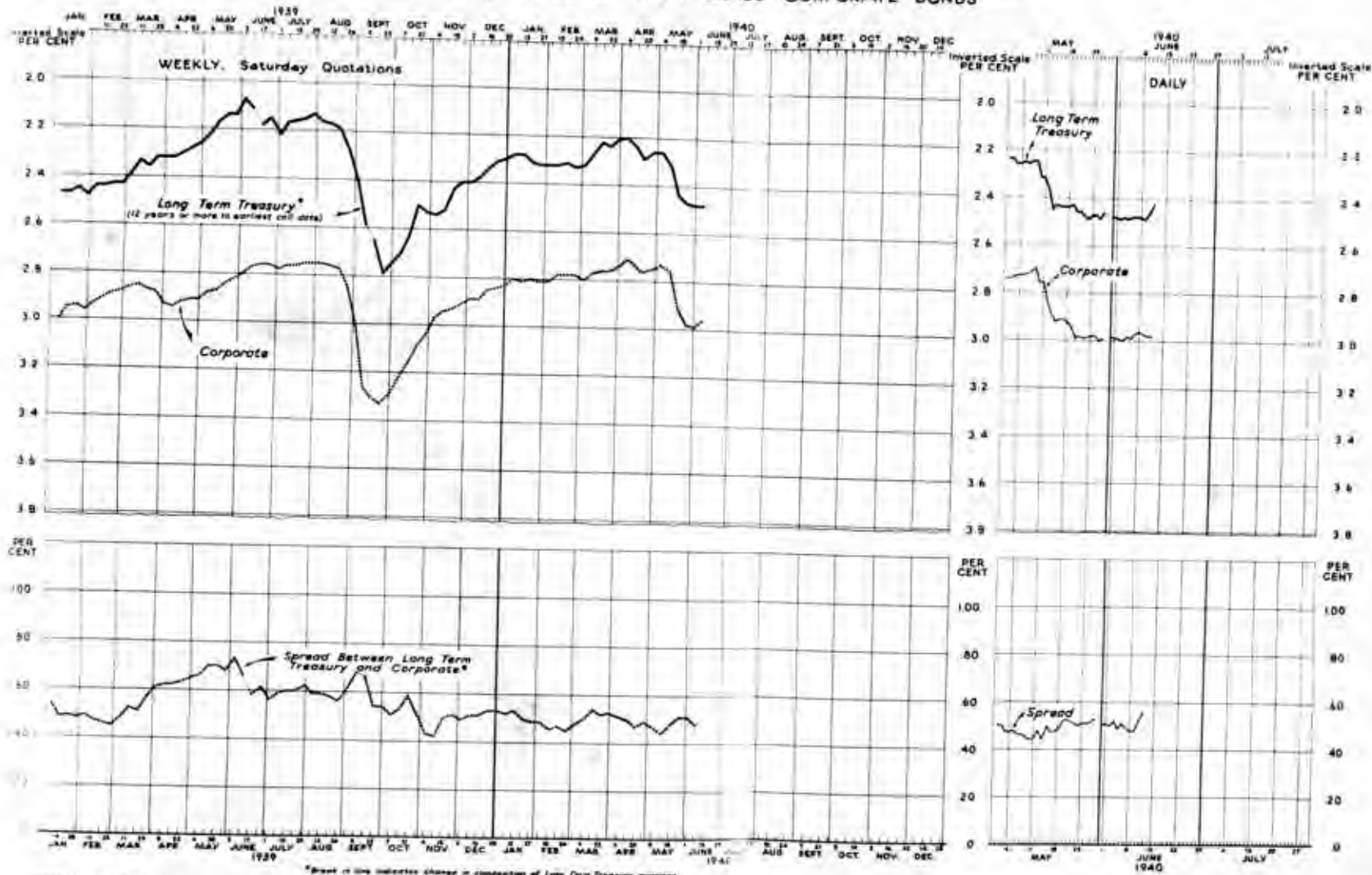
An impression of the effect of the war upon the dollar bonds of foreign belligerent countries may be obtained from the chart, which carries the price quotations back to July 1, 1939, on a weekly basis. Considerable diversity of experience is revealed. Thus the Japanese issue shown on the chart is now above the level of last summer, while the Australian issue has fallen from around 95 to about 40 in the same period. German bonds rose during most of the spring and on June 1 were selling slightly higher than before the outbreak of the war. Since the first of June they have fallen back rather sharply but are still around their levels of late April.

Attachments

CHANGES IN THE PRICES OF U.S. SECURITIES
Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



*U.S. Treasury of the Treasury
 -Source: U.S. Treasury and Statistics

*Break in line indicates change in composition of Long Term Treasury average.

Chart 111

3% TREASURY BOND DUE JUNE 15, 1940

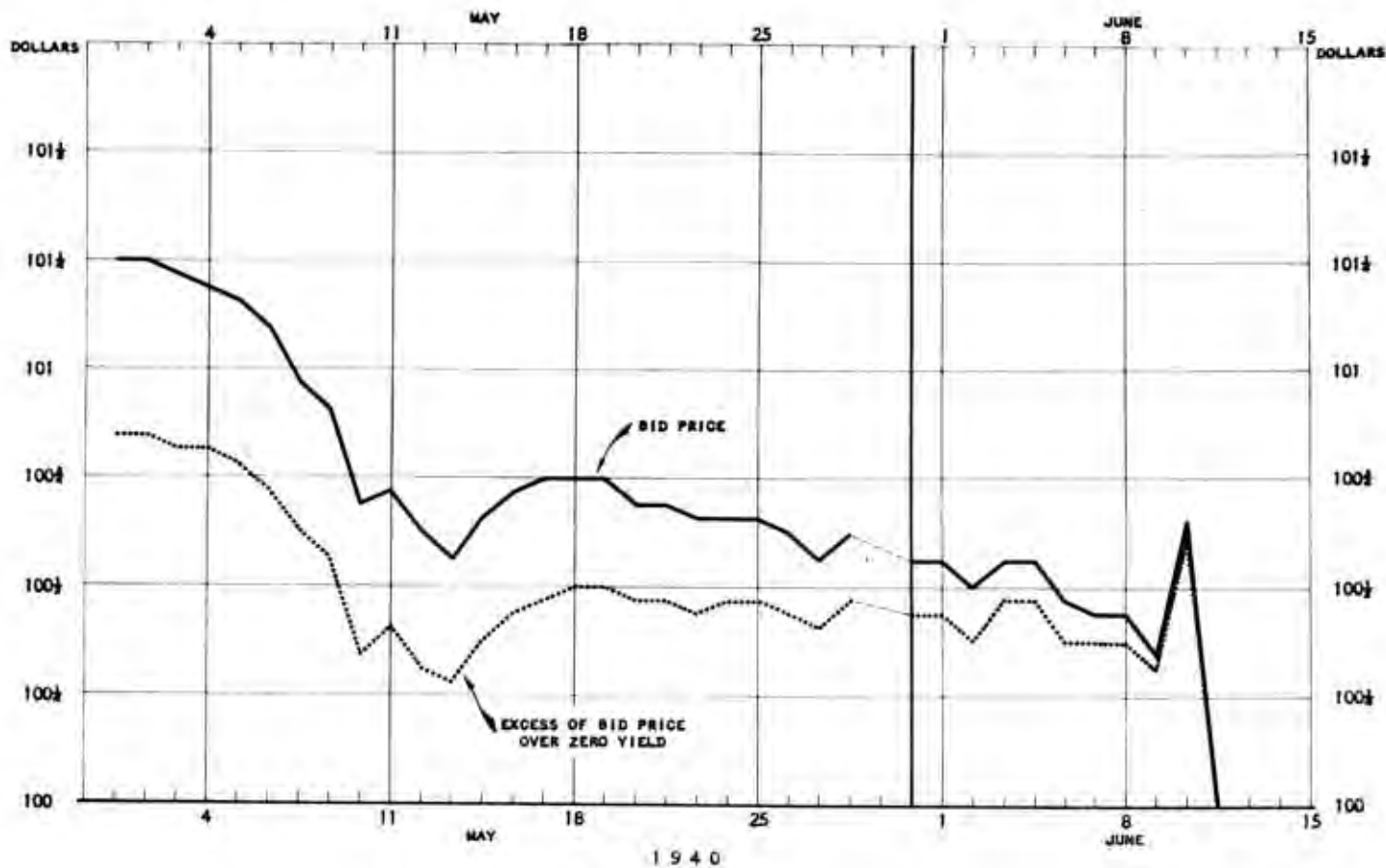


Chart IV
 YIELDS OF TREASURY NOTES
 Based on Closing Bid Prices

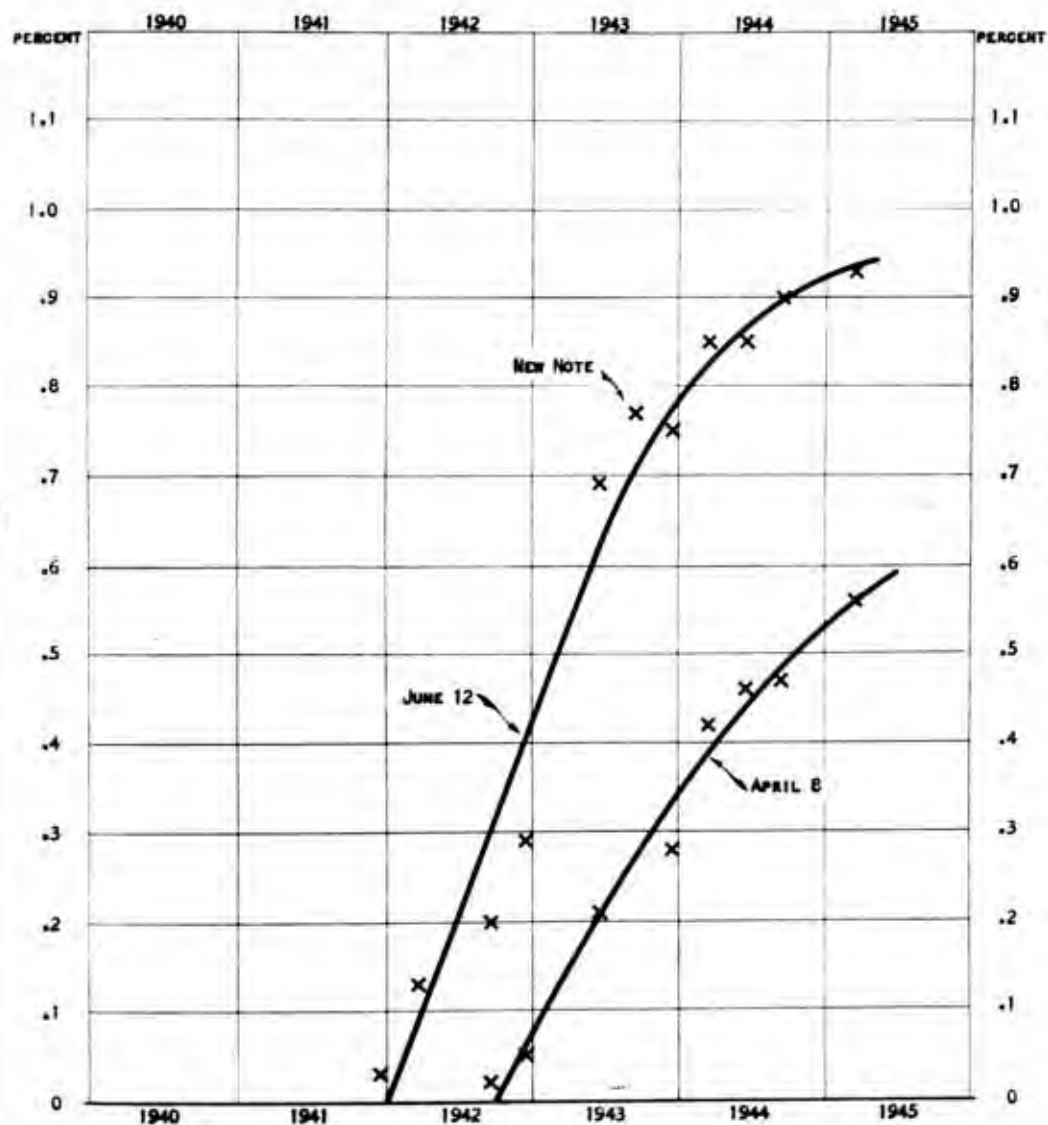
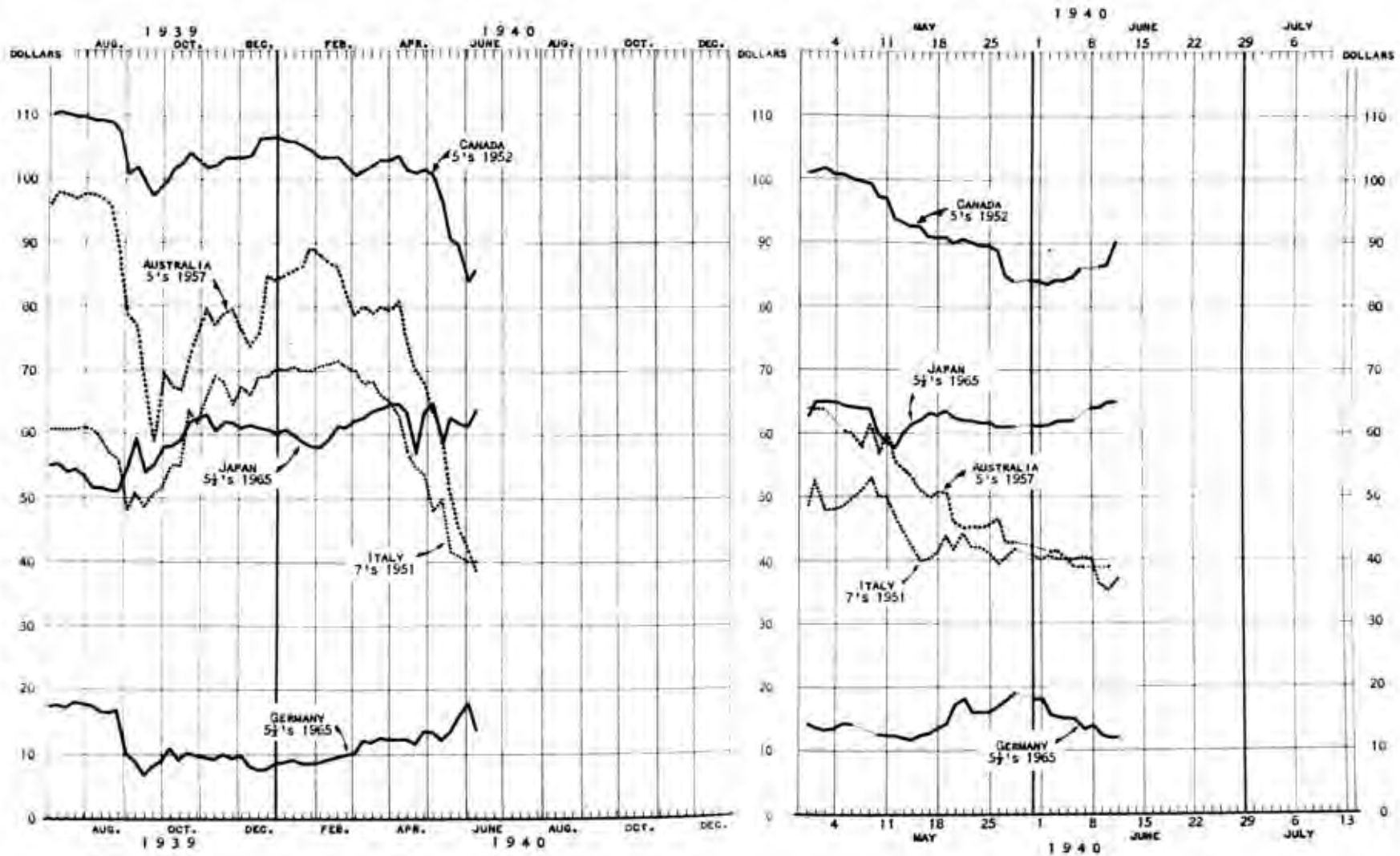


Chart V
 PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



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THE WHITE HOUSE
WASHINGTON

June 13, 1940.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION
AND RETURN.

F. D. R.

THE WHITE HOUSE
WASHINGTON

June 12, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Tax Bill.

You may be interested in the table below, prepared at my request by Dr. Colm in Commerce, which presents estimates of the expected yield of the pending tax bill distributed by income classes:

(In millions of dollars)

Income Classes	Increases in Revenue from:				All additional Revenue as % of Income	
	Individual Income Taxes	Corporate Income Tax	Excise Taxes			
I	under \$500	0	0	14.8	.6	
II	\$500 "	1,000	1.1	.5	63.7	.7
III	1,000 "	1,500	14.7	1.0	83.3	.8
IV	1,500 "	2,000	15.3	4.2	73.4	.9
V	2,000 "	3,000	18.9	8.6	89.5	1.0
VI	3,000 "	5,000	39.7	16.5	51.5	1.4
VII	5,000 "	10,000	19.7	22.5	24.6	1.4
VIII	10,000 "	15,000	26.0	28.7	8.9	2.8
IX	15,000 "	20,000	33.6	27.2	5.4	4.0
X	20,000 and over		257.3	81.0	15.2	5.4
	Total		426.3	190.2	430.3	1.5

Lauchlin Currie
Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

June 19, 1940.

Dear Harry:

You asked me why, in seeking certain information relating to the incidence of the new tax bill, I applied to an expert of the Department of Commerce rather than to the Treasury directly. To give a complete answer to this question requires my giving you a bit of the background.

As you may recall, before accepting my new position, which entailed working on fiscal and monetary matters, I consulted the Secretary. At that time he promised full cooperation. Actually, I have had less cooperation from the Treasury than from any other Government department. Shortly after a misunderstanding with the Secretary last fall relative to my interest in depreciation allowances of armament contracts -- a misunderstanding which at the time I thought I had completely cleared up -- the Secretary laid down a requirement that any information desired from the Treasury was to be requested in writing directly from him. As I have no staff of my own, this requirement, if applied generally throughout the Government, would have made it completely impossible for me to inform myself quickly on the technical and factual side of any economic question.

Let me cite one or two incidents to illustrate my point. I made a request to the Secretary in writing on December 8, 1939. I followed this up with a reminder on December 15, and finally received a reply on December 19. I made another request on December 27, to which I received a reply on January 10. I requested an amplification of the reply January 12, which was furnished me January 26. Since, when I want information, I almost invariably want it in a hurry, the practical effect of the Secretary's requirement is to prevent me completely from availing myself of the technical facilities of yours and other divisions of the Treasury.

This is one half of the answer. The other half is that I have received splendid cooperation from practically every other Department in the Government. Secretary Wallace told me I should feel free to call upon his technicians at any time for any information I desired, and I have done so. Secretary Hopkins similarly

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has put his Industrial Economic Section at my disposal. The Board of Governors authorized me to work directly with certain economists on the Staff, without the necessity of clearing through the Board. I have similar understandings with the Federal Security and the Federal Works Agencies, and so on down the line.

I regard this arrangement as the only feasible alternative to my having my own staff, both from the point of view of speed and the necessity of working directly with the person who is actually doing the job for me.

Consequently, when I wanted some information quickly that I thought the President should have, I was confronted with the alternative of calling an expert directly in whom I had confidence, with the assurance that I could get what I wanted in exactly the form I wanted it in a couple of days, or of addressing a formal request to the Secretary with the probability that I would not receive a reply for a couple of weeks and that the information then would not be in the form that I wanted.

I need not tell you how much I deplore my failure to obtain the cooperation of the Treasury that I have from the other Government Departments, nor how seriously I feel that it has impaired my own effectiveness. I feel particularly badly about the situation, since it seems so unnecessary, and I am sure that the Secretary does not realize the difficulties under which I labor.

Yours,



Dr. Harry D. White,
Director, Division of Monetary Research,
Treasury Department,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:15 this forenoon the Secretary received Dr. Somary, the Swiss banker who is acting as Financial Adviser to the Swiss Legation. Mr. Cochran also was present. Dr. Somary had asked on his last visit for an appointment to see the Secretary of the Treasury personally, but had little to add this morning to the statements recounted in my memorandum of June 11 to the Secretary.

The visitor reiterated the opposition of his country to the application of our freezing system as long as Switzerland is not invaded. He was optimistic that Germany would not soon, and possibly at no time, march into his country. He bases this optimism on the fact that Germany is reaching its objectives in France through the break at the north end of the Maginot line, and finds no necessity for a flanking movement through Switzerland into France. This idea is confirmed by the report that the Germans have withdrawn their heavy concentration of troops from the Swiss border and now have only about 160,000 men between Lake Constance and Basel. Mechanical equipment is said to have been likewise removed to the field of northern operations. In such circumstances, Dr. Somary stressed the foolhardiness of any attempt to enter Switzerland guarded by 500,000 Swiss soldiers. Likewise, Dr. Somary expects no attack from Italy. He said there were very few Italian soldiers along the southern border of Switzerland. He expects Italy to concentrate on the Mediterranean and that any attack which Italy may make on France will be along the Riviera and up the Rhone Valley rather than an attempt to cross the Alps into France against strongly fortified positions held by the best troops of France.

Dr. Somary stressed the transportation difficulties of Switzerland, and got onto the subject of removal of Swiss gold to United States, which he had dealt with in his conversation with me on June 10, as reported in my memorandum of June 11. The Secretary told him to pursue this matter with me.

After the conference with the Secretary, Dr. Somary returned to my office. I learned from the State Department that it is not likely that any further American ships will be sent to Europe to bring off American refugees. Dr. Somary had already been advised by the United States Lines that the sailing of the S. S. Manhattan, contemplated shortly, has now been postponed indefinitely. I telephoned the New York office of the American Export Lines to find what sailings they might have. The S. S. Exeter left New York last Saturday bound for the Mediterranean, but has now been ordered back to New York without touching any European ports. Beginning June 27 this line expects to have sailings direct from New York to Lisbon every Thursday with the Excambion, Exeter, Exchordia and the fourth ship of this group which heretofore has constituted the passenger fleet plying between New York and Mediterranean ports. I gave this information to Dr. Somary, who is going to telephone it to the President

- 2 -

of the Swiss National Bank this evening, to assist the latter in reaching a decision as to whether any attempt should be made to ship out of Switzerland, over France and from Portugal, the gold which is still held by the Swiss National Bank. I told Dr. Somary to let me know what decision they take and that we will then consult with the State Department to see if the latter may be willing that any approach should be made by us to the French authorities with the idea of facilitating the gold train or trucks to pass across French territory from Geneva to the Spanish border town of Irun.



June 13, 1940
3:43 p.m.

H.M.Jr: Hello.

Operator: Mr. Rentschler.

Gordon
Rentschler: Hello.

H.M.Jr: Hello.

R: Hello, Henry?

H.M.Jr: Yeah.

R: I just wanted to tell you that I thought you did a good job the other day and the market liked it too.

H.M.Jr: They seemed to like it.

R: It worked all right and you might be interested to know that when it started out, we bought around \$7 millions and to do the whole job it cost us around \$13 and that's all.

H.M.Jr: Well, then you can sell them at a profit now.

R: We got a pretty good note and we got a nice profit now.

H.M.Jr: Uh-huh.

R: But it worked out very well and the markets liked it extremely well, probably too well.

H.M.Jr: Well

R: But nevertheless it was a wise thing to do and I'm glad you didn't hesitate about going ahead.

H.M.Jr: No, and I'd rather pay the extra

- 2 -

R: Well, you were exactly right and I'm delighted you did it.

H.M.Jr: Thank you for calling.

R: All right, Henry, how's everything else with you?

H.M.Jr: Oh, wonderful. Everything's lovely.

R: Oh, yes, that's a grand boy.

H.M.Jr: (laughs)

R: Don't you turn Pollyanna.

H.M.Jr: Well, I've got to turn one way or the other and I'd rather go Pollyanna than the other way.

R: You keep on being serious until the job's done.

H.M.Jr: All right.

R: Good luck, Henry.

H.M.Jr: Goodbye.

June 13, 1940
3:44 p.m.

H.M.Jr: Hello.

Operator: Max Gardner.

H.M.Jr: Hello.

Max Gardner: Mr. Secretary?

H.M.Jr: Hello, Governor.

G: How are you, sir?

H.M.Jr: Oh, wonderful.

G: Well, if you feel wonderful at a time like this you've got a lot of endurance.

H.M.Jr: Well

G: You've got it I'm sure.

H.M.Jr: Yeah.

G: I called you about two things. I first wanted to thank you for your interest in this textile situation, that's already been solved by Stettinius' inviting Bob Stevens to come down.

H.M.Jr: Oh, yes.

G: And you know Bob.

H.M.Jr: Yes, I do.

G: He's a very fine man and he's taken hold in a very effective sort of way. I appreciate your interest in it.

H.M.Jr: Good.

G: Now, the other thing is -- you remember I spoke to you some time ago about Robert Woodruff.

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H.M.Jr: Yeah.

G: The President of the Coca-Cola Company.

H.M.Jr: Yeah.

G: He's a very fine Democrat to start with, he has no children and is a man of, perhaps, the greatest wealth of anybody in the South.

H.M.Jr: Fine.

G: And a man in whose ability and judgment to do big things and do them with dispatch and with the most -- highest degree of intelligence -- of most any man I know. He's very anxious to do anything in the world he can, to give up every connection he's got and do everything in the world he can if he can find a place where he can be of service to his country.

H.M.Jr: I see.

G: And you are the one person that I knew well enough to ever to have spoken to you about it before.

H.M.Jr: Well, that's mighty nice of you Governor and I appreciate your calling, and I'll certainly mention it.

G: Yes, if you think of anything where you want somebody to do something that's really of a nature that's -- requires a high degree of intelligence, character and ability, he's got it. He's fifty years old and of course he's been doing business in 72 countries all over the world, got a very fine national and international outlook and energy without any limit.

H.M.Jr: Well, thank you so much, Governor, I hope to see you soon.

G: Thank you so much. Good-bye.

H.M.Jr: Good-bye.

June 14, 1940
9:00 a.m.

RE ALLIED PURCHASES

Present: Mr. Young
Mr. Nelson
Mr. Purvis
Mr. Foley
Mr. Kades
Mrs. Klotz
Mr. Knudsen

H.M.Jr: Sit down. I want to get one thing if I can on the Stenotype. In talking this morning with Ed Foley about the supposed new arrangement on financing both American manufacturers who manufacture both goods for the United States Army and the Allies, I want to insist that if the manufacturer accepts RFC money to finance his plant and this plant is going to make goods for both the United States Army and the Allies, then they both - all goods in the plant must come under the Vinson-Trammell Act. If he is going to take U. S. money, you see. Get the idea?

Nelson: Yea.

H.M.Jr: That answers the criticism that they had, that they go from one line to another. In other words, we can't lend the taxpayers' money to a manufacturer and let him make 20% on Allied goods and only 12 on ours.

Nelson: No, that is right. I didn't know what the Vinson-Trammell Act was.

(Mr. Knudsen, Mr. Foley and Mr. Kades entered the conference.)

H.M.Jr: Mr. Knudsen, there is one thing I want to add to what you have, if you agree. If

- 2 -

we are going to lend the taxpayers' money to the manufacturer to put up a plant and tool it and half the plant is working for the United States Government and the other half is working for the Allies, then all of that product should be subject to taxes under the Vinson-Trammell.

Knudsen: The same way?

H.M.Jr: The same limitation.

Foley: The price will be the same per unit.

H.M.Jr: You made the point of stopping work on this and going over to the other, but this way we can control it. If it is taxpayers' money, we can say everything in that plant is going to have the same profit limitation, isn't that a good point? And it will be very popular.

Knudsen: Yes, but you can't have two contracts running simultaneously in the same place.

H.M.Jr: But I just wanted to add that. Do you agree with me?

Knudsen: Yes.

(Mr. Purvis entered the conference.)

H.M.Jr: Just before we start, I just got a cable from Mr. Kennedy:

"Have just seen Beaverbrook, who says by all means produce Merlin 20. The Griffen engine too far away from actual production to make a judgment on its value."

All of his experts agree to this above.

Now, Mr. Purvis, the reason that Mr. Knudsen and I asked you to come down here, we think that we have a formula as to how to finance American manufacturers who want to take orders either for the United States Government, the United States Navy, or the Allies.

- 3 -

Purvis: Yes, quite.

H.M.Jr: You see, which would be quite different than it has heretofore been.

Purvis: Yes.

H.M.Jr: I think it will be most pleasing to you, I think if Mr. Knudsen will explain it, I think that would be well.

Purvis: This would have general application?

H.M.Jr: Yes. I think you will get this as we go along.

Knudsen: Mr. Purvis, we propose to make a uniform agreement with foreign or domestic manufacturers for foreign and domestic orders placed with domestic manufacturers.

Purvis: Yes, uniform rate.

Knudsen: We propose to take the plant cost and the tool cost and spread it over the orders and that will be fixed and add amortization charge to each piece as it is billed out to you. Take, for instance, the man with four contracts. He started with a base of 20,000 engines.

Purvis: Yes.

Knudsen: He doesn't need any building, but he needs some tools.

Purvis: Yes.

Knudsen: What these tools are going to cost, we don't know yet. I grabbed 30 million dollars out of the air only as a figure to talk about, you see, but say they are 20 million and there is 20,000 engines all together for you and for us. Then a thousand dollars per engine is added to that charge. That would apply to anything else that you thought about, guns and so on.

Purvis: Wherever it is a joint operation.

Knudsen: It has to be a joint operation. It has to be one contract, uniform contract.

Purvis: Yes.

Knudsen: Is that clear?

Purvis: Oh yes, it is clear, extraordinarily simple and quite pleasing, I should say, from our viewpoint.

H.M.Jr: I should think so.

Purvis: That means that we would really only pay those capital charges for equipment and/or plants in certain cases on delivery of the unit product.

Knudsen: That is right, but if you cancel and we can't use --

Purvis: Then we have to make an adjustment on the basis of that.

Knudsen: Yes. Another thing, this one can only be applied to a product which is uniform for the Allies and the United States.

Purvis: Yes, which will tend to bring us together on standards.

Knudsen: It can't apply to special - stuff made especially for the Allies.

Purvis: May I give an instance, however? A development of the tank situation indicates at the present time that the result of conferences which I believe the French and the British have had with the United States Ordnance people, it indicates that an agreement of all is that the best and quickest progress could be made by taking the standard French tank, a certain French tank which is good. That is something that the U. S. Ordnance people want. As long as they want it, it doesn't matter whether it is a foreign standard or not, as long as they decide to adopt it for the time being as a standard for them.

- 5 -

- Knudsen: If the Ordnance Department for the United States adopts the tank and places their orders, you can't have one of their own and one of yours.
- Purvis: No, no. We would like to take the United States tank, in that case, but apparently the agreement of all the experts up to the present time - and I have so cabled it to the other side - is that the French B.I.S. --
- Knudsen: That is the name of the tank, a 33 ton tank. But you have never seen one.
- Purvis: I cabled last night suggesting they send one over here.
- Knudsen: In the meantime, up until the changes are made, the American medium sized tank, the 23 ton, is our design.
- Purvis: They don't believe that will work out in combat conditions. It is too lightly armored, I think.
- Knudsen: The inquiries in the size of the armor from an inch and a quarter, it is a little over two inches. There is only one tank, and it is over in the Ordnance Department and is called the Medium American Tank.
- Purvis: I see. I am glad to get that, because our people have thought --
- H.M.Jr: Now one thing, Mr. Purvis, that I want to point out, that I feel quite strongly on is this: You see, under this new system the American manufacturer who accepts U. S. taxpayers' money to help him expand, under this arrangement, whether he manufactures for you or for us, he will be subject to the same profit limitations under the Vinson-Trammell Act.
- Purvis: Yes.
- H.M.Jr: In other words, he can't, say, charge you 15% on an airplane and charge us 12%. He will be subject to the same thing.

- Purvis: Don't break my heart, Mr. Secretary.
- H.M.Jr: But I am sure I won't have to argue.
- Purvis: No, you really don't have to argue with me.
- H.M.Jr: Don't have to press you to accede to that.
- Purvis: No. It is one of these things when I just sit back and accept the situation. It sounds to me very sensible. It puts a premium, does it not, and another thing, it raises the question of negotiation having to be very near - I mean, for instance, take the tank question, the U. S. Ordnance people told our people to go out and talk with the Baldwin Locomotive. It would almost seem to me, however, that those negotiations, that we shouldn't get away from the United States in the negotiation.
- Knudsen: One addition. You see, this was only created yesterday.
- Purvis: It was the day before, wasn't it?
- H.M.Jr: Well, I got this idea shaving yesterday morning and then I saw the President and Mr. Knudsen and that is why I called you and I called you because I wanted to get you - to tell you before I - to get from you before I saw the President, how much money you would put in so when I saw the President at ten I told him you would put in 200 million dollars. Mr. Knudsen saw him after lunch and again cleared it with the President, so you have got the administration 100% behind you.
- Purvis: I think that is excellent, and it is very simple.
- H.M.Jr: That would include also wages and hours, and everything would go into this whole same thing. It would be subject to the same wages and hours, Vinson-Trammell, the whole business. In other words, it would be a U. S. Government contract from now on.

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Purvis: Yes.

H.M.Jr: Is that right?

Foley: That is right.

Purvis: Would that have any effect on such a matter as this, our desire, for instance, to see two or three shifts working in view of the terrific emergency?

H.M.Jr: Well, Mr. Foley can answer that.

Foley: No.

Purvis: It is quite possible under the Vinson-Trammell Act --

Foley: Yes.

Knudsen: If it is prior to the contract, you are subject to the Walsh-Healey Act.

Foley: Yes.

H.M.Jr: They are not subject to the Eight Hour --

Purvis: You would be able to get the labor?

Foley: Oh, yes, sure.

Knudsen: It will not be subject to the Eight Hour Act, which is only confined to Government establishments, as I understand. They can't work more than eight hours.

Foley: That is right, but you can work more than eight hours providing you pay time and a half.

Purvis: Even the individual can work more than eight hours provided he is paid under the Wages and Hours Provisions?

Foley: Yes.

H.M.Jr: We might go ahead, because I feel with Mr. Purvis just as though he is a member of the family. So we tell him, and I haven't had to regret it yet.

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Foley: Just to clear a point that Mr. Knudsen raised, the rigid Eight Hour Law which applies to certain Government functions, which doesn't permit us to pay wages and a half as you can do under the Walsh-Healey Act, it can't work the fellow more than eight hours no matter what you pay him. That can be relieved by Executive order. The President and the Secretary of Labor have that discretion where the emergency warrants it, so if it is a hardship, the President can waive it and provide that for more than eight hours you pay wages and a half, the same as you do under the Walsh-Healey Act. That need not be a worrisome thing.

H.M.Jr: Is he physically well?

Knudsen: Yes, he is all right.

H.M.Jr: Is there anything else you want to ask, Mr. Purvis?

Purvis: Not on that particular item. I think that looks so thoroughly simple and workable, as long as the labor situation - the speed of working can be done, it seems to me quite all right.

H.M.Jr: Well, it looks so simple that it most likely is good. All good things are simple.

Knudsen: It is important that in our contract we get from the Allied Commission their acceptance of an adjustment in the event of cancellation.

H.M.Jr: Oh yes.

Purvis: Yes. Well, that can be brought right into the - how would you like the negotiation conducted? Does this bring us - there is going to be a standard form of contract. Now, take for instance in the case of a tank negotiation. At the moment there may be there a question of swapping tanks. As

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I understand the U. S. Ordnance are quite keen on getting this, and I have cabled for a tank so they can look at it, to come as quickly as they can get it here. Now, how would you like that negotiation handled? It would probably be quite a mistake for us to barge along alone with the Baldwin people.

Knudsen: The Baldwin people have no contract with us at the moment, so if you are familiar with the negotiations, with the terms of your purchase, and know that it isn't - know it does not conflict with any approaches we wanted to make, I think it is all right.

H.M.Jr: Could I make this suggestion to help out? You see, there is a committee composed of Mr. Nelson and the Treasury, Colonel Burns representing the Army, who is also assigned to you (Knudsen), and Admiral Spear of the Navy. This committee also reports to the President through McReynolds, so it is tied up both to Colonel Burns and to McReynolds. Couldn't this committee, through Mr. Nelson, be sort of the go-between and see that these contracts like the Baldwin and everything else, that Nelson could keep you advised and also work with the Allies? Wouldn't that be a good suggestion?

Knudsen: That is all right.

H.M.Jr: Wouldn't that be a good suggestion --

Knudsen: The best thing would be to have the Ordnance Department sit in.

H.M.Jr: Colonel Burns would represent the Ordnance.

Nelson: Colonel Burns would bring over anybody who was interested.

H.M.Jr: Admiral Spear could bring Admiral Furlong or whoever it is. Wouldn't that be a good way?

Nelson: That would be a good way to coordinate it and it should be coordinated.

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- H.M.Jr: This committee which you are the Chairman of would be the logical way to coordinate the thing.
- Knudsen: In this particular case if I should go to Baldwin and say how many tanks we want and make some preliminary arrangements as to what the conditions were - it should go to Mr. Nelson, should it not, say this is what we decide and he would clear that with the organization --
- Nelson: And with you.
- H.M.Jr: Wouldn't that be the logical way?
- Knudsen: Yes.
- Purvis: There is one other question that comes to my mind, that is that so far the United States Administration has been very considerate on the question of priorities, bearing in mind that we are actually engaged in war whereas you are building against an eventuality. I take it that this development doesn't counter-cross the consideration that you have given us in the past and that we can hope for the same consideration in the future.
- Knudsen: Surely.
- H.M.Jr: A good example is, you wanted - I think they called them Harvard trainers. You wanted priority on that. General Marshall was here with his whole group and he said that it is impossible because it would set back - I forget the figures. He has got 2,000 planes - this is rough - and he has 4,000 pilots to train and he said to give you priority over himself would just knock his training program into a cocked hat. He couldn't do it. He couldn't take the responsibility. So I understood he had roughly - check me, Phil - twice as many pilots as he had planes right now for training.
- Nelson: That is right, that is roughly right.

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Then the other thing which I think - now, for instance, a letter here - for example, I happen to know these reports I get, there is a little engine company that makes the engine for the trainer called the Menasco. They haven't got a single order.

H.M.Jr: They are completely out of business, and before these people lay off their people and discharge them, it seems to me that in this trainer program - it is a perfectly good engine. The company hasn't got one order on their books. They wrote me a pitiful letter. They have to get some business to keep them going.

Knudsen: They can only get the business we have got money for as fast as the bill passes on the hill.

H.M.Jr: But if these people wanted some trainers and so on, we could say, "Now, look --" even if it is only for a couple of hundred engines to keep this fellow going for a couple of months, if you needed anything.

Purvis: We are at the present time in the same situation with Jacobs. We are going ahead with the Jacobs order, but we have struck the fact that they are in bankruptcy and it will take two or three days to get the situation, probably, to a state where we dare put the order with them, but it is purely one of those normal things you strike with a company which is not very strong financially, to put it mildly.

H.M.Jr: Well, would you make a note of Menasco? Because Menasco hasn't got a single order on its books. In one term we talk about priorities and here is a good little company, as far as I know.

Purvis: You don't know what horse power engine they make?

H.M.Jr: Small.

Purvis: How do you spell it?

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- H.M.Jr: Menasco. I think it is on the West Coast.
- Foley: In that connection, Mr. Secretary, I asked the boys over in the 77B section in Internal Revenue to give me a list of the corporations in 77B in the process of reorganization and might be able to produce facilities for the armament program and the defense program, and if it is agreeable to you, I will give that to Mr. Nelson, and if there is anything he could do with it in the way of steering business to some of those companies that probably don't have any now, but might be able to get on their feet if they had a few orders, it might help out.
- H.M.Jr: Mr. Purvis, would you mind waiting a few minutes, down in Mr. Young's office? There are a couple of other things I want to take up.
- Purvis: There is one other question in regard to machine tools. I don't know whether that would be proper for some word while Mr. Knudsen is here.
- H.M.Jr: Please.
- Purvis: On the machine tool situation, London has indicated a desire for a little bit of advice and I was going to speak with Lord Lothian about it after because it involves him, but it seemed to me the first place to talk about it was here.
- H.M.Jr: You have got the man there.
- Purvis: That is that the Japs and the Russians are giving indications that they are trying to find out from the English and French, "Look here, what is your experience about this thing," indicating that they are building up a case for protest and I thought that our line should be, "Well, we are suffering in a general way," I mean we should just take that line. I hope it wouldn't be true. That is our line. Then

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we are also increasing the running in to the effect that one or two of the big machine tool makers, as I said to you when I was last here, are not willing to take orders from us. That may be very serious for this reason, Mr. Knudsen: Our people on the other side have got a plant building up - being tooled up to do a great variety of the war orders. If they miss the completing items, it might be devastating in its effect on the progress of the war and we would like therefore to know whether there is any significance in this attitude on the part of some of these people, including Warner & Swasey and Brown & Sharpe, both of whom - Brown & Sharpe have definitely refused to take orders and Warner & Swasey have temporized. Is there any reason -

Knudsen: Probably because they are sold out.

Purvis: No, they say that in view of the fact that the U. S. Defense Program is in the background, they feel that they can't take them. No, it is not because they are sold out.

Knudsen: Was the delivery set so as to give them plenty of time to make the stuff?

Purvis: Oh yes, but it was just as the defense program had started here and they thought they would wait. Have you given them any order not to take such --

Knudsen: No, sir. Our program is not released yet.

Purvis: I see.

Knudsen: And consequently we couldn't give any order. There might be a lot of commercial uses that are in there now - if you send a list of where you can't get things, we will turn it over to the machine tool man, whose name is Vance, and let him look into the reasons for it.

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Nelson: You can check those things right up with me.

Knudsen: It is our experience, Mr. Purvis, that you can never depend on a statement to come back from its source correctly.

Purvis: I agree with you on that. But it is just queer that they didn't want to take our orders because they were putting it that way to us. Did you receive a communication in regard to priorities for British tools, an appeal?

Knudsen: No.

Purvis: Thank you, sir. They were supposed to have given something to you.

Knudsen: I will correct myself a bit. I received a cable that indicated that the need was great. It was addressed to someone else, but no communications were received by me.

Purvis: I spoke with Monet yesterday, with regard to the Rolls Royce engine. The 3,300 for England has already been set up. He explained the reason that the cable has not come through for the 2,700 for the French has been due to the extreme difficulty during these days, and he thinks it may be two or three days before it clears up.

Knudsen: Does that leave us where we have got to negotiate for 3,300 only, plus what we can pick up from here?

Purvis: It would seem to me that the thing to do - there we are on firm ground now. I don't know how many - there were 4,000 --

Nelson: Thirty-six hundred.

Purvis: Thirty-three hundred. It was 3,300 and 700.

Knudsen: No, it was the other way around, 36 and 24.

Nelson: No, I had to clear that with the Secretary

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because conflicting instructions came to Mr. Mead. The Secretary had told him 3,300 and Sir Henry told him 36.

H.M.Jr: Lord Beaverbrook said 3,600.

Purvis: So far as I am concerned at this sitting, my knowledge of it is that the British order is through and I have seen the other order, so I don't understand where he got his 3,600, 3,300 for the British and Monet in speaking on the telephone last night as late as 5 o'clock or 6 o'clock said that it was 3,300 he had already been able to clear through the one channel, but owing to the great disturbance, the 2,700 had not been cleared and he asked me to say to you that he thought you would understand in the next two or three days.

H.M.Jr: Leroy-Beaulieu calls up and says, "Can you find out where the Minister of Information of the Republic of France is, because we want to communicate with him?" They don't even know.

Knudsen: You understand, Mr. Purvis, in our conversations with the Ford Company, they have been to the effect that we would place 10,000 engines and take an option on 10,000 more.

Purvis: Yes, and you have based that, have you not, on 6,000 and 4,000. And I think but for the fact the Germans were in Paris yesterday, the French end would have come through just as quickly as the British end did.

Knudsen: We are now at the point where we can place --

Purvis: Thirty-three hundred as the British have already --

Knudsen: And that is all.

Purvis: That is all, I think, until the French clear it.

H.M.Jr: One other thing. Are you through?

Purvis: Yes.

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H.M.Jr: There is the other letter I have. You see, I get this in connection with the statistics they write in. The Republic Aviation Company says that within a couple of months they will be completely out of business.

Purvis: That is engines, I suppose.

H.M.Jr: No, this is planes.

Purvis: But it is because of lack of engines, I suppose, because we have been willing to buy unlimited planes. There has been no limit to what we would have taken.

H.M.Jr: I guess the answer is engines.

Purvis: Yes, because actually, frankly, I sometimes wonder whether it is appreciated - I would like you to know, Mr. Knudsen, that if you can by any way wave a wand of magic and produce three, five, or seven thousand more engines, we will buy three, five, or seven thousand more planes. Sometimes I hear talk about the Allies not having moved fast on the airplane thing. On the airplane thing they have done well. On the other things, in many cases, not.

Knudsen: Well, you have placed a very large number of contracts within the last two or three weeks.

Purvis: Oh no. Mr. Knudsen, they were placed much before that. We got our authority through the first of April. By letters of intention they were all placed by the end of April. Contracts on - we paid 30, 40, 60 millions of them. The contracts are merely the documents which may take another month to complete, but we are just as much bound with letters of intention which have been accepted by lawyers on both sides and were bound by the end of April for the whole of that program of 600 millions or 640 millions, the additional program. There wasn't any delay at all. You take in the case of the Allison, I think our negotiation took place

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on the 2nd of April and was completed, I think, by 6:00 p.m. and we paid some odd millions of dollars the next day. I think that end of it is all right.

Knudsen: Are you placing any machine tool orders right now?

Purvis: Machine tools, we have been placing more than we are now placing. There is still some rounding out to do and I understand there is one of --

Knudsen: What you were talking to me about is this rounding out business.

Purvis: That is more particularly it, yes.

H.M.Jr: May I make a suggestion? The Allied Purchasing Commission, in cooperation with the Treasury, we get every week orders placed, and I would be glad, if it was agreeable with Mr. Purvis, to furnish you (Knudsen) a confidential copy of that.

Knudsen: I arranged that through Mr. Nelson.

H.M.Jr: Oh, you have already arranged for that?

Knudsen: Yes, through Mr. Nelson.

H.M.Jr: Well, you have taken care of it wonderfully. If you would go down with Philip Young and in a few minutes, I would like to see you again. Philip Young has a message for you. He has a message for you, and I will see you in a few minutes.

Purvis: Thank you very much. Good bye.

(Mr. Purvis and Mr. Young left the conference.)

H.M.Jr: I thought maybe you would rather talk alone about this contract.

Knudsen: I gave him this.

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Foley: I warned him that we might get ten pages back.

H.M.Jr: Well, you had lawyers, didn't you, out in Detroit?

Foley: The memorandum is a digest of that.

Knudsen: Oh yes.

"Mr. Knudsen's proposal contemplates that an RFC corporation will make loans to manufacturers who participate in the National Defense Program, for the purpose of financing the construction and expansion of plants, the purchase and installation of machinery and equipment, and the providing of working capital for material bills and pay rolls."

This is a straight loan with no strings attached. It is a straight loan with no interest, isn't it?

Foley: Straight loan without interest, because there is no risk there. You can fix interest if you want to.

Nelson: For the working capital. Is that without interest?

Foley: That is the way I put it up in the agreement.

H.M.Jr: You are not going to charge him any interest?

Foley: I didn't in this agreement. You can charge him if you want to. It is short term money; you will get it back right away.

H.M.Jr: Well, I am willing not to, but I am sure Jesse will want to.

Foley: Well, I know he will, too.

Nelson: Oh, I think there should be.

Knudsen: I think they should, because if they went to the bank, they would have to pay something for it.

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- Foley: Okay. I fixed 3% on the loans.
- Nelson: If you don't, they will all crowd into the RFC because they can get it without interest when they might have been able to get some from the regular banks.
- H.M.Jr: I think they ought to charge interest.
- Knudsen: We were talking about 5% the other night. He has evidently made some loans at 5% but the bank rate today would be somewhere around three, on a sizable loan that amortizes in a relatively short time. We have a lot of them in the bank at Detroit.
- H.M.Jr: I think they ought to charge three.
- Knudsen: "For example, if a manufacturer borrowed one million dollars to purchase machinery for his plant to produce one thousand planes, the sum of 1,000 dollars would be added to the normal sales price of each plane."
- Foley: You jumped a paragraph there.
- "The amount of the indebtedness would be spread over --"
- Knudsen: "The amount of the indebtedness would be spread over the total units produced so that the sales price of each unit would include its pro rata share of the debt. The loan would then be repaid in quarterly installments according to the number of units produced and sold either to the United States or to a foreign government.
- "For example, if a manufacturer borrowed one million dollars to purchase machinery for his plant to produce 1,000 planes, the sum of one thousand dollars would be added to the normal sales price of each plane. If in the first three months, 100 planes were produced, then the manufacturer

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would repay one hundred thousand dollars on his loan.

"The loan would be secured by a chattel mortgage on machinery, or a real estate mortgage if land is acquired and buildings constructed. Title would thus be vested in the manufacturer, but the lending agency could foreclose in the event of a default."

That is a safety thing.

H.M.Jr: Yes, it is good.

Knudsen: I don't know. We will see how we make out with it when we get the first contract.

H.M.Jr: Take an easy fellow like Ford.

Knudsen: Ford doesn't want any money. He wants the tools paid for. He doesn't want any money to finance the buildings.

Foley: Well, he will borrow money for tools.

Knudsen: He might not even want to do that after you get to talking to him, but I told him we would pay for the tools and get him going. He hasn't got anything now. He hasn't got an order and he is plunging around with the tools up there and he has got a whole flock of men working.

"The manufacturer would not take any risk of loss since the loan would be repaid solely from the earnings of the plant and equipment acquired with the proceeds of the loan and no recourse could be had to the general assets of the manufacturer." That is all right.

"If the United States or a foreign government which had placed orders with a manufacturer cancelled the orders before the planes were paid for, the lending agency would forgive the debt to the extent of the unpaid balance allocable to unmanufactured or unpaid for planes."

H.W.Jr: Just a minute, that is too easy on the foreigners. They have a different course. I think you ought to see what kind of a clause Pratt & Whitney and Wright have. There is no reason why the foreign governments should be let off so easy on legislation like that. That is too easy.

Foley: All right.

Knudsen: I put it up to Mr. Purvis that if he cancelled, he would be stuck for the balance.

Foley: We have just got thoughts down here for discussion, Mr. Knudsen.

Knudsen: In the next paragraph, you sort of cover that.

"For example, in the case given above, if after 500 of the 1,000 planes contracted for have been delivered, the order was cancelled, and neither the United States or anyone else assumed the order, then the manufacturer could discard his plant and assuming this is done and the plant has no value, the unpaid balance of five hundred thousand dollars would be forgiven. Since only half of the planes were delivered, only half of the debt would have to be repaid. Of course, to the extent the machinery or the plant had a residual or salvage value, the debt would have to be repaid or the Government could foreclose and take over the abandoned property."

Foley: That is right, if he elected to keep the plant; but if he wanted to give up the plant, we would have to foreclose.

H.W.Jr: But that wouldn't affect the Allies. This is for the manufacturer's side, but your escape clause for the Allies is easy.

Nelson: We could cover that, though. I would suggest you cover that by having an agreement between the Allies and the RFC and in the event of a cancellation on the

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part of the Allies --

Knudsen: They would be responsible for their share.

Nelson: For their share of the unamortized capital expenditure.

H.M.Jr: That would be perfect.

Foley: That would be better and then we wouldn't have to have two agreements.

H.M.Jr: They would grab at that, because you know what our American manufacturers have done, don't you, in most cases? And I am not blaming them. They make them put down 100% of the money for the order, the money for the taxes and everything else, in advance.

Nelson: Surely. I don't blame them for that.

H.M.Jr: I don't blame them, but this will help clear the whole thing up and give what Mr. Knudsen has been asking for, a formula, but if you fix up that Allies thing and, as I said, it makes them - the Allies will then only have to pay for the stuff as they get it instead of putting up all the money at once.

Nelson: That is right.

H.M.Jr: Which is just about --

Knudsen: In other words, if you took this last paragraph on the first sheet out and substituted for that a paragraph whereby the Allies would be responsible for their share of the unpaid --

Nelson: Yes, I wouldn't take out that paragraph, Mr. Knudsen. I would just have an agreement between the RFC and the Allies.

H.M.Jr: That they would be responsible for the --

Nelson: Their portion --

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Foley: They would indemnify the RFC against loss from cancellation of foreign orders.

Nelson: Of their orders, that is all it amounts to.

Knudsen: That is right.

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

"Senator Glass' bill (S. 3938) permits the RFC, when requested by the Federal Loan Administrator, with the approval of the President, to create corporations. Since the security back of the proposed loans is not of a character ordinarily taken by the RFC, it has been thought advisable to have as the lending agency under the draft agreement a new corporation to be created for the purpose contemplated by Senator Glass' bill and tentatively called the Defense Finance Corporation."

H.M.Jr: There is one thing there, Mr. Knudsen.

Foley: I was wrong, Mr. Secretary. There is no limit on the amount of that money.

H.M.Jr: Foley told me there was a limit of 300 million. That wouldn't be enough. There is no limit?

Foley: No, there isn't a limit on borrowing margin of the RFC, but I think with funds they have on hand and with that margin, it is somewhere around a billion and a half and all of that money would be available for loans for this purpose under this bill.

H.M.Jr: And what it would amount to is this, Mr. Knudsen: I am thinking out loud. Those corporations which are not like the

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Aluminum Company would go the RFC route. The Aluminum Company would have to take the 200 - the President would have to use the 200 or 300 million --

- Foley: No, he could do it under the RFC also.
- H.M.Jr: Could he?
- Foley: Yes. The power is there, it is broad enough. It says --
- H.M.Jr: Could he use that?
- Foley: That is right. It says here, "When requested by the Federal Loan Administrator, with the approval of the President, to create or organize (A) corporation or corporations with power to acquire and carry strategic materials, (B) to purchase land, to purchase, build and expand plants, and to purchase equipment and machinery for the manufacture of equipment and supplies necessary to the national defense; (C) to lease such plants to private corporations to engage in such manufacture; and (D) if the President finds that it is necessary for a Government agency to engage in such manufacture, to engage in such manufacture itself."
- H.M.Jr: Broad enough. What is the next paragraph?
- Knudsen: "It may be well to point out that the amount of the debt forgiven if the contracts should be cancelled would be taxable income. However, if the plant or equipment were permanently discarded, there would be an offsetting allowance for loss of useful value equal to the difference between the cost of the plant and its salvage value. Depreciation and obsolescence under the income tax law and under the Vinson-Trammell Act are not involved."
- Foley: No, I mean they are not problems, not difficulties.
- Knudsen: In other words, you can do this without --
- Foley: Without worrying about income tax and the Vinson-Trammell Act.

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Knudsen: If it is limited to 12%, of course, it is all right.

Foley: That limitation would apply to the United States and foreign goods.

H.M.Jr: Also --

Foley: And the labor provisions.

H.M.Jr: Put that in there.

Foley: I will.

H.M.Jr: This is going to be very popular.

Foley: With everybody but Jesse.

Knudsen: I thought I might go over and see him after I get through here.

Foley: You had better take a body guard.

H.M.Jr: Why won't he like it?

Nelson: I don't see why he will object to it.

Foley: Well, because he can't make a profit. He is taking the risk that the manufacturer doesn't want to take but I think the risk the Government has to take here.

Nelson: It does have to take it if it is going to get it quickly.

H.M.Jr: Foley said a very wise thing coming down with me this morning. He said the RFC made a profit for the last seven years out of the unemployed, giving them work. He says they can't make a profit now out of this national defense.

Knudsen: I don't quite get that.

H.M.Jr: All through the last seven years, the RFC has made a profit out of creating work to take care of the unemployed. That is the way it has been run. But now when it comes to national defense, he has got to

forego his profit and maybe take a loss.

Nelson: That is absolutely right.

Foley: He takes a great pride, Mr. Knudsen, in the way he has run his corporation. He has loaned money and gotten it back, and he has made a profit and therefore he is a great banker, but you can't do this kind of a job if you are going to restrict yourself to the type of loans where there isn't any risk involved, and that is why I suggested that you might have to set up separate corporations called the "Defense Corporation" and have him turn that money over to the Defense Corporation and have it understood before the Defense Corporation starts making loans, that it is assuming a risk here in the interest of national defense, that the situation warrants the Government in doing it.

Nelson: But there is a minimum of risk here, if it is done by the right people.

Knudsen: The greatest risk we have come into is, if the Allies should cancel their commitments in the United States and we are not able to pick them up, we have bought so much stuff that we couldn't pick it up under the appropriations that we have. Then a problem is set up.

Foley: There is a risk there --

Knudsen: If you were - your clause where the Allies will hold Jesse Jones harmless, you can cover that part of it. Then our loan for America can run longer and can eventually be liquidated.

Foley: I agree with that.

Nelson: We had another mechanism, Mr. Secretary, that might fit in with this. You will find in this program that there will be very good manufacturers, very skillful, but who will have small capital and won't have the money to buy the raw material, even. This

covers their capital expenditure. We had another mechanism that we used, that I worked out, and it is being generally applied now, called a Field Warehousing Plan. In other words, they bought the material with money borrowed from the bank, put it in a field warehouse, under a bonded man, and they have these regular companies who will get that material for them. It goes to their plant and the finished product then is paid for by us, you see. It gives a reservoir where you can put even the material, if it is a good manufacturer and he hasn't the capital to carry the thing on, but still he is very skillful.

H.M.Jr: Well now, I want - Mr. Knudsen gets that, because that might take care of the 45 million dollars or part of it that Curtiss-Wright is asking for.

Knudsen: Yes.

Nelson: It is very easily and simply done.

Knudsen: This, of course, is within the four walls. I talked with him yesterday and I told him that I thought he had expanded too rapidly to take another hundred million dollars. He is liable to get indigestion over there. He had expanded during the last three or four years to such an extent that I was afraid --

Nelson: I think that is very wise.

Knudsen: That he would spread himself too thin, feeling --

Nelson: You have to build a management to handle the properties.

Knudsen: So that half the plant could be started and then we could lay it on afterward, but I didn't want to give him any more than that to begin with.

H.M.Jr: Then you will have to give it to somebody else to get production.

Knudsen: We might.

H.M.Jr: Because we need that. Is there anything else in the Sears Roebuck experience which would be applicable to this, that you know of?

Nelson: No, those were the two things. We used this method all the time.

Knudsen: That is to standardize manufacturing --

Nelson: We used this method in advertising tools, jigs, and dies.

H.M.Jr: There is one thing you and I were talking about and I wonder if that is covered. Supposing we buy a million dollars worth of tools and the fellow's order is completed and actually the tools are paid for. Now, we go to this fellow and say, "We want to give you another order," and he is kind of uppity. He doesn't want it. Could it be so that - "All right, Mr. Jones, you don't want to do this thing but now the tools are paid for, they belong to the Government."

Nelson: Take that up with Mr. Foley. He is going to cover that.

H.M.Jr: "The Government owns these tools now that they are paid for, and if you won't do this, we are just going to move these tools bodily out of your plant and give them to Mr. Smith, if you are going to be unreasonable, see."

Foley: Not under this plan, Mr. Secretary.

Nelson: That is the thing I was talking to you about last night.

H.M.Jr: I am just raising it.

Knudsen: You won't get very far with that.

H.M.Jr: Nelson raised it with me.

Nelson: We do that.

H.M.Jr: Tell him. It was Nelson's idea.

Knudsen: We have done the same thing in many instances, but the other fellow gets the tools and you might have some different equipment --

Nelson: He might have, and, on the other hand, he might not. Here are dies and other things that are going to be bought for this. This is going to be very broad. I think the Government at its option ought to give - let him have the tools or take them away, at the Government's option, because you might have a lot of very, very expensive dies here, Mr. Knudsen. Take this tank program --

Foley: He has paid for them.

Nelson: No, the Government paid for them.

Foley: We loaned him the money.

Nelson: No, we paid for them. Every one he bought had amortization - we paid for them, the Government paid for them.

Foley: Well, we loaned him the money.

Nelson: No, we paid for them and we paid him the money and he paid back the money. The Government owns them. The Government has bought them.

Knudsen: But not under this scheme here.

Nelson: That is what I was talking to Mr. Foley about last night.

Knudsen: The title was to remain with the manufacturer.

H.M.Jr: In the Sears case, they keep the title. I want him to explain this. It is very interesting.

Nelson: In this tank program --

- Knudsen: I know the story. I know the scheme well.
- Nelson: You are going to buy some very expensive dies in this tank program. Now, those dies might be moved from one plant to another. Now, if they belong to the manufacturer, he then says, "Look here, I am going to take this order at 5,000 or 10,000 or 50 or a hundred or two hundred." If the dies belong to you, you have got a better trading point at the end of the first contract. You have got a better trading point if the dies belong to you, if they belong to the Government.
- Knudsen: It is only in case the contract is finished you pay for the tools, and if cancellation is 50%, you have only paid half. You can't move the other half.
- Nelson: But you might, Mr. Knudsen. Here is another point. The reason I want to see this title remain with the Government, you might get this order 3/4 of the way through or half way through and then decide you want to place it with another manufacturer because he isn't doing a good job. You want to recover that quarter.
- Knudsen: You have a mortgage on it, according to this.
- Nelson: That is only until it is paid for, but if you cancel it, you have no mortgage on it. If you cancel it, you leave him with the debt. I want to see those remain some way the property of the Government so that at their option they can move them from one plant to another.
- Foley: Well, that is an entirely different theory, Mr. Secretary. That is on the theory that the title remains with the Government.
- H.M.Jr: Just take a minute - we are talking about something here. Once the difficulty is settled and Mr. Knudsen goes to work, it is better taking ten minutes to argue now than to have a headache six months from now.

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Knudsen: If I give my word to a fellow, we will have to go through with it.

H.M.Jr: And you want me to give you my word I am going to back you up. You want me to say I am with you.

Knudsen: This is it, yes.

H.M.Jr: Let's take five minutes and let's see what are the advantages and disadvantages. You are bothered about the tax thing on this thing, aren't you?

Foley: Oh, I am not - I wasn't thinking so much about the tax thing, Mr. Secretary, as I was about the whole theory of the way that this is set up is repugnant to the scheme that Mr. Nelson is advancing now. We could do that, too. We could go out and buy the jigs and dies and tools and then release them to the manufacturer.

Nelson: That is what you are doing.

Foley: No, we are not.

Nelson: Oh yes, in theory, absolutely.

Foley: No, Mr. Nelson, we are just acting as a banker, but title is in the fellow that borrows the money and all he gives us is a mortgage to secure our loan on the property that he buys with the proceeds of our loan, but when the loan has been repaid, the mortgage is cancelled and the property is without any encumbrances. Now, if you are afraid at that time he is going to hold you up when you place another order with him, you can put a provision in that contract that insofar as additional orders after the entire loan has been repaid, the Government has an option to buy at a certain price so that he won't be able to hold you up. We could put that in the contract. But when you get mixing up a title with the underlying theory of the arrangement that Mr. Knudsen has suggested we put into that

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agreement, we are just setting out on another basis and --

- Nelson: I don't see where you are starting on another basis. Here is what you are doing. You are not loaning him money to buy something. You are just advancing him money because you are repaying it yourself. For instance, on this order for Ford, you are buying --
- Foley: The Allied Governments are repaying it.
- Nelson: Yes, so the thing you are repaying it for is property that may or may not be very valuable. It may be very valuable. It may be that at the end of this contract you would want to store that somewhere and use it again.
- Foley: That could be done.
- Nelson: To me you are buying at times some very valuable things.
- Foley: That could be done, Mr. Nelson, but we would start with an entirely different arrangement if we were going to do it that way.
- Nelson: I don't know the legal point of view.
- Foley: We would buy them ourselves and would lease them, but Mr. Knudsen and I discussed that the other afternoon and we didn't think that was very practical because you would have some machines in the same plant that were owned by the manufacturer and you would have certain other machines in the plant that were owned by the Government and there would be certain replacements on his machines and certain replacements on Government machines. His machines might deteriorate faster than the Government machines, and you would get the things all mixed up and it is a very, very difficult thing to work out and we thought that this was --
- Knudsen: On machinery it is hopeless. On dies --

Nelson: I am thinking principally of dies and machine tools, not machinery. Machinery is a different thing. Machinery is an entirely different thing. We are talking about the dies, tools, and jigs that are used - that are essential to the production.

Knudsen: All you need to do is put a paragraph in here that the tools and dies shall revert to the Government at the end of the contract.

Nelson: That is the point. I think if you don't do that --

Knudsen: What would that mean?

Nelson: You are giving away a very valuable thing here.

Foley: Well, if we are going to do it this way, then I think we ought to buy the jigs, the dies, and the tools and give them to them providing that when he is through with them he gives them back.

Nelson: I don't think you ought to do that. He ought to buy them. You will get them much quicker, better, you will get everything better than us buying them.

Foley: If he is buying them, why isn't he entitled to keep them when the contract is over, just the same as any of the rest of the plant?

Nelson: You are giving away some very valuable essentials to the defense program when you loan him money to buy tools, jigs and dies and then give them to him at the end of the contract.

Foley: No, we don't give them to him at all.

Nelson: Well, you do.

Foley: No, you come to me and you say you want a thousand dollars and you want to buy some jigs, dies, and tools, and I loan you a thousand dollars and I take a chattel

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mortgage on those jigs, dies, and tools. You keep up your payments and in three or four years you have paid me back everything I have loaned you. Why should you have --

Nelson: I haven't, though, the Government has paid it because the Government adds ten dollars or fifteen or twenty dollars apiece to the cost of them to pay the cost of those things.

Foley: You are assuming that the only business you would get would come from the Government. The Allies are placing orders, too.

Nelson: They will place a minimum of them, though. It is the same thing whether the Allies do it or not. It is different from buying machinery or buildings here. You are buying a great big difficulty. One difficulty may cost for this tank program - I have no doubt that the dies alone for this tank program may cost five or six million dollars.

Knudsen: I don't think so.

Nelson: Maybe two million, maybe two million. That die that you have for that --

Knudsen: If we get mixed up with the Allies, Mr. Nelson, it would be better to say - put a paragraph in here saying that at the conclusion of the contract, the Government would have the option to purchase the dies for use in another manufacturing establishment.

Nelson: At a percentage of their value. One percent of their value or two percent.

Foley: We could do that.

H.M.Jr: If you did that, I would be entirely satisfied, but I think the thing - I have been listening very closely and the thing I am afraid of is the mixing up of part Government ownership and part private ownership.

Knudsen: You can't do it.

H.M.Jr: But if you said when this thing is written off,

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the end of the contract, the Government just like Mr. Knudsen has said, has the option to buy this stuff at a dollar a machine --

Nelson: At a very nominal figure.

H.M.Jr: I am going to talk from the standpoint of the manufacturer. I want you to get this, Ed. I am going to take the opposite side. This is very amusing. I am willing to argue for the manufacturer. I don't want to do this business. I don't want to be bothered with this thing.

Foley: You have got a good business and you are making a lot of money and you don't want to go into this thing.

H.M.Jr: I don't want to go into it. It is a darned nuisance. I am not going to do business with Mr. Jones and have him tell me I have got to limit wages. I don't know whether he will do this or not, but the Pennsylvania Railroad, when they borrowed their money from WPA, they limited the salary of the president and so they went out and borrowed the money and paid off the WPA so they could run their own business. That is right, isn't it?

Foley: Well, it is a little different. They borrowed the money from Jesse and he put a limitation of \$50,000 on the salary of the president. So they wouldn't take the loan. They cancelled the agreement and went ahead. Then when WPA came along they lent them the 80 million dollars and didn't put any limitation on the salaries, and they electrified the division from here to New York.

H.M.Jr: I am just arguing now from the standpoint of the manufacturer. I am getting quite a kick out of this. I don't want to do this business, see. I don't want it, it is a nuisance. I have got a good business and more than I can take care of. But if I can do this thing and get this thing and

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when I am through if the thing still goes on, well, maybe these tools are going to be worth something and that is the gamble I am going to take and that is the gravy I get out of this thing, but when I am through, the tools are there. Well, when peace time comes along I have got a whole bunch of tools and maybe I can pick up some business and use these things for peace time business; but if, when the thing is through, the Government is going to take it, there is nothing in it for me. I am just arguing.

Knudsen: I can give you an example.

H.M.Jr: There is some gravy in it. I have got a bunch of tools, and instead of making a tank, maybe I can make a road machine to go along and grade a road or something.

Foley: Mr. Nelson is afraid there is too much gravy.

H.M.Jr: I am just - I am the manufacturer.

Knudsen: I can give you an example, Mr. Secretary. We make a lot of dies every year, about 10 million dollars worth. At the end of that year the dies aren't worth only so much for iron, \$18.00 a ton. We have to scrap them. Unless we carry the piece on year after year, there isn't anything we can do. But if you can sell this by putting a paragraph in, you have that option. The dies will have a nominal value. That will satisfy Mr. Nelson.

Nelson: Here is the reason it is very valuable. In talking with one of your boys, the point came out they want to buy 50 tanks. Well no, you may buy 50 tanks and amortize the tools at 10 thousand dollars.

Knudsen: You couldn't amortize the tools.

Nelson: I realize that, but you might say a thousand or whatever it might be, a very minimum educational order and amortizing tools on the educational order.

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But then you come into the big quantity production before you have got the tools paid for.

- Knudsen: You see, Mr. Nelson, take the argument we had this morning about the 6,300 motors. I couldn't defend amortizing the 20 million dollars on 6,300 motors and I am not going to do anything. I am going to take the 10,000 plus the option of the 10,000 and that is the amortization value I am going to set on the tools. Otherwise, you might say I might buy a hundred motors and have 20 million dollars.
- H.M.Jr: Well, if you gentlemen are sold, I am sold, if you can get away with it in the interest of the Government that we have an option that whenever the contract is finished and the loan is paid off and the tools are paid for, that the Government has an option to take the tools.
- Foley: To buy them at an agreed price.
- Nelson: No, I wouldn't do that. I think you are giving them too much.
- H.M.Jr: Why don't you say at a dollar?
- Nelson: At a dollar or 1/2 of their value or some price. Not a negotiated value. Then the Government is paying something over again.
- H.M.Jr: I think Nelson is right.
- Nelson: Oh, I know it.
- H.M.Jr: I would say at a dollar.
- Nelson: I have been through this tool program and so has Mr. Knudsen and you know what it involves. It involves --
- H.M.Jr: I think it is a very important contribution that Nelson has made.
- Knudsen: There isn't anything wrong with it. It depends on whether those tools are worth anything or not.

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- H.M.Jr: If we don't want them, we don't have to take them. While you are talking here, I was thinking - excuse me. The President is very proud of when he was Assistant Secretary of the Navy when he built an armor plate factory in West Virginia and the stuff is more or less still there, and when they got into this bottle neck business a year ago, they opened the plant up. It was still there, twenty years later and he is very proud of the fact that this thing was still there and the plant was still there and they could open it up and organize it, but the plant was there and twenty years later the Government had use of it.
- Nelson: It might be very important --
- H.M.Jr: I think you made a very important contribution.
- Knudsen: I am willing to put that paragraph in.
- H.M.Jr: You are going to take on Uncle Jesse again, are you?
- Knudsen: I am going to see him about it, because we had some talks and ran up against the fact that we couldn't lease a plant on an ordinary leasing basis. Naturally, he wasn't interested.
- H.M.Jr: I think the suggestion Foley made of a separate finance corporation so that would stand out and take the loss, whatever it is, so it wouldn't show up on the books of RFC, will satisfy Jesse Jones. Now, what happens to the money that the departments have to spend for this same purpose?
- Foley: Well, that isn't - that isn't involved here. The Army has a certain amount of money, the Navy has a certain amount of money, with which they can buy tools and they can buy jigs and dies.
- H.M.Jr: For Government plants? I would keep that --

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Foley: This is the thing.

Nelson: But it doesn't make a bit of difference. They are going to pay so much per each.

H.M.Jr: No, let me ask - I think this: I think that all the money - this 200 million dollars, if that will go to these arsenals that the Government owns. I am thinking out loud. Save them for that. Then I think there wouldn't be any too much money to go around for Government arsenals.

Knudsen: These powder plants you are going to build?

Foley: That is right, the shipyards, the stuff that the Government owns itself.

H.M.Jr: Outright.

Foley: Outright.

H.M.Jr: Use that money. There won't be any too much money, because when you get into this thing, this anti-aircraft guns and all the rest of the stuff that the Government is building, they have got to build plants and equipment and - what is it, 200 million dollars?

Knudsen: In other words, their money will have to be spent in plants that are leased and operated under a contract basis by private contractors.

H.M.Jr: No, I am thinking of 100% Government-owned plants.

Knudsen: That is easy. But supposing you build a powder plant?

H.M.Jr: Then it will come under this contract.

Knudsen: Under this?

H.M.Jr: But you take for instance, we are making - I don't know what it is, 30 or 40 Garand rifles a day in our own arsenals, aren't we?

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- Knudsen: There is no problem there if it is in our arsenals.
- H.M.Jr: This money will go into that. We make this anti-aircraft stuff in our own factories.
- Knudsen: Didn't we build an armor plate plant for the Government?
- H.M.Jr: That is the plant I am talking about, that Assistant Secretary Roosevelt built 20 years ago.
- Knudsen: And the amortization charge was set up at 50% the first year and we didn't pass it.
- H.M.Jr: I don't think so.
- Foley: The title of that is in the Government. The Government owns that plant.
- H.M.Jr: So there is no amortization question.
- Knudsen: I appreciate that. I think you have something. I am not sure about it.
- H.M.Jr: If I could make this suggestion, this is two or three hundred million dollars which is available to the President.
- Foley: It is 200, Mr. Secretary, that is available to the President.
- H.M.Jr: He first asked for a hundred, and then did he make --
- Foley: I think they gave him a hundred and gave him the power to encumber an additional hundred.
- H.M.Jr: My suggestion would be that that money would be kept for 100% Government-owned plants, and that this program we are working on today would be for private industry.
- Foley: Where the Government acts as a banker.

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- Knudsen: I see. Then the procedure is for me to clear this with Jones and then notify the Army and Navy to keep the money for their own show and if any outsider wants money, he has to go this route.
- H.M.Jr: That is right. Now, besides advising the Army and Navy, if I may make a suggestion, McReynolds should visit the Director of the Budget about this at once.
- Knudsen: Yes.
- H.M.Jr: Now, I told the President yesterday, and he asked me to write him and the Director of the Budget, that I wanted him to set aside a couple of million dollars out of this fund, earmark it, to save it, so we could pay the British Government a lump sum for the Rolls Royce. You see, he agreed to that. I write a letter to the President and the Director of the Budget, please set aside one, two, or three million dollars earmarked, and save it, you see, but McReynolds should advise the President and the Director of the Budget and so forth and so on, that is the policy. But that is the division. I think it is excellent. I am very enthusiastic. This means everything to the Allies, everything.
- Foley: You will realize that this is not a complete agreement, Mr. Knudsen, I mean, it is just a first draft.
- H.M.Jr: He understands. It has been a good meeting. Let me know the outcome of your meeting with Jesse, will you?
- Foley: When we get through, this is going to be 50 pages, not 9.

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June 14, 1940.

Secretary Morgenthau

E. H. Foley, Jr.

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Mr. Knudsen's proposal contemplates that a R. F. C. corporation will make loans to manufacturers who participate in the national defense program, for the purpose of financing the construction and expansion of plants, the purchase and installation of machinery and equipment, and the providing of working capital for material bills and pay rolls.

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

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

The loan would be secured by a chattel mortgage on machinery, or a real estate mortgage if land is acquired and buildings constructed. Title would thus be vested in the manufacturer, but the lending agency could foreclose in the event of a default.

The manufacturer would not take any risk of loss since the loan would be repaid solely from the earnings of the plant and equipment acquired with the proceeds of the loan and no recourse could be had to the general assets of the manufacturer.

If the United States or a foreign government which had placed orders with the manufacturer cancelled the orders before the planes were paid for, the lending agency would forgive the debt to the extent of the unpaid balance allocable to unmanufactured or unpaid for planes.

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

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

Senator Glass' bill (S. 3938) permits the R. F. C., when requested by the Federal Loan Administrator, with the approval of the President, to create corporations. Since the security back of the proposed loans is not of the character ordinarily taken by the R. F. C., it has been thought advisable to have as the lending agency under the draft agreement a new corporation to be created for the purpose contemplated by Senator Glass' bill and tentatively called the Defense Finance Corporation.

It may be well to point out that the amount of the debt forgiven if the contracts should be cancelled, would be taxable income. However, if the plant or equipment were permanently discarded, there would be an offsetting allowance for loss of useful value equal to the difference between the cost of the plant and its salvage value. Depreciation and obsolescence under the income tax law and under the Vinson-Trammel Act are not involved.

The limitation of 12% contained in the Vinson-Trammel Act would apply on sales to the United States and existing regulations would be applicable.

(Initialed) E. M. F. Jr.

EHP:CLK:adm 6-14-40

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 14, 1940.

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

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E. J. F. L.

COPY OF MR. KNUDSEN'S PROPOSAL

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This is applicable to domestic or foreign business with the proviso, however, that foreign orders must be standard American material. No material of special design can be included. The assumption is that Government will assume loss due to cancellation before completion of the orders.

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EMF:GLK:amz 6-18-43

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AGREEMENT dated as of June , 1940,
between the DEFENSE FINANCE CORPORATION,
(herein called the "Government") a cor-
poration created by the Reconstruction
Finance Corporation and the
(herein called the "Borrower"), a cor-
poration organized under the laws of the
State of

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PART ONE.

General Provisions

1. Purpose. With a view to increasing its capacity for
the production of and facilitating the delivery thereof
at an accelerated rate of production, the Borrower contemplates (a)
the acquisition of a title in fee to a tract of vacant land, of
approximately acres, included within that area bounded by
(b) the construction upon said tract of a manufacturing plant, con-
sisting of , and (c) the purchase of standard and special
machinery, including patterns, jigs, tools, dies, fixtures, for
installation in said plant, but excluding machinery not usable for
the production of for sale to the United States of America.
The acquisition of said land, the construction of said plant, and the
purchase and installation of said machinery are herein collectively
called the Project. In order to carry out the Project the Borrower
has made application to the Government to include the Project in the
national defense program and to aid in the construction and financing
thereof. Said application has been approved by the Government, and
to aid the Borrower in carrying out the Project the Government agrees
to lend to the Borrower, and the Borrower agrees to borrow from the
Government, an amount equal to the reasonable cost of the Project,
but in no event more than \$, with interest on the amounts
so loaned at the rate of three per centum per annum. Said indebtedness
shall be paid in quarterly installments from time to time as provided
in paragraph 3 of this agreement, and shall be secured

by a first mortgage on the Project.

2. The Mortgage. The mortgage shall contain such provisions and be in such form as counsel for the Government and counsel for the Borrower may approve. It shall constitute a direct first mortgage upon the entire Project. The mortgage shall be the sole security for the entire indebtedness of the Borrower to the Government incurred under this agreement, and shall provide that no recourse under or upon said indebtedness shall be had against the Borrower except as provided in the mortgage, it being expressly agreed and understood that the credit of the Borrower shall not be deemed pledged to the payment of said indebtedness. The mortgage shall contain a covenant by which the Borrower shall agree that it will receive the advances made hereunder and secured by the mortgage as a trust fund to be applied solely for the purpose of paying the cost of the project. The mortgage shall contain such further covenants, including covenants of title, covenants as to operation, maintenance and repair, compliance with applicable laws, payment of taxes and other charges, insurance, execution of supplemental agreements, covenants for the performance of the obligations of the Borrower under this agreement, provisions specifying the events which shall constitute a default in the event of which the maturity of the indebtedness may be accelerated, and such other covenants and provisions as are customary, or as counsel for the Government may consider desirable.

3. Payment of Indebtedness. The amount of the indebtedness incurred by the Borrower pursuant to the provisions of this agreement being prorated among the units of contracted for by the United States of America or by any other Government and being included by the Borrower in the sales price of each such unit, the Borrower hereby covenants and agrees to pay or cause to be paid within

one month after the close of each quarterly period of three months a sum equal to the amount so included in such sales price of each such unit multiplied by the number of units produced by the Borrower and delivered during each such quarterly period, together with interest thereon. This agreement and the mortgage hereinabove provided for shall continue in force until the amounts so paid hereunder shall furnish moneys sufficient to repay to the Government all the funds advanced by the Government to the Borrower hereunder, together with interest thereon, as well as all other payments and charges which the Borrower covenants to pay in said mortgage, or until the Government shall cancel the unpaid balance of the indebtedness incurred by the Borrower hereunder as provided in Paragraph 4 hereof.

4. Cancellation of Indebtedness. If (a) the United States of America or any other government should cancel any contract with the Borrower and (b) such contract should not be assumed within six months thereafter by any individual, firm, corporation or government, and (c) the Borrower should submit to the Government a resolution of its board of directors to the effect that the use of the Project is no longer required by the Borrower and that the Borrower is permanently discarding the Project from use in its business, then, and in such event, the Government shall cancel the balance of the indebtedness incurred by the Borrower under this agreement but which is not yet due on the basis of the proportion which the number of units of _____ assumed by the contract, so cancelled and not assumed, which will not be produced or paid for because of such cancellation, bears to the sum of (1) the number of units of _____ covered by such contract plus (2) the number of units of _____ covered by contracts with the United States of America and any other government, less the fair market value of the Project so discarded.

PART TWO.

Construction of Project.

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5. Advances to Borrower. When this agreement has been executed the Borrower (unless it has already done so) shall promptly take all proceedings necessary to begin the construction of the project, and shall construct the project in accordance with plans and specifications approved by the Government and in accordance with this agreement with all practicable dispatch. From time to time after the execution of this agreement the Borrower shall file a Requisition with the Government requesting the Government to make a payment on account of the loan. Each Requisition shall be accompanied by such documents as may be requested by the Government (a Requisition together with such documents being herein collectively called a "Requisition").

6. Requisitions. If a Requisition requesting the Government to make a payment on account of the loan is satisfactory in form and substance to the Government, the Government, within a reasonable time after the receipt of such Requisition, will make such payment in such amount as will provide, in the judgment of the Government, sufficient funds for the construction of the project for a reasonable period. The making of such payments shall be made at a Federal Reserve Bank to be designated by the Government or at such other place or places as the Government may designate, against delivery by the corporation of such documents as may be requested by the Government. The documents to be submitted to the Government with the Requisition for the first advance are listed in Schedule A annexed hereto. The documents to be submitted to the Government after the first advance are listed in Schedule B annexed hereto.

7. Construction Accounts. The Borrower shall deposit all moneys received from the Government pursuant to the provisions of this agreement promptly upon receipt thereof in a bank or banks which are members of the Federal Reserve System and of the Federal Deposit Insurance Corporation and which shall be satisfactory at all times to the Government. Such moneys shall be deposited in a separate account or accounts, each of such separate accounts being herein called "Construction Account". The Borrower shall expend the moneys in a Construction Account only for such purposes as shall have been previously specified in a Requisition filed with the Government and as shall have been approved by the Government. Any moneys remaining unexpended in any Construction Account after the completion of the Project which are not required to meet obligations incurred in connection with the construction of the Project shall be applied to the payment of the indebtedness incurred by the Borrower under this agreement.

8. Information. During the construction of the Project the Borrower will furnish to the Government all such information and data as the Government may request as to the construction cost and progress of the work.

9. Expenses. The Government shall be under no obligation to pay any costs, charges or expenses incident to compliance with any of the duties or obligations of the Borrower under this agreement including, without limiting the generality of the foregoing any legal, engineering or accounting costs, charges or expenses incurred by the Borrower.

10. Right to Cancel by the Government. The Government shall have the right to cancel this agreement and annul any obligation to make a loan to the Borrower if the Borrower shall delay for an unreasonable time in carrying out any of the duties or obligations to be performed by the Borrower under the terms of this Agreement, or unless the Borrower shall within a reasonable

also (a) file Regulations with the Government in accordance with the 300 provisions hereof and (b) commence or cause to be commenced, and carried on with due expedition, the construction of the Project, including the purchase and installation of the machinery as herein provided.

11. Interest of Members of Congress. No member of or delegate to the Congress of the United States of America shall be admitted to any share or part of this agreement, or to any benefits arising therefrom.

PART THREE.

Working Capital.

12. Advances to Pay Bills. From time to time after the execution of this agreement, and prior to the delivery of the units of to be contracted for by the United States of America or any other government and in anticipation of such delivery, the Government will deposit, or cause to be deposited, in a special account or accounts in the name of the Borrower in any bank in which a Construction Account may be established under this agreement (each of said accounts being herein called a "Working Capital Account") amounts not to exceed at any one time the sum of \$ sufficient to pay the bills for materials to be furnished to the Borrower by third parties to be used by the Borrower in the manufacture, assembly or testing of units of , and for the payment of wages to employees of the Borrower engaged in the manufacture, assembling or testing of such units of

13. Procedure. The total cost of the materials so supplied to the Borrower and paid for by the advances provided for under paragraph 12 shall include only such items as shall be approved by the Government and shall be established by the bills of the vendors of such materials and certificates by the Borrower as to the cost of such materials properly chargeable to the cost of producing such units of , after deduction in every case of any and all rebates, allowances, or discounts

on the price of such materials, which bills and certificates the Borrower will deliver to the Government prior to or contemporaneously with such payment and which bills and certificates shall be verified and approved in a manner satisfactory to the Government. The Borrower shall make reports at such times and in such forms as the Government may prescribe which shall include the number of persons on its payrolls, the man hours worked, the wages paid to various classes of labor and the aggregate amount of the payrolls net with funds deposited under paragraph 12 hereunder.

14. Repayment. The Borrower hereby covenants and agrees to pay to the Government, out of the first moneys received in payment for the units of _____ delivered to the United States of America or to any other government, the sums required to reimburse the Government for advances made as working capital under the provisions of this agreement until all such advances have been repaid, but without interest. If the conditions for the cancellation of indebtedness under paragraph 4 of this agreement should exist before the Borrower has repaid to the Government all such advances, the Borrower shall be discharged from any obligation to repay the balance then remaining unpaid except to the extent of the unobligated balances in any Working Capital Account.

301

15. Conditions Precedent to the Government's Obligations. 302

The Government shall be under no obligation to make any part of the loan:

- (a) If in the judgment of the Government, the financial condition of the Borrower shall have changed unfavorably in a material degree from the condition as theretofore represented to the Government;
- (b) If the Government shall not be satisfied that the Borrower will be able to complete the project for the sum of \$ _____, or that the Borrower will be able to obtain in a manner satisfactory to the Government, any additional funds which the Government shall estimate to be necessary to complete the project;
- (c) If the Government shall not be satisfied that the Borrower has complied with all the provisions contained in this agreement;
- (d) If the Government shall not be satisfied as to all legal matters and proceedings affecting the loan, the mortgage and the project.
- (e) If any representation made by the Borrower in any document submitted to the Government shall be found by the Government to be incorrect or incomplete in any material respect.

IN WITNESS WHEREOF, the Government and the Borrower have respectfully caused this agreement to be duly executed as of the day and year first above written.

DEFENSE FINANCE CORPORATION

By _____

By _____

SCHEDULE A

303

Documents To Be Submitted With First Requisition

SCHEDULE B

Documents To Be Submitted With Second And Subsequent Requisitions

June 14, 1940.

MEMORANDUM FOR THE PRESIDENT:

In accordance with your request made at the Cabinet meeting today, I am forwarding a memorandum from you to the Secretary of War and the Secretary of the Navy. Under H. R. 9822 now pending in the Senate Naval Affairs Committee, the authority of the Treasury to pass upon the certification of the War and Navy Departments as to the necessity and cost of special additional equipment and facilities and the percentage and cost of such special additional equipment and facilities to be charged against the contract is terminated. This Bill provides, however, that the certification of the Secretary of War and the Secretary of the Navy should be made subject to such regulations as the President may prescribe.

In the attached memoranda notice is served upon the Secretary of War and the Secretary of the Navy that when H. R. 9822 becomes law you will issue a regulation requiring the approval of the Secretary of the Treasury of all certifications, and that in the interest of amicable relationships with contractors this approval should be secured before contracts are executed.

The necessary regulation is being prepared and will be in your hands when H. R. 9822 is presented to you for signature.

By direction of the Secretary:

Assistant Secretary of the Treasury.

111115

June 15, 1942

MEMORANDUM FOR THE SECRETARY OF THE NAVY:

In the event of enactment of H. R. 9222 the necessity of the approval of the Treasury Department of your certification as to the necessity and cost of special additional equipment and facilities, and the percentage of cost of such special additional equipment and facilities to be charged against the contracts will be eliminated. This amendment to the Vinson-Trammell Act however provides that your certification shall be subject to such regulations as I may prescribe.

Accordingly you are advised that I have requested the Secretary of the Treasury to draft the necessary regulations, and such certifications as you may make under this Act must conform to these regulations. In the interest of good relationships with the contractors I suggest that the Treasury's approval of your certifications should be procured before contracts are executed.

(Signed by the President 6-10-42)

June 15, 1940

MEMORANDUM FOR THE SECRETARY OF WAR:

In the event of enactment of H. R. 9822 the necessity of the approval of the Treasury Department of your certification as to the necessity and cost of special additional equipment and facilities, and the percentage of cost of such special additional equipment and facilities to be charged against the contracts will be eliminated. This amendment to the Vinson-Trammell Act however provides that your certification shall be subject to such regulations as I may prescribe.

Accordingly you are advised that I have requested the Secretary of the Treasury to draft the necessary regulations, and such certifications as you may make under this Act must conform to these regulations. In the interest of good relationships with the contractors I suggest that the Treasury's approval of your certifications should be procured before contracts are executed.

(Signed by the President 6-15-40)

JL:bb



TREASURY DEPARTMENT
WASHINGTON

307

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

June 14, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company, Incorporated:

A draft of closing agreement was mailed to the contractor for consideration and signature.


Commissioner.

June 14, 1940.

Dr. Feis

Mr. Cochran

Will you kindly send a cablegram along the following lines, based on the attached letter which I have today received from Mr. Paul Leroy-Beaulieu, Financial Attache of the French Embassy:

"American Embassy
Berlin

For Heath from Cochran:

Would appreciate any information you may be able to cable concerning Lieutenant Mare Leroy-Beaulieu of the 6th Squadron, 3rd Regiment, French 'auto-mitrailleuses' believed to have been wounded and captured at village near Longuy. This officer is brother of French Financial Attache in United States."



answer received 6/19

RMC:dm:6.14.40

AMBASSADE DE FRANCE
Aux Etats Unis
L'ATTACHE FINANCIER

20 Exchange Place,
New York, June 13, 1940.

My dear Merle,

Following our telephone conversation of this morning, I wish to give you the details concerning my brother Marc, who was your neighbor in Paris, Avenue Kleber.

He is a Lieutenant in the 6th Squadron of the 3rd Regiment of "auto-mitrailleuses" and seems to have been stationed near Longwy.

A letter received by my family at the end of May from an Officer in his Regiment runs as follows:

"I am very worried about Marc. I saw him last in a street in a village which was being heavily machine-gunned, and since then we haven't heard of him. We were withdrawing and were unable to return to the village to pick up our wounded, amongst whom he must be".

I should greatly appreciate if, as you so kindly suggested, you could get some information from your Embassy in Berlin, in order to ascertain if he is being held prisoner.

Thanking you again,

Yours Sincerely,

/s/ Paul Leroy-Beaulieu

Mr. Merle Cochran,
The Treasury Department,
WASHINGTON,
D.C.

COPY

TELEGRAM SENT

MP

GRAY

June 14, 1940

7 p. m.

AMERICAN EMBASSY

BERLIN

1633.

FOR HEATH FROM COCHRAN.

Would appreciate any information you may be able to cable concerning Lieutenant Marc Leroy-Beaulieu of the 6th Squadron, 3rd Regiment, French "Auto-mitrailleuses" believed to have been wounded and captured at village near Longwy. This officer is brother of French Financial Attache in United States.

HULL

(RL)

EAST: LWW

Answered 6/19

June 14, 1940.
11:15 a.m.

THE ALLIED PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Young
Mr. Nelson
Mrs. Klotz

H.M.Jr: I have already done a little work. My friend, Major Smith, is going to check up on how many transport ships the Army and Navy have. I know they have a lot of Douglasses. I bet the Army has got twenty-five or fifty. Those things must be very much like the Hudson model.

Purvis: That is right.

H.M.Jr: We will check up how many transport ships the Army and Navy have.

Young: Admiral Stark can tell you.

H.M.Jr: Well, that is an idea. This Smith is a grand fellow. He is really swell. He is a new man they have brought in.

Purvis: Oh yes.

H.M.Jr: He was assigned to General Watson and me, as between the two of us, and General Marshall, sort of a three-cornered affair. It has nothing to do with all this other stuff.

Now, I am going to read Mr. Nelson's memorandum before he shoots me.

Well, two out of every hundred of what make?

Nelson: Of the cartridges. May I explain that to you? We couldn't get all of it over the 'phone. He went too fast. But I had it in my mind. He said that this ammunition they class as - for machine gun ammunition and not for use with hand rifles but he said

- 2 -

if we were in a dire emergency such as they are in now, we would use these for hand rifles. Therefore, they, possibly, would want to do the same but we want them to buy it with the understanding - now it is located all over. We will have to arrange --

Purvis: Mr. Nelson, on that point may I ask did he say it would be because of split ends or because of recoil or anything of that kind? He didn't mention any technical reason.

Nelson: No.

Purvis: Probably it is a split end in the gun barrel is the danger.

Nelson: That is probably what it is. But it is suitable for machine gun fire.

Purvis: Then it doesn't matter.

Nelson: But for hand - it may not work for hand rifles.

H.M.Jr: This is Navy?

Nelson: That is Navy, sir.

H.M.Jr: How can you give this in confidence?

Nelson: There will be an official copy right over, right away. He gave it to me on the telephone yesterday afternoon so we would have it for you (Purvis) to decide whether you want it.

Purvis: That is right.

Nelson: Now, it will have to be gotten together. It is quite a transport job to get it together. Mr. Averill Harriman has been brought down to act as the liaison for Mr. Budd.

H.M.Jr: Mr. Budd has nothing to do, absolutely nothing to do, so he has got to have a liaison fellow.

- 3 -

Nelson: Well, I think they have got to have somebody to do Mr. Budd's work.

Purvis: It is a new meaning for the word "liaison".

H.M.Jr: I need a couple of those fellows.

Nelson: I saw Averill at breakfast. He will now act, also, if we want him to, to work with Pelley or the railroads to expedite any of these shipments.

H.M.Jr: Until he gets sore, let's leave it so you and I can call up John Pelley and tell him --

Nelson: We have got that contract with Dyer.

H.M.Jr: Until they get sore - now, I asked yesterday - this is in the room - asked Stettinius at a quarter of nine yesterday morning to let me know direct from U. S. Steel Corporation how long it would take to make those bombs, when they would begin and when they could deliver them. I got a message late last night the U. S. Steel didn't know and they hoped to get it to me today. I am still waiting for it. Isn't Budd here?

Nelson: No, sir, he isn't here.

H.M.Jr: And so Averill is going to do his work?

Nelson: Well, he is the liaison.

H.M.Jr: I have got to get a laugh once in a while at somebody else's expense.

Nelson: You recall - I will bring you up to date on this. When they first gave us the boats they said they couldn't spare any depth charges. So now they are releasing the six hundred forty depth charges.

Purvis: Six hundred forty?

Nelson: And they feel quite certain the New York Safe and Lock Company was making these. They are making them now and they can make an additional quantity for you before the

last of the boats are delivered with the depth charges, this in answer to the question you asked after we left the room, Mr. Purvis.

Purvis: Thank you.

Nelson: And Admiral Spear will transmit that to any of your technical people so you can directly work with them.

Purvis: Thank you very much.

H.M.Jr: That takes care of that.

Nelson: That takes care of the first two. Now, the ammunition, we must know whether or not they want that ammunition because it has to be collected. You see, it is all over the country.

Purvis: May I ask what size of ammunition it is?

Nelson: The thirty ball.

Purvis: Yes, and what quantities?

Nelson: There are about nine million rounds located around the country of this --

Purvis: We will pay transport expenses or anything else.

Nelson: Of this more or less, you understand --

Purvis: I understand.

Nelson: So if you want it, we can make arrangements to get it.

Purvis: I will say definitely yes now.

Nelson: All right, sir.

Purvis: Nine million rounds.

Nelson: May I ask you (Young) to handle that? I have half a dozen other things on the fire. Can you handle that, Phil?

H.M.Jr: Of course, if I were the Allies - it is hard for me to put myself in their place, but if I were the Allies, I would be pressing very hard for more ammunition for these seventy-fives and more of these bombs to go with these fifty Navy planes. I would also be pressing for more stuff to go with these ninety-three planes, because I would never get a chance to see them - of course, I never get a chance to see them, so I have no chance to tell them this.

Nelson: If I were they, I would start work directly with Knudsen's organization to see what can be done about the manufacture of it.

E.M.Jr: Sometime when you see them you might mention that.

Nelson: All right, I will tell them, Mr. Secretary.

Klotz: You are wonderful.

Purvis: That machine doesn't take down a laugh, does it?

Klotz: Yes, he writes in laughter.

Purvis: All right.

Nelson: And there is also a million rounds of 38's for the five hundred Smith and Wessons. You asked for two hundred fifty. There are a million rounds, if you would like to have the 38's. You also have some other Smith and Wessons, I believe.

Purvis: How many Smith and Wessons?

Nelson: The five hundred you are taking, but you asked for two hundred fifty thousand rounds. There are a million rounds.

Purvis: We will take a million, because we had some Smith and Wessons from you before without any ammunition.

Nelson: Thank you, that is fine.

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- H.M.Jr: I think that cleans it up, doesn't it? And you say that Phil will follow through on that?
- Nelson: If he will, for me, I will appreciate it.
- H.M.Jr: Well, that is part of his duties and then just as soon as I know that the ninety-three planes are really cleaned up, I want to write a letter to the President about it. I haven't been able to tell him definitely that the ninety-three are cleaned up. Are they cleaned up?
- Young: The contracts should be signed by noon today.
- H.M.Jr: The moment they are cleaned up, give Mrs. Klotz a note and I will write to the President, and what goes with them, the fact that the bombs come from the Navy. You can give her a little note and I can use that as a draft for a letter to the President, you see.
- Nelson: We also have their schedule of the delivery, the Allies' request on those planes, five the first day, six the second and so forth.
- H.M.Jr: Well, if you will put that in.
- Young: Well, that may be altered.
- H.M.Jr: Just the fact that as of today or whatever it is, we are turning over ninety-three planes to the Allies at such and such a place and in exchange for that the Army is getting such and such a thing from it and the bombs are coming from the Navy. The Army couldn't give us any bombs.
- Purvis: I got word this morning that they are sending another one of those to take its place. It will make two trips because it will only take so many at a time.
- H.M.Jr: Well, that is the ninety-three and if you people need any more plane or engines, golly, tell them to make up their minds now. We can get the orders in quickly if

they need anything more in trainer engines while our people are trying to make up their minds.

Purvis: Yes.

H.M.Jr: Doesn't that pretty well clean the docket?

Purvis: There is one thing that perhaps I ought to mention to you in connection with the planes, the two and a half tons of planes.

H.M.Jr: Yes, please.

Purvis: You will remember you suggested that I might find out how Olley - in the course of finding that out, he mentioned to me that on the third of May he had received advice that a Griffen engine and the plans for that engine were going to be sent out. Since then, that has disappeared from sight. I may say that the knowledge that a Griffen engine could be sent as a specimen here was one of the things that was in my mind and I was anxious to see - we could be quite sure of what we were doing. Yesterday Olley telephoned me and he said - asked whether I knew where these plans were. I said, "I know very well." I said, "I have arranged to see that they reach Secretary Morgenthau's office as soon as they can be sent," and he said, "Oh, I believe amongst those there are things addressed to me and things addressed to Pirie at the Embassy. I said, "Do you mean there are several consignments?" And he said, "I think so. I think the Moreland plans are in one section." Then it just occurred to me that if by any chance I had diverted something here which might perhaps even contain an engine and if that happened to be a Griffen engine, I think there is one point that arises that I would ask your consideration of, that is that when it gets to Wright Field my belief is that the British count a great deal on the Griffen engine for fighting next year against the Germans and if the secret of that engine became known at this time, there would be time for the Germans to copy it. Now if by any chance

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amongst that stuff there is arriving today at Wright Field a Griffen engine and the plans for a Griffen engine, which were intended to have been sent to Rolls Royce, I wonder whether you would mind keeping a very, very careful guard to see that there was no breakdown of the engine in front of anybody or anything like that.

H.M.Jr: Let me tell you what I have done. I didn't like the way either Mead or Olley were acting and as a matter of fact somebody in Mead's office, when they heard Morris was coming over - just get them out, get them out, see. So what has actually happened is this: With the engine last night went a lieutenant commander of the U. S. Coast Guard who is an aviation engineer, plus a U. S. secret service operator. They accompanied the planes to Wright Field where a limited number of U. S. officers will be present. It has been limited.

Purvis: Yes.

H.M.Jr: And no person except this limited group of U. S. officers plus a lieutenant commander of the Coast Guard will be present and until I get a copy personally of what is in that thing, no civilian will see it. I arranged that with Secretary Woodring myself.

Purvis: Good.

H.M.Jr: Have I told it right?

Young: That is correct.

H.M.Jr: Nobody, Mr. Mead, Mr. Olley, or nobody can get to what is in that thing until I get an inventory of it and it has been even limited to a specially selected number of officers.

Purvis: Great, good. That should take care of it, then.

H.M.Jr: Because this thing - the curiosity of several people to see what is in it may be very suspicious, so suspicious, the Army

- 9 -

couldn't spare anybody to go out, so I had to send somebody but I sent this very excellent officer who is an inspector of aviation for Coast Guard plus a secret service operator and they were on the train with those plans.

Purvis: Good.

H.M.Jr: So I don't think - and it isn't even open to all officers of Wright Field, it is definitely limited to a selected number, so I think it is about as protected as you people could get it.

Purvis: And then if it does turn out that there is a Griffen engine there, will you from then on take special guard to see that it continues to be in such condition?

H.M.Jr: I will take care of it.

Purvis: That would be possibly quite important for next year.

H.M.Jr: What I want to do, I want some person - have you gentlemen (Nelson and Young) anything else as far as Mr. Purvis is concerned?

Nelson: No. I have one other matter to take up with you.

H.M.Jr: Well, I will tell you --

Young: One of those boxes was very large and labeled as an engine.

H.M.Jr: Supposing Mr. Purvis waits a minute in Mrs. Klotz' office because I want to see him alone a minute.

(Mr. Purvis and Mrs. Klotz left the conference.)

Nelson: Do you want me to cover the matter I have with you.

H.M.Jr: Yes, please.

Nelson: I believe you should be informed of this. Maybe I should have asked you before hand.

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Some of the strategic minerals, I find that there was some chromite ore on the dock at Turkey. Working with Max Truitt at the Maritime Commission I found two boats that were in the eastern Mediterranean without a load. We had no appropriation, so I have arranged with Jessie Jones to buy this twelve thousand tons which we are now buying. We are having a private party buy it, rather, and bring it over here. We have arranged the terms. The boats will be loaded today and when they come Jessie Jones will pay for that. Is that satisfactory to you, sir?

H.M.Jr: Wonderful.

Nelson: I didn't want to bother you.

H.M.Jr: We want twelve thousand tons and we get it by hook or crook.

Nelson: That is right.

H.M.Jr: That is going good.

CONFIDENTIAL

June 14, 1940

To: The Secretary

From: Mr. Young

Re: British Machine Tool Orders.

Mr. Vance, who is in charge of machine tools under Mr. Knudsen, is sending me a letter by messenger this afternoon requesting the list of British machine tool orders and the supplemental report thereto.

During the conference with Mr. Knudsen and Mr. Purvis this morning, you made the statement, and Mr. Purvis concurred in it, that a copy of this machine tool order list would be turned over to Mr. Knudsen for his confidential use.

As this list comprises two large loose leaf volumes, copying it would be a lengthy process. May I suggest loaning the original copy of British machine tool orders to Mr. Knudsen for his confidential use.

R.Y.

No.

make copy
for him.

June 14, 1940.

Secretary Morgenthau

H. H. Foley, Jr.

Attached is an exceedingly rough draft of an agreement which is intended to carry into effect the suggestion which Mr. Knudsen handed to me at his office last evening, copy of which is also attached. The plan is an adaptation of railway equipment certificate and public revenue financing to the national defense financing problem.

Mr. Knudsen's proposal contemplates that a R. F. C. corporation will make loans to manufacturers who participate in the national defense program, for the purpose of financing the construction and expansion of plants, the purchase and installation of machinery and equipment, and the providing of working capital for material bills and pay rolls.

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

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

The loan would be secured by a chattel mortgage on machinery, or a real estate mortgage if land is acquired and buildings constructed. Title would thus be vested in the manufacturer, but the lending agency could foreclose in the event of a default.

The manufacturer would not take any risk of loss since the loan would be repaid solely from the earnings of the plant and equipment acquired with the proceeds of the loan and no recourse could be had to the general assets of the manufacturer.

If the United States or a foreign government which had placed orders with the manufacturer cancelled the orders before the planes were paid for, the lending agency would forgive the debt to the extent of the unpaid balance allocable to unmanufactured or unpaid for planes.

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

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

Senator Glass' bill (S. 3936) permits the R. F. C., when requested by the Federal Loan Administrator, with the approval of the President, to create corporations. Since the security back of the proposed loans is not of the character ordinarily taken by the R. F. C., it has been thought advisable to have as the lending agency under the draft agreement a new corporation to be created for the purpose contemplated by Senator Glass' bill and tentatively called the Defense Finance Corporation.

It may be well to point out that the amount of the debt forgiven, if the contracts should be cancelled, would be taxable income. However, if the plant or equipment were permanently discarded, there would be an offsetting allowance for loss of useful value equal to the difference between the cost of the plant and its salvage value. Depreciation and obsolescence under the income tax law and under the Vinson-Trammell Act are not involved.

The limitation of 12% contained in the Vinson-Trammell Act would apply on sales to the United States and existing regulations would be applicable.

(Initialed) E. H. F. Jr.

KHF:CLK:amk 6-16-40

AGREEMENT dated as of June , 1940,
 between the DEFENSE FINANCE CORPORATION,
 (herein called the "Government") a cor-
 poration created by the Reconstruction
 Finance Corporation and the
 (herein called the "Borrower"), a cor-
 poration organized under the laws of the
 State of

PART ONE.

General Provisions

1. PURPOSE. With a view to increasing its capacity for
 the production of and facilitating the delivery thereof
 at an accelerated rate of production, the Borrower contemplates (a)
 the acquisition of a title in fee to a tract of vacant land, of
 approximately acres, included within that area bounded by ,
 (b) the construction upon said tract of a manufacturing plant, con-
 sisting of , and (c) the purchase of standard and special
 machinery, including patterns, jigs, tools, dies, fixtures, for
 installation in said plant, but excluding machinery not usable for
 the production of for sale to the United States of America.
 The acquisition of said land, the construction of said plant, and the
 purchase and installation of said machinery are herein collectively
 called the Project. In order to carry out the Project the Borrower
 has made application to the Government to include the Project in the
 national defense program and to aid in the construction and financing
 thereof. Said application has been approved by the Government, and
 to aid the Borrower in carrying out the Project the Government agrees
 to lend to the Borrower, and the Borrower agrees to borrow from the
 Government, an amount equal to the reasonable cost of the Project,
 but in no event more than \$, with interest on the amounts
 so loaned at the rate of three per centum per annum. Said indebtedness
 shall be paid in quarterly installments from time to time as provided
 in paragraph 3 of this agreement, and shall be secured

by a first mortgage on the Project.

2. The Mortgage. The mortgage shall contain such provisions and be in such form as counsel for the Government and counsel for the Borrower may approve. It shall constitute a direct first mortgage upon the entire Project. The mortgage shall be the sole security for the entire indebtedness of the Borrower to the Government incurred under this agreement, and shall provide that no recourse under or upon said indebtedness shall be had against the Borrower except as provided in the mortgage, it being expressly agreed and understood that the credit of the Borrower shall not be deemed pledged to the payment of said indebtedness. The mortgage shall contain a covenant by which the Borrower shall agree that it will receive the advances made hereunder and secured by the mortgage as a trust fund to be applied solely for the purpose of paying the cost of the project. The mortgage shall contain such further covenants, including covenants of title, covenants as to operation, maintenance and repair, compliance with applicable laws, payment of taxes and other charges, insurance, execution of supplemental agreements, covenants for the performance of the obligations of the Borrower under this agreement, provisions specifying the events which shall constitute a default in the event of which the maturity of the indebtedness may be accelerated, and such other covenants and provisions as are customary, or as counsel for the Government may consider desirable.

3. Payment of Indebtedness. The amount of the indebtedness incurred by the Borrower pursuant to the provisions of this agreement being prorated among the units of
contracted for by the United States of America or by any other Government and being included by the Borrower in the sales price of each such unit, the Borrower hereby covenants and agrees to pay or cause to be paid within

-3-

one month after the close of each quarterly period of three months a sum equal to the amount so included in such sales price of each such unit multiplied by the number of units produced by the Borrower and delivered during each such quarterly period, together with interest thereon. This agreement and the mortgage hereinabove provided for shall continue in force until the amounts so paid hereunder shall furnish means sufficient to repay to the Government all the funds advanced by the Government to the Borrower hereunder, together with interest thereon, as well as all other payments and charges which the Borrower covenants to pay in said mortgage, or until the Government shall cancel the unpaid balance of the indebtedness incurred by the Borrower hereunder as provided in Paragraph 4 hereof.

4. Cancellation of Indebtedness. If (a) the United States of America or any other government should cancel any contract with the Borrower and (b) such contract should not be assumed within six months thereafter by any individual, firm, corporation or government, and (c) the Borrower should submit to the Government a resolution of its board of directors to the effect that the use of the Project is no longer required by the Borrower and that the Borrower is permanently discarding the Project from use in its business, then, and in such event, the Government shall cancel the balance of the indebtedness incurred by the Borrower under this agreement but which is not yet due on the basis of the proportion which the number of units of _____ covered by the contract, so cancelled and not assumed, which will not be produced or paid for because of such cancellation, bears to the sum of (1) the number of units of _____ covered by such contract plus (2) the number of units of _____ covered by contracts with the United States of America and any other government, less the fair market value of the Project so discarded.

PART TWO.

Construction of Project.

5. Advances to Borrower. When this agreement has been executed the Borrower (unless it has already done so) shall promptly take all proceedings necessary to begin the construction of the project, and shall construct the project in accordance with plans and specifications approved by the Government and in accordance with this agreement with all practicable dispatch. From time to time after the execution of this agreement the Borrower shall file a Requisition with the Government requesting the Government to make a payment on account of the loan. Each Requisition shall be accompanied by such documents as may be requested by the Government (a Requisition together with such documents being herein collectively called a "Requisition").

6. Requisitions. If a Requisition requesting the Government to make a payment on account of the loan is satisfactory in form and substance to the Government, the Government, within a reasonable time after the receipt of such Requisition, will make such payment in such amount as will provide, in the judgment of the Government, sufficient funds for the construction of the project for a reasonable period. The making of such payments shall be made at a Federal Reserve Bank to be designated by the Government or at such other place or places as the Government may designate, against delivery by the corporation of such documents as may be requested by the Government. The documents to be submitted to the Government with the Requisition for the first advance are listed in Schedule A annexed hereto. The documents to be submitted to the Government after the first advance are listed in Schedule B annexed hereto.

-5-

7. Construction Accounts. The Borrower shall deposit all moneys received from the Government pursuant to the provisions of this agreement promptly upon receipt thereof in a bank or banks which are members of the Federal Reserve System and of the Federal Deposit Insurance Corporation and which shall be satisfactory at all times to the Government. Such moneys shall be deposited in a separate account or accounts, each of such separate accounts being herein called "Construction Account". The Borrower shall expend the moneys in a Construction Account only for such purposes as shall have been previously specified in a Requisition filed with the Government and as shall have been approved by the Government. Any moneys remaining unexpended in any Construction Account after the completion of the Project which are not required to meet obligations incurred in connection with the construction of the Project shall be applied to the payment of the indebtedness incurred by the Borrower under this agreement.

8. Information. During the construction of the Project the Borrower will furnish to the Government all such information and data as the Government may request as to the construction cost and progress of the work.

9. Expenses. The Government shall be under no obligation to pay any costs, charges or expenses incident to compliance with any of the duties or obligations of the Borrower under this agreement including, without limiting the generality of the foregoing any legal, engineering or accounting costs, charges or expenses incurred by the Borrower.

10. Right to Cancel by the Government. The Government shall have the right to cancel this agreement and annul any obligation to make a loan to the Borrower if the Borrower shall delay for an unreasonable time in carrying out any of the duties or obligations to be performed by the Borrower under the terms of this agreement, or unless the Borrower shall within a

-4-

reasonable time (a) file Requisitions with the Government in accordance with the provisions hereof and (b) commence or cause to be commenced, and carried on with due expedition, the construction of the Project, including the purchase and installation of the machinery as herein provided.

11. Interest of Members of Congress. No member of or delegate to the Congress of the United States of America shall be admitted to any share or part of this agreement, or to any benefits arising therefrom.

PART THREE.

Working Capital.

12. Advances to Pay Bills. From time to time after the execution of this agreement, and prior to the delivery of the units of _____ to be contracted for by the United States of America or any other government and in anticipation of such delivery, the Government will deposit, or cause to be deposited, in a special account or accounts in the name of the Borrower in any bank in which a Construction Account may be established under this agreement (each of said accounts being herein called a "Working Capital Account") amounts not to exceed at any one time the sum of \$ _____ sufficient to pay the bills for materials to be furnished to the Borrower by third parties to be used by the Borrower in the manufacture, assembly or testing of units of _____, and for the payment of wages to employees of the Borrower engaged in the manufacture, assembling or testing of such units of _____.

13. Expenditures. The total cost of the materials so supplied to the Borrower and paid for by the advances provided for under paragraph 12 shall include only such items as shall be approved by the Government and shall be established by the bills of the vendors of such materials and certified by the Borrower as to the cost of such materials properly chargeable to the cost of producing such units of _____, after deduction in every case of any and all rebates, allowances, or discounts

on the price of such materials, which bills and certificates the Borrower will deliver to the Government prior to or contemporaneously with such payment and which bills and certificates shall be verified and approved in a manner satisfactory to the Government. The Borrower shall make reports at such times and in such forms as the Government may prescribe which shall include the number of persons on its payrolls, the man hours worked, the wages paid to various classes of labor and the aggregate amount of the payrolls met with funds deposited under paragraph 12 hereunder.

14. Repayment. The Borrower hereby covenants and agrees to pay to the Government, out of the first moneys received in payment for the units of _____ delivered to the United States of America or to any other government, the sums required to reimburse the Government for advances made as working capital under the provisions of this agreement until all such advances have been repaid, but without interest. If the conditions for the cancellation of indebtedness under paragraph 4 of this agreement should exist before the Borrower has repaid to the Government all such advances, the Borrower shall be discharged from any obligation to repay the balances then remaining unpaid except to the extent of the unobligated balances in any Working Capital Account.

-4-

15. Conditions Precedent to the Government's Obligations.

The Government shall be under no obligation to make any part of the loan:

- (a) If in the judgment of the Government, the financial condition of the Borrower shall have changed unfavorably in a material degree from the condition as theretofore represented to the Government;
- (b) If the Government shall not be satisfied that the Borrower will be able to complete the Project for the sum of \$ _____, or that the Borrower will be able to obtain in a manner satisfactory to the Government, any additional funds which the Government shall estimate to be necessary to complete the Project;
- (c) If the Government shall not be satisfied that the Borrower has complied with all the provisions contained in this agreement;
- (d) If the Government shall not be satisfied as to all legal matters and proceedings affecting the loan, the mortgage and the project.
- (e) If any representation made by the Borrower in any document submitted to the Government shall be found by the Government to be incorrect or incomplete in any material respect.

IN WITNESS WHEREOF, the Government and the Borrower have respectfully caused this agreement to be duly executed as of the day and year first above written.

DEFENSE FINANCE CORPORATION

By _____

By _____

**SCHEDULE A****Documents To Be Submitted With First Requisition****SCHEDULE B****Documents To Be Submitted With Second And Subsequent
Requisitions**

June 14, 1940.
From Navy via Nelson
to line. H.M.F.

640 depth charges and 80 18-inch torpedoes

333

35,000 Springfield Rifles available

Ammunition 400,000 rounds between Guantanamo and Canal Zone

600,000 on the east coast of the United States

6,000,000 on the west coast " " " "

2,000,000 between Honolulu and Manila

Smith & Wesson Revolvers - reported 500 available

Asking for 250,000 rounds of cartridge - offering them 1,000,000 .38's

New York Safe and Lock Company is the source of supply on the depth charges and they can place an order and get them as quickly as they can get the boats, and Admiral Spear is giving to the Commission the technical details.

Ammunition: About 2 out of every 100 may explode and it is not recommended for hand arms. They recommend it for machine gun arms, but in an emergency we would use it in hand arms if the emergency were great enough. The Navy wants them to know the exact condition of the ammunition.

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

(SG)F16-1.
Serial 088116.

334

Confidential

JUN 13 1940

My dear Mr. Secretary:

In reply to your letter of 5 June 1940, with which you enclosed a copy of a letter from Mr. Purvis, Chairman of the Anglo-French Coordinating Committee, concerning the British Admiralty's reversal of its previous position in the matter of permitting United States Naval observers in the British fleet, it is expected that the British Admiralty will take the matter up with the United States Naval Attache, London, in the usual manner.

May I ask you to inform Mr. Purvis that, when the Naval Attache, London, has been informed by the British Admiralty that U. S. Naval observers are acceptable in the British fleet, it is expected that one or more officers will be detailed for this duty by the Naval Attache from the group of officers consisting of himself and his assistants. While it is possible that additional officers may be sent to Great Britain for duty as Assistant Naval Attaches to make them available for this duty as observers, no additional ones have yet been designated for this purpose.

May I ask you to assure Mr. Purvis of the Navy Department's appreciation of his interest and cooperation in this matter.

Sincerely yours,

Louis C. Austin
Louis C. Austin

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

Secretary of the Navy

Confidential

June 14, 1940.

Dear Mr. Harly:

The Secretary has asked me to thank you for your memorandum of June 3rd, which referred to him a letter from Mr. J. Roscoe Drummond, Chief of the Washington News Bureau. Mr. Drummond's letter enclosed a copy of a cable received from the Christian Science Monitor representative in London.

Mr. Mergenthau has seen these enclosures and I am returning them to you with his thanks.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Stephen Harly,
Secretary to the President,
The White House.

Enclosures. ✓

GHF/dbs

By Messenger 300

June 14, 1940.

Dear Mr. Harly:

The Secretary has asked me to thank you for your memorandum of June 2nd, which referred to him a letter from Mr. J. Roscoe Drummond, Chief of the Washington News Bureau. Mr. Drummond's letter enclosed a copy of a cable received from the Christian Science Monitor representative in London.

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(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Stephen Harly,
Secretary to the President,
The White House.

Enclosures.

By Messenger

GHF/dbs

THE WHITE HOUSE
WASHINGTON

June 3, 1940.

Respectfully referred to the
Secretary of the Treasury.

Stephen Early
STEPHEN EARLY
Secretary to the President

En. 21

21-337

THE CHRISTIAN SCIENCE MONITOR

One, Norway Street, Boston, Mass.

WASHINGTON NEWS BUREAU,
1293 National Press Bldg.,
Telephone: National 2142

Washington, D. C.,
June 3, 1940.

Mr. Stephen Early,
Secretary to the President,
The White House Office,
Washington, D. C.

Dear Mr. Early:

The Editorial Council of The Christian Science Monitor has asked me to place in your hands the attached copy of a cable from Mallery Browne, the Monitor's European Manager in London, and if you deem it useful to pass it on to the President. This cable deals with the desperate need of the Allies for planes, even of secondary quality, within the next two or three weeks.

We realize that the President is undoubtedly receiving similar information from Ambassador Kennedy and other sources, but it is possible that you may find Mr. Browne's message of supplementary value. Mr. Browne is a particularly reliable and informed correspondent.

Sincerely yours,

(Signed) J. Roscoe Drummond

J. Roscoe Drummond,
Chief, Washington News Bureau

JRD/DH

C
P
Y

Copy of a confidential cable from Mallory Browne,
European Manager of The Christian Science Monitor, London.

"Have best possible reason to know that whole tide of war which must be checked now, not later, could very probably be held and turned if a thousand planes of any and all sorts could be rushed here in two or three weeks or a month at most. One plane now, worth dozen in autumn. Both best and secondary needed. Urge on basis most reliable inside knowledge that you make every conceivable effort to place desperate plea through to very top in Washington."

CONFIDENTIAL

June 14, 1940

To: The Secretary

From: Mr. Young

At 11:50 this morning, an exchange contract was approved by the War Department and Douglas. The contract covered the exchange of the 93 Northrup A-17A bombers, complete with 5 guns each, radio equipment, bombracks, and minor accessories, as well as spare engines, spare guns, and spare parts, for 20 Douglas A-20A's (attack planes), complete with guns, radio equipment, bombracks, and minor accessories, at a total value of \$3,200,000.

Last evening at 4:35, a contract was approved by the War Department and the Harrisburg Steel Company for the exchange of 565 100-pound demolition bombs, 5,343 30-pound fragmentation bombs, and 100,155 charges of nitro-cellulose powder for 155 mm guns. All of these bombs were released by the Navy Department. No bombs for these planes have been released by the Army. In exchange the Army will receive 7,000,000 pounds of TNT, 31,234 500-pound bomb cases, and 50,000 100-pound bomb cases. The total value of this contract amounted to \$3,012,000.

F.Y.

Ham Monday

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THE WHITE HOUSE
WASHINGTON

June 14, 1940

*Anticipating the early passage of
H.R. 9850 (Military Supplies
& Equipment)*

MEMORANDUM FOR

THE SECRETARY OF STATE
✓ THE SECRETARY OF THE TREASURY
THE SECRETARY OF WAR
THE SECRETARY OF THE NAVY
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE

Anticipating the early passage of H.R. 9850 by the Congress, the President has decided to designate Lt. Colonel Russell L. Maxwell, General Staff Corps, as his personal representative to administer the provisions of Section 6 of H.R. 9850 under rules and regulations which will be issued under the authority thereof.

It is the President's desire that every government department and independent office or establishment render such aid and assistance as may be required and requested by Colonel Maxwell in the administration of the section of the act referred to.

By direction of the President:



EDWIN M. WATSON
Secretary to the President

June 14, 1940

MEMORANDUM FOR

THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF WAR
THE SECRETARY OF THE NAVY
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE

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By direction of the President:

EDWIN M. WATSON
Secretary to the President

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OW

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

June 13, 1940.

MEMORANDUM FOR Lt. Colonel R. L. Maxwell:

In accordance with the instructions from the President, you are appointed as a member, without vote, of the Committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to war materials of the United States.

By direction of the Chief of Staff:

(Signed)

ORLANDO WARD,
Lt. Col., General Staff,
Secretary, General Staff.

TREASURY DEPARTMENT

344

INTER OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2:30 this afternoon Mr. Pinsent, Financial Counselor of the British Embassy, called on me by appointment. He left with me the attached copy of a memorandum drawn up by himself after a conversation with the Minister of Yugoslavia, Mr. Fotitch. There is also attached a copy of a letter from Mr. Joseph Fabris which gave rise to the conversation between Mr. Pinsent and the Yugoslav Minister.

Mr. Pinsent wanted to know whether the Treasury could take any steps to influence the New York State Banking Commission toward approving the setting up of a branch in New York of the Yugoslav National Mortgage Bank to handle remittance business to Yugoslavia which appears now to be controlled principally by the Deutsche Bank. I told Mr. Pinsent that the Treasury had not, to the best of my knowledge, endeavored at any time to influence the New York State Banking Commission in the matter of approving branches of foreign banks. I promised, however, to see if there was any other manner in which we might possibly desire to approach this problem.

B.M.F.

9/14

*Mr. P. H. ...
B. M. F.
June 14, 1940*

While the Secy. authorized me to talk with Banking Commission of New York, I feel that it is a matter in which the Treasury should not become involved too much.

*SMO
6/14/40*

I have seen M. Fotitch on this to-day. His attention was called to the matter about six months ago and he has been working on it since, being convinced that the Germans were getting the dollars and were finding some means of making use of their own dinar balances to make the remittances to Yugoslavia. Incidentally the amount of the remittances is estimated by him at only about \$2 to \$3 million per annum.

M. Fotitch's plan is to get a branch of the Yugoslav National Mortgage Bank established in New York to take care of this business. In order to prevent recourse to the black market, the Bank would have to offer a more favourable rate than the official rate of \$23 per 1,000 dinars (just as the Germans are accepting \$18). He has not yet made a formal application to the New York State Banking Commission, but his lawyers have approached them informally, and the Commission is inclined to make difficulties on quite irrelevant grounds, e.g. (a) that they do not want to see money remitted out of the U.S.; (b) that Yugoslavia is in default on her war debt; (c) that they do not know at what rate the emigrants payments would be remitted. M. Fotitch saw Dr. Feis at the State Department a few days ago and the latter promised to do what he could to help, and agreed that the New York State Banking Commission had no business to make difficulties of the above kind. At M. Fotitch request I undertook also to speak to the Treasury on the matter.

GHEP:KIP

C O P Y

G.H.S. PINSENT.
8th June 1940.

COPY

May 26, 1940.

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Captain G.C. Pirie,
British Embassy,
Washington, D.C.

Dear Sir:

Now I desire to bring to your attention a condition which, I am certain, will prove of interest to you, although not in your specific line.

I am a Yugoslav and learned recently that our emigrants, when transmitting money abroad, have to use the Money Order services of the North German Lloyd, which are sold through various Steamship Ticket Agencies, etc., at the rate of \$18.- per 1000 Dinars, because no other facilities are available.

What yearly amounts are involved at the present time, there is no way of telling, but I know that in times of prosperity our emigrants sent yearly about \$20,000,000.-

It is, therefore, possible that NGL thus obtains considerable sums of dollar exchange, which may be used for all kinds of purposes, including financing of propaganda.

Knowing that the sentiment among our emigrants is strongly pro-Ally, I believe it would be very easy to organize counter measures to divert this trade.

Yours very truly,

(Sgd.) Joseph Fabris.

C
O
P
Y

TREASURY DEPARTMENT

347

INTER OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent called on me this afternoon at 2:30 by appointment. I brought to his attention the attached memorandum which I had written on June 13, summarizing my conversations with Mr. Knoke in regard to utilization of free sterling by American importers to complete certain contracts. I permitted Mr. Pinsent to read my memorandum, but gave him no copy thereof. He promised to send a cablegram to his people expressing the hope that in carrying out the provisions of the Foreign Exchange Control Order, which became effective June 10, the British authorities will accord American importers certain periods of grace similar to those permitted under the order which was announced on March 9, 1940. Mr. Pinsent remarked that the matter of using free sterling to complete contracts for Dutch rubber was one to be settled by the authorities of the Netherlands, but agreed with my observation that the Netherlands authorities have in all of this business followed the example of the British, so that if the British give the treatment which we desire, the Netherlands will probably go along. Mr. Pinsent did not feel justified in going back to the arrangements of last spring, that is, with the view to giving a further extension of time to importers of rubber from the British Empire, who had made contracts prior to March 9, but who may not yet have purchased all of the sterling necessary to cover such contracts.

June 15, 1940.

I have this morning received from Mr. Knoke the attached memorandum in which he summarizes the information which he gave me in our conversations by telephone on June 12 and 13.

June 15, 1940

1 p.m.

Since dictating the above, I have received cablegram No. 1671 from London, which should be considered, and answered on Monday.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When talking with me by telephone yesterday Mr. Knoke told me that representatives of the American Rubber Importers had called at the Federal Reserve Bank to indicate the hardship which might be imposed upon them by a strict application of the recent British Exchange Control Regulations which might prevent the Rubber Importers from paying for rubber with free sterling, where it is a matter of completing bona fide contracts. When I mentioned that rubber from the British Empire had been on the list since last March of those commodities which must be paid for in official sterling or foreign currencies, Knoke promised to look into the matter further. This afternoon Knoke called me back. He made the point that rubber had to be paid for at the official rate if it is coming from the British Empire since March 9. Rubber from the Dutch East Indies could, however, be purchased in London in free sterling until last week.

As far as rubber from the British Empire is concerned, it has been customary for long contracts to be made. Thus, contracts opened prior to March 9, and running six or nine months, might involve important losses to the importers unless they are free under long contracts entered into prior to March 9, and running beyond June 8, to be permitted still to buy free sterling to complete their contracts, made in accordance with customs of the trade and in good faith. Knoke reiterated that Dutch East Indian rubber was bought on a sterling basis. He said that a conservative business practice would be for a dealer to buy sterling to cover his requirements only as his rubber is sold. Knoke said that no one was complaining about contracts made after March 9 as far as the British Empire is concerned, since the step of March 9 was due notice to the trade as to what might be expected.

Those purchasing from outside the British Empire who had entered into contracts prior to June 8 should now be permitted to buy free sterling sufficient to cover those contracts.

As regards imports other than rubber, the following have been covered by commercial credits opened during the last three months: wool from South America, leather, bristles, rugs, carpets, haberdashery, tin foil, essential oils, gum arabic, mother-of-pearl, mahogany, nuts, coffee, hemp, sago, and mohair. Knoke gave this detailed information to show that it is no single import trade, but the general import trade, that is likely to be hurt.

Knoke did not feel that the Federal Reserve Bank of New York could properly make any representations to the Bank of England in the premises, but thought that since the Treasury had given its assent to the British measures before

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they were taken, the Treasury might want to bring this matter to the attention of the British before they make any definite commitments as to how contracts covering the above transactions are to be treated, lest some criticism and complaint come from the trade to Washington. Knoke said that Mr. Badenhop, one of the biggest rubber importers in New York, had spoken with the Federal and, he understood, with Mr. Loree's Committee on the subject. Badenhop estimates his losses at \$300,000 to \$400,000 unless he may be able to fill his outstanding contracts with free sterling.

Knoke is aware that there may have been considerable speculation in sterling since March 9 and he does not want to support speculators. At the same time, he feels that there may have been some honest contracts entered into, in the usual business practice, which will entail serious losses to the American importers unless the British may interpret their regulations somewhat along the lines suggested above.

When I asked Knoke whether he had received any memorandum on the subject, or representatives from any rubber dealers association, he replied in the negative, but stated that he expected perhaps to receive a memorandum which could be passed on to me. He thought, however, that it was desirable that some representations be made to the British before they may take too positive a position. Knoke thought the British might very conceivably want to consider some measure to prevent an over harsh treatment of American dealers at present. Knoke said the effect of the statements coming out from London intimating that free sterling would have a life of only three weeks more has forced people to buy. They think free sterling may go up to the official rate of \$4.02.

In the foregoing situations, Knoke is not suggesting that the importers be permitted to purchase sterling at 3.19, but at the current free market rate, and that this sterling complete their contracts.



June 13, 1940.

Subject: Hardship inflicted upon our
import trade by the June 7
regulations of the British
Exchange Control.

Following Mr. Badenhop's lengthy telephone conversation and Mr. Harrison's and my discussions with Mr. Loree on June 12, I telephoned Mr. Cochran on June 12 and again on June 13 explaining the situation to him as follows:

Our import trade is complaining bitterly about the heavy losses which it would sustain if the latest British regulations are applied as drastically as is now indicated in dispatches from London. Generally speaking the trade feels that the new regulations are unnecessarily drastic and more so than those of March 9 in that no period of grace is allowed this time. The March regulations, on the other hand, became effective only about two weeks after the announcement; even at the end of that period (subject to supporting evidence) special permission could be granted in respect of shipments on or after that date (but not later than June 8) in fulfilment of sales made prior to March 9. Moreover in case of shipments after June 8, arrangements were made for special treatment by providing for special reference to the Bank of England.

No leeway is given now at all. Our importers seem to feel strongly that they should be given a chance to cover commitments at the prevailing free rate in the free markets:

- (1) if the sterling is needed in payment of imports from non-British Empires which were contracted for on a sterling basis if such imports were arranged prior to June 8.

- (2) if the sterling is needed in payment of imports from the British Empire which were contracted for prior to March 9, for delivery after June 8.

In both cases the trade claims it is entitled to sterling at the free rate* because their contracts for imports were made in good faith. The trade adds that if it is short of sterling against such imports, this is a sign not of speculation but rather of prudent and conservative management in that purchases of sterling to cover imports are made only after the imports have actually been sold. In far as those are concerned who had covered their sterling requirements, many seem to have resold their purchases for forward delivery when they saw into what difficult situation (due to no fault of their's) those had gotten themselves who had purchased Dutch guilders to pay for their rubber purchases and suddenly after the invasion of Holland found that the foreign seller of rubber would not accept guilders in payment although payment in that form was stipulated in the contract. Many of our importers seem to have concluded that a similar situation might develop in sterling and promptly sold out what they had previously purchased. Furthermore, if prior to March 9 contracts for imports were made for delivery after June 8 it is claimed that delayed delivery up to 6, 9 and even 12 months ahead is customary practice in many trades, particularly the rubber trade. The rubber trade by the way is interested in the free rate not for its purchases from the British Empire (these under the March regulations had to be paid for in sterling bought at the official rate), but for its purchases - on a sterling basis - of rubber in the Netherlands East Indies. I understand that rubber purchases from the Netherlands East Indies represent about one-third of the total.

Besides the rubber trade American importers from non-British Empire countries of a long list of articles all of which are contracted for on a sterling basis, are vitally interested in the rate at which they can buy the sterling with which to pay. On this list there are teakwood, wool from South America, leather, bristles, tin foil, essential oils, gums, rugs and carpets, cocoa beans, coffee, mother of pearl, mahogany, nuts, mica, shellac, sago, hemp, mohair and many more. It seems to me all possible efforts should be made to try and protect our American importers from what might work out to be a very serious loss. Nor do I believe that the British fully realize the difficulties which their new regulations might create for our legitimate business and would deliberately wish to force it through if our situation were explained to them. Failure by us to explain it to them might bring on severe criticism. Inasmuch as the original negotiations and talks were carried on between the two treasuries without the central banks being in on it, it seems to me any further discussions with the British should also be from Treasury to Treasury.

*Any permission after March 8 to acquire sterling in the free market for the purpose of paying for imports should cover a sufficiently long period (not just a week or two) so that the trade is given an opportunity to buy in orderly fashion without having to rush into the market at once because otherwise the free rate might well be pushed up to the level of the official rate and there would be no relief for the import trade.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At seven o'clock last night Mr. Ronald Ransom, Vice Governor of the Federal Reserve Board, telephoned me in regard to the Bolivian gold case. His General Counsel, Mr. Wyatt, was also on the wire. Mr. Ransom reviewed the case and told me that Under Secretary of State Welles was insisting that a settlement of the matter in favor of the Bolivian Central Bank be expedited since the case was seriously embarrassing to this Government in its political relationships with Bolivia. Mr. Ransom summarized to me several alternative plans which had been considered by the Board. The only one of these which involved the Treasury, but which Mr. Ransom seemed to favor, envisaged that the Treasury Department should withdraw the license from the Federal Reserve Bank of New York under which the gold alleged to belong to the Banco Mercantil is now held by the Federal in the name of the Bolivian Central Bank. I insisted that this was not a solution. If the Treasury took over the gold there would still remain the question to be decided as to who would be the rightful claimant to the proceeds. I told Mr. Ransom that the only part the Treasury had been ready to assume in this affair was the responsibility for giving a license for the export of the gold in question, should application be made for such a license. I told him that this had been my position when talking with Mr. Collado of the State Department.

In talking with Mr. Ransom I reminded him that I was alone, and speaking without advice of counsel. He asked if I would receive him and Mr. Dreibelbis at ten o'clock this morning. I agreed to this and had Mr. Bernstein present when the two gentlemen called this morning. Mr. Bernstein and I were unwilling that the Treasury should be drawn into this matter along the lines which the Federal Reserve Board was suggesting. Mr. Bernstein made the suggestion that the Bolivian Minister should write a letter to the State Department letting the latter know the control which Bolivia exercises over gold and its requirements that such gold as is abroad be repatriated. The State Department could then write the Federal Reserve to this effect and also certify as to the qualifications of the duly accredited minister, and recommend the cooperative action which Bolivia requests.

The Federal Reserve representatives promised to think over this and asked us to see whether we could conceive of any use of our licensing power which might be helpful.

At 5:30 this evening Mr. Ransom telephoned me. He said that Messrs. Harrison and Logan were coming from New York tonight and would meet at the Federal Reserve Board at nine o'clock tomorrow morning, and that the group would later at 10:30 be received by Under Secretary of State Welles. They said they might call on one of us to join the meeting at the State Department. I replied that either Mr. Bernstein or I would be available. Mr. Ransom asked that we consider a new idea, namely, that the Federal Reserve Bank of New York address a letter to the Treasury advising the latter that the Banco Mercantil has claimed that gold held under license belongs to it and consequently the Federal Reserve has no authority to hold such gold. The Federal Reserve Bank would ask the Treasury's advice in the

premises. I gave no answer to this suggestion, but after talking with Mr. Bernstein a few minutes later, we agreed that our reply should still be that the Treasury is ready to issue a license whenever applied for.

A handwritten signature in dark ink, appearing to be "B. M. F.", is centered on the page. The signature is stylized and somewhat cursive.

CK

GRAY

Berlin

Dated June 14, 1940

REC'd 5:46 p.m.

Secretary of State

Washington

1855, June 14, 3 p.m.

Subsequent to closing of his office in Stockholm May former Treasury Attache at Berlin whose office was removed to Stockholm in April left that city June 2 and arrived Berlin June 4 en route to his new post at Montreal. He has since been joined here by Wolff of his own office who was also en route to the United States. Since no transportation to the United States is available except via Siberia May has wired his Bureau that until such ^{time} as transportation becomes available he and Wolff will remain in Berlin "assisting Embassy in any capacity needed unless Bureau instructs otherwise". The Embassy is glad to have their services and I propose to consider them detailed temporarily to this mission and to list them as members of the staff unless the Department instructs to the contrary. It is assumed that they will continue to draw pay from the Treasury Department.

HEATH

NPL

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PLAIN

LONDON

Dated June 14, 1940

Rec'd 3:25 p.m.

Secretary of State,
Washington.

1651, June 14.

FOR TREASURY FROM BUTTERWORTH.

1. The London security markets have not declined precipitously and the turnover has been very small. The City was prepared for the fall of Paris and apparently does not appreciate the significance of the other adverse military developments.

2. As the tightening up of the exchange regulations renders the British exchange control system more like the German, the international functions of the City are being impaired except insofar as the trade of the allies and their empires offers a scope of no mean proportions. A British Treasury notice to banks requires Bank of England authorization for any financing of inter-neutral trade unless the goods are purchased against and reimbursement obtained in United States dollars. This cancels a previous arrangement described in the Embassy's memorandum on British exchange control regulations pages 52-53.

The

-2- #1651, June 14, from London

3. The British Treasury also informed banks that henceforth all transfers of sterling to accounts of residents in the United States and Switzerland for any purpose must be referred to the Bank of England. This centralizes in the Central Bank the administration of the now reduced transfers of sterling to residents in hard currency countries and removes this authority from banks appointed to approve form E 1 (all authorized dealers and certain merchant banking firms)

4. The following relaxations of item numbered 1 in my No. 1525 of June 6 have been announced:

(a) Arrangements have been made with the French to facilitate sales of sterling securities belonging to French nationals resident in France or the French Empire; applications for licences will be considered if a certificate of nationality, residence and non-enemy interest issued by the French control is produced, and for securities sent to the United Kingdom, also a French export permit.

(b) Applications for licences for security sales by French, Belgian or Dutch nationals temporarily resident in the United Kingdom or resident in the Dutch or Belgian Empires will receive consideration by the Bank of England

if

-3- #1651, June 14, from London

if accompanied by official evidence of nationality, residence and non-enemy interest.

5. Authorized dealers have been notified that Belgian refugees are required to declare within fifteen days their holdings of Belgian currency including coin. £10 per week per person at 176 3/4 may be exchanged and must be entered on a slip showing the total holding declared.

6. Applications for certificates giving permission to export to destinations outside the British, French, Belgian and Dutch controls, gold, securities or foreign exchange held in the United Kingdom on behalf of French, Belgian or Dutch nationals must henceforth be referred to the Bank of England.

KENNEDY

WVC

16 JUN 1940
15

16 JUN 1940

16 JUN 1940

MEMORANDUM FROM
EDWARD S. GREENBAUM
285 MADISON AVENUE
NEW YORK CITY

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June 14, 1940

To Secretary Morgenthau:

I inquired about the gentleman from Macy's. I find that he has done good work in communal affairs, including activities of the Greater New York Fund, and so forth. My information is that he has not yet achieved any great personal business success nor given evidence of great ability and that he needs competent assistants to follow things up under him. However, this may be an unfair appraisal. He is supposed to be energetic and conscientious in his work.

MEMORANDUM FOR THE SECRETARY

JUNE 14, 1940.

Shipping Situation.

The number of cars of export freight loaded on lighters of the railroads at New York has fallen this week to around 700 cars per day, attributable in part to the stoppage of freight destined to the Mediterranean. The number of cars on hand awaiting delivery by lighterage was also lower, indicating a holding back of shipments at points of origin. There has in turn been some increase in the number of export cars in storage in railroad facilities but there is still a large unused capacity.

Lighters containing export freight which are on demurrage in excess of 48 hours number 110; an increase over the previous week and probably due to freight which had been put on lighters prior to the closing of the Mediterranean and the disposition of which is now in doubt.

The Italian Line, in spite of the fact that they are not likely to have any sailings, are reported to be unloading on to their pier lighters which had been placed for transfer into Italian Line freighters. Presumably the idea is to make it as difficult as possible for the diversion of this freight to ships bound for Allied ports.

There is little activity in the movement of export grain through New York. The quantity in elevators, boats and railroad cars remains at approximately one and a quarter million bushels.

Carloadings for the week ending June 8th increased 63,000 over the previous week, running the average up to 106% for the preceding ten year period. All classes of freight registered increases, miscellaneous freight and less-than-carload merchandise accounting for the major part of the increase.

June 14, 1940.

Vessels under control of the Allied Ministries of Shipping are concentrating on the movement of guns and ordnance and this is bringing about an active demand for space to accommodate non-military goods on independent vessels, particularly to the United Kingdom.

The steel for France has not begun to move from the steel plants in appreciable quantities yet but it is anticipated that large quantities will be arriving at the ports within a short time. The steel production of the country is expected to be running at the rate of 90% of capacity this week.

The Packard Motor Car Company, Detroit, has received from Great Britain a large order for high speed marine engines.

There were no net form charters reported this week and the time charter business is on a restricted basis with rates becoming softer; West Indies holding at \$4.50 but fixtures are few.

An American ship is reported to have taken \$11.25 per ton for coal from Hampton Roads to Lisbon. This is slightly less than the last reported charter and it is indicated that the same kind of business might be done at \$10.00.

Further fixtures of American steamers to South Africa have been made at \$3.75 as well as to the west coast of South America at the same rate.

Anticipating a surplus of American ships seeking employment as a result of the closure of the Mediterranean, charterers are bidding \$3.00 for South Africa with no takers as yet.

Basil Harris

THE WHITE HOUSE
WASHINGTON

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June 14, 1940

copy
Tolson
and
others

Dear Mr. Secretary:

I am sending you herewith a copy of my letter to the Chairman of the Federal Power Commission in connection with the provision of adequate electric power for defense needs. The Coast Guard is one of the agencies with which the Commission will carry on liaison relationships. I hope that you will cooperate in every way with this work.

Sincerely,



The Honorable
The Secretary of the Treasury

THE WHITE HOUSE

Washington

June 14, 1940.

My dear Mr. Clegg:

In order that we may have an adequate supply of electric power in the areas in which it is most needed, I would like the Federal Power Commission, utilizing its existing facilities, in cooperation with the National Power Policy Committee, and the Advisory Commission to the Council of National Defense, to undertake the followings:

1. To maintain contacts with the War and Navy Departments, the Maritime Commission, the Civil Aeronautics Authority, Coast Guard, the Advisory Commission to the Council of National Defense, and the other government agencies concerned with national defense orders, to translate their orders and requests into demands for power, and to keep check on the adequacy of the power supply to meet such demands;
2. To maintain contacts with vital national defense industries, to keep currently informed as to their present and prospective needs, to confer with the utilities with respect to supplying such needs in the most dependable and economical manner, and with respect to providing needed interconnections between private industrial generating plants and the utility systems;
3. To maintain contacts with the electrical equipment industry, to keep monthly records of all orders placed for generating equipment, to keep check on existing stocks of transmission and distribution equipment and supplies with a view to maintaining them at an adequate level, and to recommend to the President priorities between orders;
4. To obtain monthly information from the utility industry as to loads so that increased requirements in any area can be anticipated and steps taken to meet them promptly, and to plan, in cooperation with the

- 2 -

industry, for the most economical use of existing steam and hydro capacity, curtailment of less essential loads, emergency inter-connections between systems, expansion of distribution systems to meet war industry requirements, additional generating capacity and, where utilities are unable or unwilling to undertake necessary construction, to report to the President the need of special arrangements to finance or otherwise further such construction;

5. To work out plans for the protection of power supply against hostile acts, and to this end to cooperate with the utilities and other government agencies, including the Department of Justice, in protecting generating stations, inter-connecting transmission lines, important substations and distribution facilities required to assure power supply to key industrial plants.

All information obtained and plans worked out by the Federal Power Commission, in acting as I have requested, should be recorded in triplicate and copies sent forthwith to the National Power Policy Committee and the Advisory Commission to the Council of National Defense.

I am sending a copy of this letter to the agencies enumerated above, requesting that they give you the fullest cooperation in this very necessary work.

Sincerely,

(Signed) Franklin D. Roosevelt

Honorable Leland Olds,
Chairman, Federal Power Commission,
Washington, D. C.

June 14, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which I have recently received from you and for which please accept my thanks:

- June 8 - Further report on the Allison Company
- June 10 - Purchase of aviation gasoline by a Japanese company
- June 11 - Report of an interview with a high German official in the United States.

Yours sincerely,

(Signed) H. Worgesshan, Jr.

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

June 14, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

June 14, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

JOHN EDGAR HOOVER
DIRECTOR

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

June 8, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

Permit me to refer you to my letter of June 7, 1940, transmitting information concerning the Allison Engineering Company Division of the General Motors Corporation, Speedway, Indiana.

For your further information in this regard, there is transmitted herewith a copy of a plant survey report dated April 13, 1940, covering a survey of a recent addition to the Allison Plant. A copy of my letter of recommendations dated June 7, 1940, is also being furnished you, which letter contains suggestions with regard to Plant #3 of the Allison Company.

When additional information with regard to the Allison Plant is received by this Bureau I shall see that it is promptly furnished to you.

Sincerely yours,

J. E. Hoover

Inclosure

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FEDERAL BUREAU OF INVESTIGATION

Form No. 1
THIS CASE ORIGINATED AT

Indianapolis, Indiana

FILE NO. 99-1

REPORT MADE AT Indianapolis, Indiana	DATE WHEN MADE 4-13-40	PERIOD FOR WHICH MADE 4-8,9,10-40	REPORT MADE BY BLISS MORTON mla
TITLE ALLISON ENGINEERING COMPANY DIVISION; GENERAL MOTORS CORPORATION, SPEEDWAY CITY, INDIANA			CHARACTER OF CASE PLANT PROTECTION

SYNOPSIS OF FACTS: **Survey of plant number three of Allison Engineering Company Division, General Motors Corporation, Speedway City, Indiana, completed.**

- P -

Reference: **Report of Special Agent C. A. Hardison, Indianapolis, Indiana, November 27, 1939.**

Details: **ACTION TAKEN BY THE ALLISON COMPANY
ON BUREAU RECOMMENDATIONS**

AT SPEEDWAY CITY, INDIANA

On April 8, 1940, agent called on Mr. OTTO T. KREUSSER, general manager, Allison Engineering Company Division, General Motors Corporation, at Speedway City, Indiana, and informed Mr. KREUSSER that he was ready to complete the survey of the recently finished plant number three of said company, and that agent also desired to confer with Mr. KREUSSER as to any action that had been taken by the company on recommendations and suggestions contained in letter of December 26, 1939, addressed to Mr. KREUSSER by the Director of the FBI. Mr. KREUSSER stated that it was his opinion that at least the majority of the recommendations and suggestions contained in the Director's letter had been put in practice by the company and suggested that agent confer with Mr. RAY G. KRAMER,

APPROVED AND FORWARDED:	SPECIAL AGENT IN CHARGE	DO NOT WRITE IN THESE SPACES
COPIES OF THIS REPORT 5 Bureau (Inclosures) 4 Indianapolis		

personnel director, for more particular details thereof. He suggested also that Mr. KREMER would render any assistance agent desired in the completion of the survey of plant number three. Mr. KREMER was contacted, as well as JOHN DALTON, chief, patrol service of the company, and the various recommendations contained in Bureau letter of December 26, 1939, were discussed with them with the following results.

The application form used by the company has not been changed, but an addendum has been attached thereto requiring applicants to give certain information in addition to that contained on the regular application form. The additional information covers the matter of group insurance and any indebtedness to the company under the G. M. Layoff Benefit plans, schools attended and courses pursued therein, including college work, with any degrees received, and a list of major studies and names and addresses of relatives and friends in foreign countries. The application form and addendum thereto are forwarded to the Bureau herewith marked Exhibit A-0#1.

With reference to investigation of applicants for positions, it was explained to agent that the company now requires that the applicant produce a birth certificate. If he was born in a foreign country, he is likewise required to produce his naturalization papers and a photostatic copy of the birth certificate and/or the naturalization papers are placed in his personnel file. Mr. DALTON stated that the company has three men who are solely engaged in investigating applicants. They make a neighborhood investigation. A form has been prepared covering the results of the neighborhood investigation and bears the title "Interviewer's Comment." A copy thereof is attached hereto marked A-D #2. The interviewers of course visit the neighborhood. They likewise correspond with schools and employee's previous places of employment. The interviewer's report is placed in the employee's personnel folder, together with his application. The investigators operate directly under the supervision of personnel director KREMER who gives active assistance to them in their investigations. A copy of the form letter used in corresponding with the applicant's previous place of employment is attached hereto, marked A-D #3.

Mr. KREMER stated that identification cards have been issued to all employees at the plant, including office personnel, but excluding Government inspectors. A copy of this identification card is attached hereto marked A-D #4. It will be noted there is a place on the card for the employee's name, and the card must be signed by the personnel director. On the reverse side is a place for the photograph of the employee and the impressions of his right and left index finger, as well as the date of his employment, his age, height, weight, and color of hair and eyes. His photograph is

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placed on this card with an impression seal of the Allison Engineering Company Division. In addition thereto, all officers and men in supervisory capacities at the plant are required to have another pass which is gray in color to indicate their official connection. Mr. DALTON explained that the Army inspectors carry their Army identification card or pass with them at all times and therefore are not required by the company to be provided with a company identification card. They are, however, issued a company pass by Mr. KREUSSER. All officials and employees of the company are provided with company badges. Army inspectors are not required to carry these badges. Badges are worn on the outer garment where they are plainly seen. Mr. KREMER keeps a record of all identification cards and badges issued. Mr. DALTON keeps a record of all passes issued. Employees severing their connection with the company do not receive their final check from the company until they turn in all badges, passes, and other company property. No employment number is reissued when an employee leaves the service. The records kept show the time the identification badge and card are issued and the time they are returned.

Telephone repairmen and other service and maintenance men calling at the plant are required to register in the office at the visitors entrance. Furthermore, they are required to bring with them a letter from their superior officer which letter introduces them and contains the number of their own company badge. Before they enter the Allison Plant they are given a temporary pass and an identification card which is worn on the outer garment during the time they are in the plant. Both the pass and the identification tag are taken up when said employee leaves the plant. No casual visitor is allowed in the plant unescorted, even with a badge.

Mr. DALTON keeps a register in a bound book form containing a list of all visitors' passes issued which of course includes the date, the name of the visitors, the company he represents, the person in the plant whom he desires to see and the time he leaves. Mr. DALTON explained that under a strict interpretation of the Indiana Statutes as given to the company by its attorney, the company might be held responsible in case of accident, even if the visitor had previously signed a waiver releasing the plant from all liability while on plant property. Therefore, no such waiver is included in the form which the visitor signs.

Mr. DALTON explained that visitors are at no time left alone at the plant but are accompanied by a member of the guard or other proper officials at all times. Any visitor found unaccompanied would be taken to the plant guard headquarters for interview.

A cafeteria is operated on the third floor of the office building of the plant number three. It is operated by an outside concessioner. Employees and others connected with the operation of the cafeteria enter through the side door at the west of the

office building, the stairway being immediately in front of that door which takes them to the third floor without going through any part of the office or plant. The persons connected with the cafeteria are issued permanent identification cards, duly numbered, and a record is kept of them by Mr. DALTON. These employees likewise are fingerprinted and photographed, exactly the same as Allison Company employees.

The company does not make "spot" searches of employees either as they enter or leave the plant. While Mr. KREMER and Mr. DALTON recognized the value which might accrue from such a practice, nevertheless they stated that it is not a policy of General Motors Company in other cities and in other plants, and believed it would result in immediate difficulties with employees if it were attempted. Therefore, they do not expect to put this plan into practice. They check bundles and lunch boxes coming into the plant. They do not make any search of persons. They "spot" check the employees' lockers probably once every week or so.

With reference to the Bureau's suggestion for the handling of mail to and from the main Indianapolis post office, Mr. DALTON and agent conferred with Mr. WILLIAM P. SETTLE, in charge of the mail room at the Allison Company. Mr. SETTLE explained that Mr. C. OSBORNE, stops at the Indianapolis main post office each morning and brings the mail from the Allison lock box at the post office, and that Mr. OSBORNE takes the mail from the mailing room to the post office each evening on Mr. OSBORNE's way home. Mr. SETTLE stated the company had written the postmaster at Indianapolis, Indiana, proposing that the mail pouch for Allison mail be padlocked and that a key to the padlock be retained in the post office and another key retained in the mailing room at the Allison Company. Before the mail left the Allison Company in the evening, the pouch would be padlocked, and the key left in the mail room at the company's office. When Mr. OSBORNE delivered this pouch at the Indianapolis post office, a post office employee could use the key which had been left at the post office for the purpose of unlocking the pouch. In the morning the mail could be placed in the pouch by a post office employee and the padlock snapped on the pouch, and it would not be unlocked until it reached the mail room of the Allison Company where the key held by the company would be used to unlock the mail. Mr. SETTLE produced for agent's inspection a letter dated February 9, 1940, from Postmaster ADOLPH SEIDENSTICKER, Indianapolis, Indiana, which answered the Allison Company's letter concerning the handling of mail. Attached to Postmaster SEIDENSTICKER's letter was a copy of a letter from First Assistant Postmaster General W. W. HOWES, Washington, D. C., in which the latter stated that the post office would probably find it too inconvenient to padlock the mail pouch leaving the Indianapolis post office for the Allison

Company plant, but that they would not agree to retaining a key to the padlock at the post office for the purpose of unlocking the mail when it was received at the post office in the evening. The postmaster pointed out that if the post office granted this privilege to the Allison Company it might be necessary to grant the same privilege to any number of other concerns which would ultimately result in much additional labor to post office employees.

Mr. DALTON stated that all members of the plant guard force are provided with a credential card similar to that provided to employees of the plant and in addition they have police badges issued by the Safety Board of the City of Indianapolis.

A report is submitted by each guard at the conclusion of his tour of duty on a special form provided by the company. There is forwarded to the Bureau herewith a copy of such a report which is marked A-D #8. There is also furnished to the Bureau for such use as it may serve a copy of the inspection report or weekly appearance report of guards which is marked A-D #5. In addition there is attached hereto a form marked "Post Assignments" as exhibit A-D #6. A-D #7 is an efficiency rating sheet by which the guards are rated by their superior officers. In addition thereto there is attached hereto a fire report which a member of the plant police who investigates a fire must fill out immediately after the investigation. It is marked A-D #9.

The Bureau's recommendation that a member of the plant guard force accompany a motor when it leaves the plant to be shipped by air plane until it is placed in the custody of the common carrier has not been followed by the plant. The motor is accompanied by a member of the engineering department in addition to the driver of the truck and his helper.

Mr. DALTON stated that a telephone connection has been established between the various gates and the gate house which is the patrol service headquarters.

Mr. DALTON explained to agent that all railroad locks have been removed from the gates entering the plant and Allison locks substituted. When the railroad desires to bring a car into the plant yard, the guard is notified and one of the members of the guard unlocks the gate, inspects the car, and makes a note of the number of persons composing the crew, remains with the crew while they are in the yard, and checks the crew out of the yard. The car may possibly remain in the yard longer than the crew, but when the car is finally removed, it is checked again by the guard as to persons who may be in it and as to its contents before it leaves the yard.

No packages are carried into the plant unless accounted for at the receiving department. Employees having packages with them must present them to the guard at the gate who examines them. This practice applies to packages being taken out by employees. Visitors coming into the plant at the office with packages are not always subject to the same examination. It might depend somewhat upon whom they are going to see. In other words, if they were calling to see the general manager or others of the higher officials, the package they carried might not be subjected to examination.

With reference to a pile of oil-soaked shavings next to the steel house of plant number two, Mr. DALTON took agent to this location where agent noted that the pile was still at that point. It apparently was about three and one-half feet high by fifteen feet wide. Mr. DALTON admitted that it was a distinct menace because if a fire should start in these shavings it might easily spread to the steel house which housed certain materials which were highly explosive, and much damage might be caused. He stated he had made numerous recommendations to have this pile eliminated, but it had not yet been done. Subsequently, agent mentioned this pile of shavings to Mr. KREMER and Mr. KREMER stated he had ordered the shavings removed and wondered why his orders had not been obeyed. In agent's presence he used the telephone and agent distinctly heard him instruct some employee to have the shavings removed that same afternoon.

The Bureau's recommendations concerning the gates on the west and south sides of the employment office have been noted. However, the employment office has now been moved to plant number three. A uniformed officer stands at the entrance to the gate leading to the employment office. Furthermore, the high wire fence with three strands of barbs on top of it separates the walk used by persons coming in at the employment gate from the main plant. The Bureau's recommendations with reference to the handling of incoming trucks and the keeping of a register of same has been put into practice one hundred per cent. This applies to the records kept at the time the truck leaves the plant.

A master key file has been established and is kept in Mr. DALTON's office, and he alone has the key to same. A receipt is demanded for each key handed out and this receipt charges the key against the person to whom it is issued. A copy of the key receipt is attached hereto marked A-D #10. Mr. DALTON explained that the company uses a system of removable tumblers in the locks which makes it a fairly easy matter to use a tumbler remover and take out the old tumblers and substitute others. This tumbler remover likewise is kept in the master key file under padlock, the key to the padlock being in the possession of Mr. DALTON.

Waste paper from the main offices of the plant is no longer taken to the city dump, but is burned by an employee on the premises.

Mr. CARL REYNOLDS, chief draftsman in the engineering department, stated a record is kept in the engineering department of all blue prints which are issued to employees. The record shows the date the blue print is taken out, to whom it goes, and the time it is brought back. No additional blue print is made of any drawing except on a written order from a person with authority to issue such an order. No blue print goes from one department to another. A print for the assembly department would not go to the screw machine section. Each print is marked with an indication of the department it is intended for and if it is in another department, it is there through error. If two or three batches of the same material are being made at the same time and the machines are in the same vicinity, a duplicate print is issued and marked as a duplicate, and recorded the same as the original. A master file under lock and key contains the originals of all drawings at all times. A man in charge of the cage in which the blue prints are kept passes them out on order as they are needed and charges them to the person to whom they are given. The master file in the inspection and materials control department, as well as other departments, is locked up at night. Mr. REYNOLDS stated it is impracticable to lock up all prints at night, but that the rooms or cages in which they may be left are locked up. He further stated it would be an immense job to check in all blue prints at night and reissue them the following morning. A sufficient guard patrol during the night passes by the rooms in which the blue prints are left. It was further pointed out that one particular messenger, Mr. JOHN ALLEN, takes blue prints between various departments, and always gets receipts for them.

It was pointed out to agent that the personnel in positions having access to confidential information, are investigated with utmost thoroughness.

Mr. DALTON stated that the locks on the metal lockers of the employees are synchronized. Mr. DALTON has a master key which will unlock all of them. The employees do not use their own locks. The lockers are regularly inspected at least once a week or oftener by Mr. DALTON or some member of his force.

Recently a fire brigade has been organized. No drills have yet been held. Four meetings of a fire school have been held, at which those in attendance have listened to lectures and have been given instructions as to their duties in case of fire. The fire chief

is Sergeant WILLIAM A. THOMAS of the guard force. The instructors of the fire school are Mr. EMMETT T. COX, director of education for the Indiana State Fire Marshal at Indianapolis, Indiana, and an officer from the Indianapolis Fire Prevention Bureau of the City of Indianapolis. Mr. DALTON states they contemplate holding fire drills once a month after the school work has been completed along that line. All fire equipment has been checked and found to be in good order. A book of plant rules and regulations has been prepared and a copy thereof has been furnished to each plant employee. A copy of the rules is attached hereto marked A-D #11. Mr. DALTON called attention to the fact that the Federal espionage laws are quoted in the back of this booklet and the last page thereof is perforated to be signed by the employee and torn out and retained by the company, in which the employee agrees to abide by the contents of the book. In addition thereto, Mr. DALTON furnished agent with a blank copy of the fingerprint card presently being used by the company. It is attached hereto marked A-D #12.

From the above it will be noted that the suggestions contained in the Bureau's letter with but very little exception have been put into practice by the Allison Engineering Company Division of the General Motors Corporation at Speedway City, Indiana.

ADDITIONAL SURVEY PLANT NUMBER THREE OF
ALLISON ENGINEERING COMPANY DIVISION

It will be remembered that at the time Special Agent C. A. HARDISON made his survey of Allison Engineering Company Division, General Motors Corporation, Speedway City, Indiana, plant number three was only partially completed. Agent HARDISON's report covers many matters which are applicable to all plants of the Allison Engineering Company Division. The information given in Agent HARDISON's report which may be applicable to plant number three will not be restated hereinafter. This report will be confined to those items applicable to plant number three which have not been previously reported.

EMPLOYEES

- B.1. Mr. JOHN DALTON, chief of plant guard, informed agent that the distribution of employees between plants one, two, and three has been materially changed since the date of Agent HARDISON's report. There are approximately three hundred employees now in plant number one; six hundred employees in plant number two; twelve hundred fifty employees in plant number three, including office personnel. Between fifteen and twenty employees are being added daily.
- B.6. The only alien employed by the Company is GENE NARDI, a French citizen born in Marseilles, France, November 14, 1903, who entered the United States through the port of Philadelphia in February, 1912, and who applied for citizenship on March 11, 1940, under special provisions of the naturalization statutes as foreign-born husband of a citizen of the United States. It is expected that he will be granted citizenship in the United States District Court at Indianapolis, in about June, 1940. Application has been made by the Allison Company to the War Department to continue the employment of this individual. Pursuant to such request, the War Department requested the Bureau to conduct an investigation on this person, and the Indianapolis field division is the office of origin in the case entitled "GENE NARDI, also known as Gene G. Nardi, Gabriel Gene Nardi, and Gabriele Benigni. Although he does not carry the rating, NARDI is technically in charge of the tool grinding department in plant number three.
- B.13. The company continues to fingerprint all employees. Mr. KREUSSER explained that he did not care to have the prints submitted through the Indianapolis police department or the local sheriff's office because "there is too much politics in those offices." Mr. DALTON informed agent that he was endeavoring to have himself appointed a member of the police force of Speedway City, Indiana, and if he was successful in this, fingerprints of employees would be submitted to the Bureau through the Speedway City police department.

HANDLING OF PLANT BUSINESS

- C.
12. Plant number three is not yet working to capacity. Two shifts of workmen are employed — one from 7:30 A.M. to 4:00 P.M., and another from 4:00 P.M. to 12:30 A.M. In the near future, another shift will be added.
- C.
- 13.a. Mr. KREMER stated that to date no motors have been built in plant number three; however, the assembly moved into plant number three only April 8, 1940. It is expected they will immediately turn out two motors a week. The schedule is about five motors daily and ultimately they expect to get out between twelve and sixteen motors per day.
- C.
14. As indicated in reference report, plant number three is equipped with five Diesel engines for production of electric power. This power is synchronized with the electric power of the Indianapolis Power and Light Company. Both sources are used together and in the event of the failure of either, the other will furnish sufficient power.
- C.
22. The manufacturing and assembling of motors is described in paragraph C.22. of reference report. All of this activity has been moved to plant number three. The receiving room is at the east end of the plant. With reference report there was submitted a blue print of the plan of plant number three; however, there is attached hereto a small drawing showing the grounds and the building of plant number three. This drawing is marked A-D #13. After the raw materials come into the receiving room they move through the machine shop westward where they are machined and perfected and finally reach the assembly room at the west end of the building. A high wire fence somewhat similar to the fence which surrounds the grounds of the building separates various departments inside the plant, and an order has recently been put into effect whereby no employee can enter the assembly department who is not regularly employed there, except by special permission.

PHYSICAL DESCRIPTION OF PLANT

- D.
3. Plant number three is probably one of the most up-to-date and thoroughly fireproof plants in the United States. It is a brick, concrete, and steel construction. All floors are concrete; outside walls mainly are brick. Some of the inside walls are concrete blocks. The roof is flat and is of concrete covered with tar and gravel. There are no windows in the plant or office; however, in the office wall where windows might have been placed are glass bricks. The entire plant is air conditioned. There are four pent houses on the roof to take care of air conditioning apparatus. Plant number three covers an area approximately six hundred feet wide by one thousand feet long. In addition thereto at the southwest corner of the plant is located an adjoining smaller building of the same construction as the plant. This second building houses the test and torque stands. There are now ten torque stands and it is planned ultimately to have twenty-six such stands in operation. Test stands are about 75 feet high with open stocks.

The administrative office for all plants has been moved to plant number three and occupies the space nearest Tenth Street. The office building consists of three floors; the first and second floors are solely administrative offices. The third floor houses the cafeteria operated by an outside concern.

- D.
4. As indicated above, the administrative offices of the Allison Engineering Company Division have been moved to plant number three. In addition there are about a dozen small offices or foremen's desks scattered throughout the plant.
- D.
5. Gate "M" opens on Tenth Street and was used during the construction of the plant as an entrance and exit for trucks with building materials. It is not used at present and is locked with a heavy padlock. Mr. KREUSSER stated it is planned to use this gate as entrance for all shop employees working in the assembly division and the torque and test rooms at the west end of the plant, and also perhaps as entrance for office employees.

Gate "N" leads to Cossol Road south of the city park which adjoins the company property. It also was used during the construction of the plant as an entrance for trucks with building materials, but is not now used and is locked with a heavy padlock.

Gate "O" is now used by the shop employees. After passing through the gate they enter the shop at the south door of the plant.

All trucks bringing in material enter at Gate "O" and drive to the east door of the plant which is the entrance to the receiving room.

Gate "P" opens on Tenth Street and is the entrance for the spur track of the B and O Railroad.

Gate "Q" has been cut in the wire fence since reference report was dictated. It is used by all visitors entering the premises. They use the circular drive and depart at the other end of the drive, also on Tenth Street. Two twelve-foot gates are at this entrance and exit and guards are on duty at all times when the gates are open. At present office employees likewise enter through Gate "Q" and enter the office building through the small door at the west end of said building instead of going in through the main door which is for visitors only.

Just east of the visitors exit is another small gate marked "R" which is for entrance solely of applicants for employment. At present these applicants go directly to the employment office door which is in the east end of the office building. However, a small building is in course of construction near the employment gate "R" and all applications will be received there and only those who are considered for immediate employment will pass on to the employment office at the east door of the office building.

- D.
8. The office and plant are lighted by a fluorescent lighting system; however, in the plating room mercury vapor lamps are used instead of fluorescent lighting because of the acid used in the work performed there. The plant at present has no outside lights excepting one flood light on top of the guard house at employees' Gate "O" which is used to illuminate the employees' parking lot just to the south of that gate. There are no street lights either on West Tenth or Grande Avenue. Mr. DALTON stated it is planned to place flood lights in such a position they will cover the entire plant all around.
- D.
9. Factory employees are provided with a parking lot inside the high wire fence and south of Gate "O". This lot is separated from the rest of the grounds by a wire fence similar in construction to that which surrounds the plant grounds. Employees driving cars through Gate "O" must show their factory badge and identification card. After they have parked their cars in the above-mentioned parking lot they must again show their badges and credential cards when they enter the plant. No exceptions are made of cars of employees either going into the plant grounds or leaving. No record is made of the cars.

Office employees who drive to work enter through Gate "Q" where they are required to display identification cards to the guards on duty there. They then drive into the office employees' and officials' parking space just to the west of this entrance, where they park their cars. A high wire fence completely incloses this parking lot.

In addition, some of the office employees park their cars on West Tenth Street, near the office entrance; and some of the shop employees park their cars on Grande Avenue, near Gate "O".

D.

10. The company owns three trucks. Patrolmen use one on night duty and the other two are parked inside the receiving room on the east side of the plant when not in use by company employees.

D.

11. A cafeteria has been opened on the third floor of the office building. It is operated by outside individuals. All cafeteria employees enter through the visitors' gate and then go into the building through the office employees' entrance at the west side of the office building and walk up two flights of stairs. They do not go through any part of the office or factory. Two outside persons have permission to operate lunch trucks which they push by hand through various aisles of the shop parveying sandwiches, candy, soft drinks, etc., to shop employees. These two persons as well as cafeteria employees are provided with distinctive colored passes. There are separate lavatories and toilet rooms connected with the cafeteria, the office, two in the machine shop and one in the assembly room. No employees should go outside their department to reach lavatory or toilet.

PRECAUTIONARY MEASURES AND PROTECTIVE DEVICES

2. The number of guards presently employed by the company has been increased to 40 for the three plants.
10. When the administrative office was moved to plant number three a room on the second floor of said plant was set aside as official mail and office supply room. WILLIAM P. SETTLE is in charge of this room. The handling of the mail has been described in reference report.
11. The responsibility of the company ceases when the motor is turned over to a common carrier. Usually shipment is on Government bill of lading. When an emergency exists, the motor is shipped by air-plane, in which event it is taken to the air field in an Allison truck by a driver and his assistant, also accompanied by two assembly department men. The motor is not boxed for shipment by air. No guards accompany it to the air field. Motors which are shipped by train are boxed. In some instances the railroads have a pick up service in which event the motor is turned over to the railroad company employees at the Allison plant. In other instances, the boxed motors are taken by Allison truck to the freight depot and turned over to the railroad employees there. No guards accompany the motor to the railroad depot.
15. The handling of blue prints and plans is in about the situation shown in reference report; namely, the blue prints are still kept in the engineering department in plant number two in charge of CARL REYNOLDS, chief draftsman.
17. The boiler room is one hundred per cent fireproof. It has concrete floors, the walls are of concrete blocks, the ceiling is concrete with steel beams. Gas is used for fuel, supplied from city gas mains. The boiler has thirty-five pounds pressure with a maximum of forty-five pounds. The boiler is used for heating the oil for the motors and for heating the air in the motors and also for the torque stands.
18. Plant number three generates its own power with Diesel motors. In addition there are Indianapolis Power and Light transformers on the ground protected by wire fences. The company power and the Indianapolis Power and Light Company power are coordinated. Both are used together and each may be used without the other.

- E.
20. No inflammable materials or explosives are stored on the plant grounds or in the plant building.
- E.
21. Cameras are not permitted in the plant.
- E.
22. Alcoholics are not sold on the premises.
- E.
23. The stock is in good condition.
- E.
24. No fire hazards were found.
- E.
25. The packing and shipping room is walled off from the remainder of the plant and apparently was in good condition. No hazard was noted in connection therewith.
- E.
26. No combustible material was stored in the yard or court of plant number three.
- E.
27. Oily waste was placed in red metal covered containers.
- E.
28. Waste is emptied weekly or oftener.
- E.
29. Office waste paper is burned on the premises daily.
- E.
30. No open fires near combustible materials were noticed.
- E.
31. No woodwork or other combustible material was noticed close to steam pipes, etc.
- E.
33. The roofs are in perfect condition.
- E.
34. The plant is new and the furnace pipes, etc., will be inspected regularly by the company maintenance man.
- E.
35. No fireproof rooms are provided where employees may smoke; they are permitted to smoke at their work if they choose to do so, except in

certain areas such as the torque stand, paint shop, etc.

36. The plant records are in metal fireproof cabinets.
37. Individual metal lockers are provided for employees. Mr. DALTON has a master key to all of them.
40. Agent noted in the carpenter room certain temporary electric wires and it was explained by the chief electrician that they had been there but a day or two and that it was not known whether the particular room would permanently be a carpenter shop. However, the electrician stated that these wires would be removed immediately and properly installed electric wires, outlets, and other fixtures substituted.
42. There are a few fire doors in plant number three although this plant is of fireproof construction. The doors operated satisfactorily.
45. In the past month or so four small fires have occurred at one or two of the machines where magnesium material was being cut. The magnesium chips and dust accumulated at the base of the machines and in certain recesses thereof and a spark from a cutting tool caused this to ignite. In only one instance was any damage done, and that damage was not great. It was explained to agent that no coolant can be used in the cutting of magnesium lest an explosion result. Some difficulty has been found in determining what type of extinguisher was best for magnesium fires. It was stated to agent that Foamite was tried but proved ineffective. Sand did put the fire out satisfactorily, but sand cannot be used in the machine shop for fear of getting it into the machine or into the engines being worked on. If the magnesium chips are not piled too high, CO₂ is an excellent extinguisher, but if the fire is in a crevice of the machine, it is difficult to reach and burns with a fierce heat. A separate report on these fires is being made by this agent. Since these fires occurred each machine working on material which contains magnesium is cleaned about once an hour or after each operation. The accumulation of magnesium chips and dust is brushed from the machine and an employee is especially charged with going from machine to machine to pick up this accumulation and place it in metal covered containers until evening when it is taken to a sealed bin outside the plant to be held until sold.
46. Agent found no unnecessarily concealed spaces.

- E.
47. There are no elevators in this building. The stairway shaft is closed.
- E.
48. Agent noted no temporary partitions.
- E.
49. Chemical extinguishers are in place. All appeared to be in good condition.
- E.
50. A water sprinkler system has been provided only for the paint room, the carpenter room and the shipping department. It is unnecessary in other areas because of the fact that the place is fireproof. In connection with the work at the plant, there is a heat treating department. This is protected by an automatic fire extinguisher system put out by WALTER KIDD and Company. While this system is automatic, it also may be operated by hand.
- E.
53. and 54. As explained elsewhere in this report, a fire brigade has been organized, fire schools are being held, and drills are to be commenced in the near future.
- E.
56. There are three fire hydrants on the grounds of plant number three, and also three in the buildings for sprinkler connections. The company has its own water system and its own deep wells and is planning on erecting a water tower for better and more constant pressure.
- E.
64. In addition to the regular entrances for employees and visitors previously mentioned in this report, there is an occasional exit door which could be opened by employees on the inside in case of emergency, but cannot be opened from the outside.
- E.
68. Personally owned automobiles of employees are permitted only in the employees parking lot previously mentioned in this report.
- E.
69. The machinery and equipment of the plant is new and in the best condition possible.
- E.
71. No outstanding hazards were noted in the immediate vicinity of plant number three.

INCLOSURES: TO BUREAU:

- A D #1. Addendum to employment application.
- A D #2. Interviewer's comment, being report of the person who makes neighborhood investigation of applicants for employment.
- A D #3. Form of letter used in obtaining information concerning applicant from his previous place of employment.
- A D #4. Employee's identification card.
- A D #5. Weekly appearance report of guard.
- A D #6. Post assignments of guards.
- A D #7. Efficiency rating sheet of guard.
- A D #8. Daily report of guard going off duty.
- A D #9. Fire report
- A.D #10. Receipt for key issued.
- A D #11. Plant safety rules and practices of Allison Division.
- A D #12. Allison Company fingerprint card.
- A D #13. Rough drawing of plant number three of Allison Engineering Company.

June 7, 1940

Mr. Otto T. Kreusser
General Manager
General Motors Corporation
Allison Engineering Company Division
Post Office Box 894
Indianapolis, Indiana

Dear Mr. Kreusser:

Reference is made to my letter dated December 26, 1939, suggesting changes which it was felt would be of value in protecting your plant. The recommendations contained in that letter applied mainly to Plants No. 1 and No. 2, it being impossible to make a complete survey of Plant No. 3 at the time the original plant survey was conducted, in view of the fact that plant was still under construction.

Based upon the supplemental survey recently made of the now completed Plant No. 3 by a Special Agent of this Bureau, the following additional recommendations are being set forth suggesting procedures which it is felt will be of value in protecting that plant. Please feel free to discuss these recommendations thoroughly with the Special Agent who delivers this letter to you.

It was noted that in addition to the regular plant cafeteria employees, two food vendors visit the plant daily at which time they usually remain in the plant for several hours. It was noted that while these persons are furnished with identification badges, they are not closely supervised and are allowed in all shop areas. In this connection, it is suggested that these individuals be closely supervised by members of the plant police force during the entire time they are on the plant property. They should be definitely advised of and required to closely follow plant rules and regulations with reference to their movements within the plant property. Such persons should not be allowed to enter any restricted area.

Mr. Otto T. Kreusser

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It was observed that the plant is not floodlighted at night. It is recommended that sufficient floodlights be installed to adequately illuminate all areas of the plant premises. No plant area should be left darkened to such an extent that the identity of any person trespassing could not readily and clearly be determined.

It was determined by the Special Agent conducting the survey that whenever an airplane motor is shipped from the plant by airplane or by railroad, an employee of the plant guard force does not accompany the motor from the plant to the Indianapolis, Indiana, airport or railroad freight depot. In this connection, it is suggested that a member of the plant guard force accompany the shipment from the plant to the airport or railroad freight depot, and remain with it constantly until it is placed in the custody of the common carrier.

Temporary electric wires were noted in the plant carpenter room. The fact that such a condition created a possible fire hazard in that room was called to the attention of the chief plant electrician who stated that these wires would be removed immediately and properly installed electric wires, outlets, and other fixtures substituted.

May I suggest that you discuss the above recommendations in detail with the Special Agent who delivers this letter, and that you present to him any questions which may arise with reference to the recommendations, or regarding any other suggestions which you may have for the further protection of your plant.

I should also like to take this opportunity to again suggest that you feel free at any time to communicate either with me or with the Indianapolis, Indiana, Field Office of this Bureau with respect to plant survey matters.

Sincerely yours,

John Edgar Hoover
Director

JOHN EDGAR HOOVER
DIRECTOR

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

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PERSONAL AND
CONFIDENTIAL

June 10, 1940

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

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest, a copy of a statement dated June 8, 1940, containing information with regard to the purchase of aviation gasoline by a Japanese company, allegedly for use by the Japanese navy.

Sincerely yours,

J. Edgar Hoover

Inclosure

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

June 8, 1940

MEMORANDUM

W. E. Logan, tax lawyer, Scarritt Building, Kansas City, Missouri, was contacted recently by one Blodgett of the Hess Oil Company, Dwight Building, Kansas City, Missouri, upon which occasion Logan was asked to act in the capacity of broker for the sale of one million gallons of aviation gasoline a month, over a twelve-month period, to the Taiyo Se Kiyu Kaisha Company, Tokyo, a Japanese corporation. It was indicated that this gasoline is destined for use by the Japanese navy and, according to available information, negotiations are being effected for a twelve-month period, as indicated above, with an option for a two-year renewal.

It is reported that two representatives of the above named corporation arrived in California from Japan about one month ago, at which time they contacted attorney Milton Cohen, Taft Building, Los Angeles, with regard to their efforts to purchase gasoline. Cohen arranged for negotiations between these representatives and the Hess Oil Company, of Kansas City. Blodgett, of the Hess Oil Company, perfected arrangements whereby Logan would arrange to purchase the desired gasoline from other oil companies in the United States. Logan has already contacted representatives of the Gulf Oil Company and the Phillips Petroleum Company, being now in a position to negotiate a final contract for furnishing the desired amount of gasoline as soon as the two Japanese representatives arrive in Kansas City, Missouri, for the purpose of closing the deal.

The two Japanese representatives in question are one Yamaguchi and Sliji Matsuzaki. These individuals were, on June 6, 1940, stopping at the William Penn Hotel in Pittsburgh, Pennsylvania, presumably for the purpose of conferring with one Hammerle, head of the export division of the Gulf Oil Company, although they were scheduled to meet Logan in Kansas City on the last mentioned date.

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Information has been obtained that an individual by the name of Perry P. Shultz accompanied the two Japanese representatives in Pittsburgh, Pennsylvania, on June 6, 1940. Information as to the identity or status of Shultz is not possessed, but his entry upon the scene has allegedly caused Logan to suspect that the gasoline being purchased is ultimately being destined for German use. According to available information, Logan possesses no additional data concerning the Taiyo Se Kiyu Kaisha Company, although he has allegedly indicated that the Japanese government usually purchases gasoline for its navy through the firm of Mitsui and Company.

It is reported that when this deal is closed, the gasoline will be shipped from the refineries of the above mentioned oil companies in the United States to Houston, Texas, in tank cars, at which place it will be put in drums, and sealed, painted, and stenciled for subsequent shipment to Japan at the rate of twenty thousand drums a month.

JOHN EDGAR HOOVER
DIRECTOR

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

June 11, 1940

Strictly Personal and Confidential

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

Dear Mr. Secretary:

I am inclosing herewith a copy of a highly confidential report covering an interview with one of the highest representatives of the German Government in the United States. Its contents, I thought, might be of interest to you.

Sincerely yours,

J. Edgar Hoover

Inclosure

June 11, 1940

IN RE: EUROPEAN SITUATION

The writer had occasion today to check in with his German source of information, whom we will designate as Mr. A throughout this report. The meeting took place about an hour after Premier Mussolini's declaration of war against England and France. The writer noticed that Mr. A did not have that air of self-confidence and assurance he had on previous occasions. He seemed to be terribly depressed and somewhat nervous.

Mr. A asked me if I had heard Mussolini's speech. I told him I had not, but that I had merely glanced at the head-lines of "Extras" on the street. Mr. A said it appeared that Il Duce had beaten our President to the ground by making his momentous declaration. Mr. A immediately expressed his deep feeling in the matter when he said he was sorry that Italy's declaration of war came at this time, as he felt it would further stimulate anti-British feeling in this country, and also that there was grave possibility of serious conflicts in the Balkans. He added, however, that those abroad are in a better position to judge this than he. Speaking for himself, Mr. A stated that he had many good American friends here, and this situation will only lead to more bitter feeling among them; that in his position it would make it more difficult for him.

In an exchange of opinions relative to the present drive on Paris, Mr. A told the writer he expected Paris to be in the hands of the Germans by the end of this week, and that the next defense line for General Weygand, if he continues, will have to be from the Italian Alps to south of the Ardennes, running to the English Channel. Should General Weygand decide to choose this as his last stand of defense in behalf of France, he will have

given up the entire Maginot Line. Mr. A personally does not think this will happen; that after the fall of Paris, which, after all, as he puts it, is the very heart of the French people, the French will not have the spirit to offer much strong resistance, especially now that they will have to defend their frontier adjoining Italy. Should the Germans be successful in breaking through this last defense from the Italian Alps to the Channel, from then on they expect very little opposition in conquering the remainder of France. Mr. A said that this would be his deduction and his personal opinion only, as he was not a military expert. This was merely advice given to him by his Military Attache.

The writer asked Mr. A for his opinion relative to the leadership of General Weygand to date. He replied that he thought the General was one of France's greatest military strategists and commanders, and that if France could not win with him, who had strengthened the morale of the French army (having been tutored by General Foch), they could not win under anyone else. Mr. A added that he felt the French politicians expected too much from General Weygand, who had not been schooled in the up-to-date modern warfare which is being conducted by the German high command. In this respect, he said, it might have been better for the French high command or politicians to have selected a younger man learned in mechanized warfare. Mr. A remarked that he did not wish to be misunderstood; that he had the greatest admiration for General Weygand, and that he was sure the German General Staff knows that it is fighting a man and a leader of an army who has been selected by the people of France to give them a victory after the terrible defeat sustained by them on the battlefields of Flanders. Mr. A remarked also that the French soldier is as brave as they come and a terrific fighter on the

battlefields, but that a great change might come over him after the ideal of his life is conquered (in this case, Paris), and the temperament of the French people may create an internal situation which may lead to a revolution. Then again, the Italian entrance into the war, together with the expected fall of Paris shortly, may be the cause of the French throwing up their hands and saying: "What's the use?".

Mr. A said he understood that Mussolini offered peace proposals to France which would take in certain northern African concessions, Corsica and one or two adjacent provinces to the Italian border, in addition to some other minor requests.

The writer then asked, now since Italy had joined with Germany, what Mr. A think Russia would do. As stated in previous reports, he reiterated by saying there was little Russia would or could do in a military way as far as Germany was concerned. Stalin has a definite understanding and commitment as far as Turkey is concerned, and his (Stalin's) influence with Turkey might prevent the Turks from any direct contemplated attack through the Balkans or Germany. This, of course, according to Mr. A, could not be said for Italy. Should Turkey, Greece or Yugoslavia show any militant signs against Italy, they would also be accepted by the German high command as being against Germany. In this connection, the Reich has a more or less definite understanding with Rumania, Hungary and possibly Yugoslavia to give her the right of way through these respective countries with her mobile and military forces. Again in this connection, Mr. A said there was very little likelihood that these countries would show any hostile attitude towards Germany after what happened in Poland, Norway and the low countries.

Mr. A advised the writer that Russia had requested an exchange of ambassadors with Mussolini. This took place yesterday, after the two countries had been without representation all this time. Mr. A believed this was accomplished by von Ribbentrop, and that the latter must be given the credit for the settled boundary disputes between Japan and Russia. The writer, drawing his conclusions from his conversation with Mr. A, is of the opinion that Russia and Japan are still most friendly to the Reich. The writer remarked that in a recent issue of the Russian official organ, "Tass," he noticed that that paper had taken Italy to task in some of its editorials. To this Mr. A replied: "This, to my mind, is for a smoke screen effect."

The writer then turned the conversation to the much discussed invasion of England by German troops, which he thought was an almost physical impossibility. Mr. A stated that from a layman's point of view alone (referring to his own opinions), if such an invasion were to take place, it no doubt would come simultaneously to every part of the British Isles. He added that, of course, he knew nothing of what the German high command might have in mind in this direction. He continued by saying that if the French should be conquered, the entire German military strength can be directed against England in full. Whether this will ever come to pass, he said, is purely problematical. However, should this occur, it is most likely that the British government might move to Canada. This would mean that our country would inherit part of the war in our own back yard.

The writer asked Mr. A if he thought the German military machine had any intention of following up any such venture into Canada. He replied that he did not think so; that such an idea would be preposterous. He added that

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Germany is only interested in Europe, and that there was no rhyme or reason for any such wild speculations that Hitler wished to reach out either to the United States or Canada, or that he had any such intentions with regard to South America. From a military point of view, the writer was told by Mr. A this is simply impossible, and that reports to this effect were merely propaganda.

Mr. A asserted that our Monroe Doctrine will always be respected by Germany, and any Colonial possessions Germany might gain from Great Britain or France, if she is victorious, will solely be at the expense of those two countries. In the first place, Mr. A continued, Germany has no navy to protect any far-flung empire, as does Great Britain. Any land ceded Germany through a peace conference, Germany realizes would be viewed by Great Britain and France as merely loaned territory until such time when they would be in a position to retake them. Mr. A said that in all probability Germany will have sufficient time after this war is over to build a more formidable navy to defend such possessions. Germany is not primarily interested in far-flung possessions if she is able to get the necessary war materials for her rehabilitation after this war. One point of which Mr. A was certain was that Germany will never leave herself unguarded along the Channel coast facing England. For this she had to pay dearly, and she expects to take advantage of this point at the peace conference when it takes place.

Mr. A asked the writer for his opinion with regard to the general run of sentiment in this country in respect to our getting into the war from the standpoint of supplying the necessary man power, in addition to what is already being supplied to the Allies. The writer told Mr. A that from his conversations with numerous Senators and Congressmen, and more recently

with Isolationist Senators, it was evident that if the President asked for a declaration of war against Germany and Italy it would be forthcoming, as far as Congress is concerned. This, apparently, was a great surprise to Mr. A. He made reference to the Gallup Poll, which indicated that some 90% of the American people had voiced stern objection to sending any troops abroad. The writer explained that sentiment in this country had already out-distanced the President, as far as direct intervention was concerned.

Mr. A remarked that he had had the pleasure of meeting our President on several occasions, and that he had great admiration for him in that he was entirely different from others in like position and did not hesitate to express his frank convictions. He said that there was no mystery about the President, and that one knew exactly what to expect from him. This, Mr. A said, was an admirable attribute in a man in such a high position. He continued by saying that one really had to admire him because he makes no bones about trying to do everything he can in behalf of the Allies, as well as admitting that the Allies have his moral support.

Mr. A asserted that even if America, at this late date, wished to send troops to Europe, he thought it would be of little avail as far as helping either England or France in their present plight is concerned, as the undertaking of an expeditionary force to assist the Allies would be a most hazardous one under present circumstances, in connection especially with landing these troops with any great safety in France or England. To do so in the Balkan states would almost seem impossible. By the time an army could be gotten together with the necessary supplies and equipment, most likely the war would be over.

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Coming back to France, Mr. A remarked that up to the present time a great many French industrial cities were already in the hands of the Germans, and that most of the factories have been busy turning out war materials which will not be of avail to France for military purposes. However, Germany can draw on them if she wishes to do so for her own military use.

I asked Mr. A what he thought Spain's intentions were since Italy's entrance into the war. He replied that, considering Spain has just come out of a civil war tail-spin, she was not in a position to be of any great military value, as far as mobilizing her army for an attack on France was concerned. No doubt she would side with Italy in giving whatever assistance she could in return for Italy's loyalty to France in the Spanish civil war. There is a great possibility, however, that Spain might undertake to try to attack Gibraltar. These are all points, Mr. A reminded the writer, which will change from day to day as the war progresses.

I asked Mr. A if he thought Great Britain had a sufficiently large army in England proper to offer strong resistance in the event of a German invasion. To this he replied that he did not know the exact number of full divisions of first line troops, but figured there were between five to eight divisions of various mobile forces. He said he understood there is in England now a full mobile division of Canadian troops. Mr. A added that the Canadian soldiers are highly respected by the German high command. The German soldiers, since the last war, have looked upon them as Great Britain's best fighters.

- 8 -

Mr. A and the writer then discussed the far eastern situation. The writer asked Mr. A if he thought Japan would venture to take the Dutch East Indies. He replied, as stated in previous reports, that in this direction is America's greatest danger. He felt that Japan, since Italy's entrance into the war, thus keeping the French and English fleets busy, would attempt to take over the Dutch East Indies. He said that only the American navy could attempt to prevent this. He supplemented his remarks by saying that here may lay the key to hostilities between Japan and America, because, as Mr. A frankly stated, if America permits Japan to take the Dutch East Indies, the United States might be forced into the war with the Japanese to protect her interests in the Pacific. However, Mr. A asserted, he would not like to see the American navy have to fight so far away from its home supply base, inasmuch as the Japanese navy is still fully intact, regardless of its Chinese campaign.

In the opinion of Mr. A, the United States and the rest of the Americas united present a formidable front to any power or powers which might turn their eyes in this direction. "Mind you," he said, "I am not giving you this as mere propaganda. I am most sincere when I say this."

In the course of conversation the writer made reference to the staggering losses reported by the newspapers to the German army. Figures had been set at some 400,000. Mr. A said he would much rather accept the estimate of the German high command of losses than the propaganda reports in the newspapers. For instance, he said, throughout the entire campaign in the low countries, the German losses were a little over 10,000 killed and some 30,000 wounded and captured.

In his various interviews with Mr. A, the writer has always felt that he is not any too fond of Nazism. In all the meetings with him, the writer has yet to see the Nazi emblem in his lapel. Mr. A does not possess an autocratic Prussian dominating attitude, but rather reminds one more of the quiet, English, Oxford type. The writer may be wrong in this, but after numerous meetings and get-togethers, one would at some time be bound to notice such feelings.

The writer takes occasion in this report to mention the friendly views of Mr. A with regard to the United States merely to place the entire conversation which took place on record. The writer has repeated the thoughts and opinions of Mr. A without any coloring or additions. Hence, the writer wishes them to be accepted in that light.

TREASURY DEPARTMENT

403

INTER OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned me today noon informing me that Mr. Leroy-Beaulieu, French Financial Attache, was coming to Washington on the 2:30 plane this afternoon and that they desired to come to the Treasury and present jointly the views of their Missions upon a matter which the Treasury has heretofore refrained from meeting their suggestions. Mr. Pinsent said this was such an important representation, that his Ambassador desired that he and his French colleague be received either by Secretary Morgenthau or Under Secretary Bell. After consulting Mr. Bell, I told Mr. Pinsent that he and Leroy-Beaulieu should come to my office as early as possible this afternoon, and that we would then all be received by Mr. Bell.

When Mr. Bell received the three of us at 3:35 this afternoon, Mr. Leroy-Beaulieu referred to the answer which the Treasury had given to the British and French on the matter of blocking German balances. I corrected his phrasing slightly, stating that our position had been explained as follows: The letter from the British Ambassador, of which the French were aware, had been addressed directly to the President; an official answer could only come from the White House; in the interim I had informed Mr. Pinsent orally that the consensus of opinion among those State and Treasury officers who had consulted on the question was that no steps should now be taken by this Government toward blocking German balances in the United States.

Our visitors reminded Mr. Bell that this answer had been given more than a week ago and that since then the attack had been made by Italy. They felt that in the light of the various unneutral steps that have been taken and words that have been spoken since that event, we might be willing to change the Treasury's views on the blocking question. Mr. Bell and I confirmed that there had been conversations on the subject since Italy had entered the war and still the decision, as far as the State and Treasury Departments were concerned, was against blocking German assets at this time.

At this point I was called into Secretary Morgenthau's office. Mr. Bell entered a few minutes later when the general meeting was in session and reported to the Secretary the representations made by Messrs. Pinsent and Leroy-Beaulieu. This report and the Secretary's remarks will be found in the record of the group meeting.



TREASURY DEPARTMENT

404

INTER OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent called on me this afternoon, he told me that on his recent trip to New York he had spoken with some ten private banks with the view to obtaining from them current information in regard to German and Italian banking transactions. His contacts were entirely cordial and offered to cooperate, but one or two mentioned that reports of suspicious transactions are made by banks and industrial concerns all over the United States to the F.B.I., in accordance with the latter's instructions. Pinsent asked my opinion as to whether the British Embassy might properly approach the F.B.I. with the view to obtaining the benefit of such information as is received. I told Pinsent that if the F.B.I. received such information, the Treasury was not aware of it. Furthermore, I could give him no advice on the subject without looking further into the matter.

Pinsent told me that cables are still being exchanged between the Federal Reserve Bank of New York and the Bank of England in regard to the formalities of transferring Bank of England accounts to British Government accounts, and also with respect to emergency measures which might be taken to permit signing of checks on such accounts by the British Ambassador and/or another officer of the British Embassy.



404-A

BRITISH EMBASSY,

WASHINGTON, D.C.

June 14th 1940.

Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram despatched from London on the evening
of June 13th, 1940.

French line now runs Montmedy-Vouziers-Somme-
Epernay, thence along Marne through Chateau Thierry (where
Germans have small bridgehead) Ferte-Sous-Jourre-
Trilport-Rouvres-Senlis, thence along Oise to Pontoise,
thence along lower Seine. No change east of Vouziers,
but big attack impending in Montmedy area. Between
Vouziers and Chateau Thierry, continuous enemy pressure
yesterday forced French from Aisne Valley back to present
line South of Rheims. German armoured forces reported
to have penetrated this line to Chalons-sur-Marne.
German thrust in this area now appears directed westward,
probably to encircle French defences further west.
Several infantry and armoured divisions taking part.

2. Between Mareuil-sur-Ourcq and Chantilly German
pressure on June 11th forced French back to line Oise to
present positions. No change in French positions
between Chantilly and the sea since yesterday.

3. German bridgehead between Vernon and Louviers
may now extend to Evreux. Two German infantry divisions
in bridgehead and two armoured and one motorized division
immediately north of River. Possibly Germans may
intend to sweep south of Paris from this area. Gap to
sixteen miles in French line in front of this bridgehead
reported at midnight last night. Leading troops of
52nd division have now arrived in this area. 52nd
division now near completion, but artillery units lacking.
Division is being put into line piecemeal. Beauman
division (reserve units) hold reserve position along
River Risle east of Bernay. British armoured brigade

/also

Regraded Unclassified

also in this area.

4. Embarkation at St. Valery had to be abandoned at 18.15 hours yesterday and ships ordered to withdraw. Troops remaining include two brigade groups of 51st division and possibly 6,000 French. Early yesterday, French advance posts at Havre reported being attacked by enemy forces, including AFV.s. Oil tanks and centre of town reported burning. No further news. There were still some 6,000 troops at Havre to be embarked. Approximately 8,300 troops of North Sea division and attached units have reached Cherbourg, presumably from Havre.

5. Last night, Whitleys and Hampdens attacked enemy communications in rear of battle line. No reports yet available. Yesterday attacks by Blenheims are reported as successful, and direct hits were registered on objectives at La Mare St. Valery. Results of bombing woods at Andelys not observed owing to cloud. Twelve Hurricanes of B.A.A.F. attacked six enemy aircraft near Havre and destroyed two Heinkels III and severely damaged a third. One Dornier 17 also shot down. Many fighter patrols operated from United Kingdom across Channel yesterday; but no combats reported other than one Heinkel III destroyed off North Foreland already recorded. Absence of combats probably due to lack of visibility. Fleet air arm bombed enemy M.T.B.s at Boulogne yesterday. One M.T.B. destroyed and two damaged. Buildings and jetties at Boulogne also bombed.

6. German aircraft active from north of Wash to Isle of Wight last night, but do not appear to have

/crossed

crossed coast.

7. Libya.

Italian 20th corps reported on shore road Tripoli-Zuara, whilst 10th corps appears to be moving from Tripoli area towards Malut. 23rd corps in Tripoli area. Blenheims bombarded harbour and aerodrome at Tobruk yesterday. One large ship not identified, but may be Italian cruiser "San Giorgio", set on fire and beached. Naval pier and another ship alongside seemed to be burning.

8. All reported quiet at Gibraltar.

Egypt.

Minor encounter at Sidi Oniar and two Italian officers captured. Mines located yesterday off Alexandria.

Somaliland.

Air reconnaissance has not observed movement in frontier districts.

Blenheims yesterday attacked aerodromes at Aswab and Diredawa. Hits registered on aerodromes, power house, petrol and ammunition dumps and barracks. All aircraft believed returned.

No reports of any movements of major units of Italian fleet. No air attacks on Malta yesterday up to midnight. One Italian reconnaissance aircraft reported, believed brought down by gunfire. Admiralty destroyers have made two attacks on submarines in western Mediterranean, one of which is considered to have been successful.

Two British ships (total 4,000 tonnage) sunk in home waters by mine on June 11th. British trawler and two small Belgian steamers sunk in home waters yesterday.

Bulk of British force evacuated from Narvik has now arrived in United Kingdom.

404 - E

BRITISH EMBASSY,
WASHINGTON, D. C.

June 14th, 1940

SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Wilson

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

SECRET

Telegram despatched from London
on the morning of June 14th, 1940

1. Yesterday attack in Chateau Thierry area reported in my immediately preceding telegram resulted in tanks reaching Barledeux in addition to Chalons but as far as is known none crossed River Marne in this area. The enemy units however believed to have crossed the Marne west of Epernay and at Julgonne. Infantry advancing southwest from Chateau Thierry reached Nogentlarcand. Further west the enemy troops appear to be directed westward towards Meaux. On the lower Seine the enemy infantry are holding the River Eure. This may be defensive flank to cover the advance southeast towards the south of Paris.
2. Evacuation of Havre completed last night. Eleven thousand troops were taken off and transports proceeded to Cherbourg. Rearguard and beach parties taken off by motor launches and sent to Portsmouth.
3. Armed merchant cruiser "Scotstoun" torpedoed and sunk in home waters. Some of the crew were saved. The cruiser "Calypso" sunk in eastern Mediterranean by torpedo.
4. Three raids carried out today by Blenheims on roads and rivers in the rear of the battle front on the lower Seine. One aircraft missing. Despite unfavourable weather conditions the majority of the aircraft engaged on raids on night of the 12th-13th

June/

June carried out successful attacks. Direct hits observed on railway targets at Leon, Charleville, Soissons and Faisault. Hurricane patrol from B.A.A.F. shot down whole enemy formation of 5 aircraft.

5. German long-range bomber operations continued yesterday on the same scale as before. Bomber reconnaissance again very active and today two flights across southern England, one as far as Cardiff. Slight increase in transport activity between Cologne, and Belgium and northern France. This mainly concerned with transport supplies westward and of wounded back to Germany. Slight increase in number of transport flights to Oslo. It is thought possible that Italian aircraft may be operating on the western front.

6. Last night the Fleet Air Arm attacked the enemy warships in Trondjhem. One hit with 500 pound bomb on enemy battle cruiser was observed. Eight aircraft missing, some believed to have been lost in the fog which has prevented further action in this area. Bomber aircraft cooperated in the above operation by successful attacks on aerodromes at Trondjhem. One Bomber crashed on landing owing to damage caused by gun-fire. Hudsons attacked shipping at Bergen and returned safely.

June 14, 1940
8:55 a.m.

405

H.M.Jr: Harold.

Harold Graves: Yes, sir.

H.M.Jr: Senator Mead, who's really a pretty good fellow

G: Yes.

H.M.Jr: happens to be my Senator

G: Yes.

H.M.Jr: They all keep fussing about this fellow LeFevre. Now, they say that he was part and parcel of the organization that did the buying for the Post Office.

G: Yes.

H.M.Jr: And they've still got material which was bought in the days of Postmaster Brown. Now, I want you -- normally I'd tell Elmer Irey to make an investigation

G: Well, Mr. Morgenthau, we're making one now. We have -- we have assigned a special agent under Mr. Irey to investigate this and among other people he's interviewing is Senator Mead.

H.M.Jr: Good.

G: Mr. Palmer, whom perhaps you recall as one of

H.M.Jr: Is Palmer doing this?

G: Palmer is doing it.

H.M.Jr:

G: And he has been unable so far, or at least had not been able the last time I talked to him to see Senator Mead, but he's going to see him.

H.M.Jr: Now the other thing -- good, I didn't know that was going on.

- 2 -

G: Yes, sir. That's going on.

H.M.Jr: Does Sullivan know that?

G: I think he does. I'm not sure.

H.M.Jr: Well, make sure.

G: I'll tell him.

H.M.Jr: Now have you contacted Ralph Straus?

G: No, I haven't.

H.M.Jr: Well, I wish you'd arrange to see him and make sure that -- and I'm going to see him this morning, myself -- but he knows how I feel about Procurement, if somebody doesn't grab it.

G: Yes, sir.

H.M.Jr: So arrange to see him and -- I tell you what you do. Have him in your office so that I can see him at 11:30.

G: All right. I suppose I can reach him through Mr. Nelson, can't I?

H.M.Jr: Yeah, but you ought to get acquainted and give him a little of the Treasury spirit.

G: Yes, sir. Now, I'll get in touch with him and have him in your office at 11:30.

H.M.Jr: Please.

G: Yes, sir.

June 14, 1940
12:58 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton.

Cong. Robert Doughton: Hello.

H.M.Jr: Hello.

D: Hello, Henry, how are you feeling?

H.M.Jr: All right. Well, you got that bill through in record time.

D: Didn't I put it through in good shape?

H.M.Jr: What a man.

D: One thing about my Committee, I can keep them at work and keep them at work together.

H.M.Jr: That's right.

D: They don't seesaw and pull about. Well, you're doing a magnificent job. I don't much believe that they're going to write a new tax bill over in the Senate. I hardly believe we ought to get into that this hot weather. What do you think.

H.M.Jr: Oh, hell, they're just bluffing.

D: Yeah.

H.M.Jr: They're just bluffing and I wasn't going to let them bluff me.

D: (Laughs)

H.M.Jr: So I said -- they said do you stay here and you'll be ready? So I said

D: You came back at them pretty strong.

- 2 -

H.M.Jr: I said, I'm ready just as long as you are.

D: (Laughs) Yeah.

H.M.Jr: But they were just pulling a bluff.

D: Well, say, about that Rivers matter, you know.

H.M.Jr: Yeah.

D: I hated to bother you about it at all, but I finally got him cleared down there. It wasn't anything about the income tax business, they admitted down at the Bureau that he was all right about that.

H.M.Jr: Yeah.

D: Now, they offered him a job down there at \$3,000.

H.M.Jr: Yeah.

D: He's got two children -- a girl in school. I was wondering if you couldn't, without doing anything wrong, make that \$3600.

H.M.Jr: Oh, hell, Bob, he's lucky to get \$3,000.

D: I know that, if he'll take it. I know that. I know that and I don't want to put it on you. You're too good a friend and too fine a man.

H.M.Jr: Oh, I think that's enough for

D: How's that?

H.M.Jr: I think he's lucky to get \$3,000.

D: Well, why not -- couldn't you make it \$3200?

H.M.Jr: (Laughs) Oh, what a man.

D: Huh?

- 3 -

H.M.Jr: \$3200?
D: Yeah.
H.M.Jr: Sold.
D: Huh?
H.M.Jr: Sold to American Tobacco.
D: I didn't hear that.
H.M.Jr: Sold to American Tobacco
D: All right. Thank you very much.
H.M.Jr: \$3200.
D: Thank you a thousand times.
H.M.Jr: O. K.
D: All right, thank you.

June 14, 1940
1:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Norman Thompson.

H.M.Jr: Right. Norman?

Norman
Thompson: Yes, sir.

H.M.Jr: Doughton just called me up about this
Rivers matter. He said you're putting him
on at \$3,000. See?

T: Yes, sir.

H.M.Jr: He said, couldn't I make it \$3600, and I
said, no. He said, could I make it \$3200,
and I said, yes, sold to the American
Tobacco at \$3200.

T: Well, that's grand. He called me this
morning and I argued against going above
\$3,000 because

H.M.Jr: Well, \$3200

T: Yeah, \$3200 is fine. - All right, sir.

H.M.Jr: Keep him on until election and then give
him the skids.

T: Yeah, all right, fine. All right, Mr. Secretary.

TREASURY DEPARTMENT

411

INTER-OFFICE COMMUNICATION

DATE June 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The rate for the pound moved in an uncertain manner today. After opening at 3.70, the rate started to recede due to a combination of increased selling by foreign banks and reduced purchasing by commercial concerns. By mid-afternoon, the quotation had reached 3.64, the low for the day. It then started to improve on some small buying and at the close the quotation was 3.71.

Sales of spot sterling by the six reporting banks totaled £448,000, from the following sources:

By commercial concerns.....	£ 43,000
By foreign banks (Europe and South America).....	£405,000
Total.....	£448,000

Purchases of spot sterling amounted to £339,000, as indicated below:

By commercial concerns.....	£181,000
By foreign banks (Far East, South America and Europe).....	£158,000
Total.....	£339,000

The following reporting banks sold cotton bills totaling £6,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 3,000 by the Guaranty Trust Co.
2,000 by the Irving Trust Co.
<u>1,000 by the National City Bank</u>
\$ 6,000 Total

Sterling in the amount of £12,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£ 6,000 by the Bank of Manhattan (for rubber)
4,000 by the Irving Trust Co. (for jute)
<u>2,000 by the Chase National Bank (for paint)</u>
£12,000 Total

There was very little business transacted in French francs, and the rates quoted for that currency were nominal. The franc opened at .0217 and closed at .0218.

Developments in the other currencies were as follows:

The Swiss franc opened at .2243 and closed at .2242.

The Canadian dollar improved from a discount of 19-1/2% to 19%. The better rate was attributed to the demand for that currency by tourists.

The lira and reichsmark were unchanged at offered rates of .0505 and .4000 respectively.

The Cuban peso again improved. It was quoted at a discount of 9-15/16%, as against yesterday's rate of 10-5/16%.

The quotations for the Mexican peso were unchanged at .1923 bid and .2000 offered.

The yuan in China improved 1/16¢ to 6-1/8¢.

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

\$2,500,000 from Portugal, shipped by the Bank of Portugal, to be earmarked for its own account.

2,065,000 from Canada, shipped by the Bank of Canada, Ottawa, for its own account, for sale to the U. S. Assay Office.

\$4,565,000 Total

The Bombay gold price advanced the equivalent of 15¢ to \$36.31.

The Bombay spot silver quotation worked out to the equivalent of 45.41¢, up 1/4¢.

In London, the prices fixed for spot and forward silver both rose 1/16d to 23-7/16d and 21-13/16d respectively. The United States equivalents were 42.61¢ and 39.66¢.

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

There were no purchases of silver made by us today.

The Dow Jones ticker reported a news item from Rome that an official Italian decree published today authorized the Government to call in five-lira silver pieces and to issue paper bills in their place.

CONFIDENTIAL

B.M.P.

C O P Y

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June 14, 1940

MEMORANDUM TO: Mr. D. W. Bell,
Under Secretary of the Treasury.

Referring to the recently reported sale to the Bank of America by the Reconstruction Finance Corporation of \$20,088,000 Metropolitan Water District of Southern California Colorado River Water Bonds, an opinion rendered by our legal staff holds the bonds to be general obligations of a political subdivision and to be supported by the general taxing power possessed by the district within its territorial boundaries. Taxing power is, of course, in addition to the revenues to be derived from the project. The bonds are, therefore, considered to be exempt from the 10% of capital and surplus restriction imposed by Section 5136, U.S.R.S.

The Reconstruction Finance Corporation previously has sold approximately \$150,000,000 of these bonds to various underwriters, who in turn have distributed them to the public. These distributed bonds currently are selling in the New York market on a 3% to 3½% yield basis. They are rated "A" by Moody, and to all appearances constitute a satisfactory investment medium.

Preston Delano

June 13, 1940

MEMORANDUM TO MR. REED DOLAN:

Re: Bonds Issued Pursuant to the Metropolitan Water District Act of the State of California.

This is in response to your request for our opinion upon the status under Section 5136 of Rev. Stat. of 1873, as amended (U.S.C. title 12, sect. 24), of bonds issued by a metropolitan water district organized and operating under the Metropolitan Water District Act, as amended, of the State of California.

In our opinion a metropolitan water district organized and existing under this Act is a political subdivision of the State of California. Such district is empowered to levy general property taxes if necessary to provide for payment of the principal of, and interest on, its outstanding bonds. All bonds issued by such district constitute general obligations thereof, and are supported by the general taxing power possessed by the district within its territorial boundaries.

D. B. HEXTER /s/
Assistant Counsel

June 14, 1940.
3:45 p.m.

GROUP MEETING

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

H.M.Jr: You got my message not to miss your plane on account of this meeting?

Nelson: It doesn't leave until 5:30, sir. Thank you very much. That was very considerate. Did you know that Dr. Lubin is going over as Sir Sidney's representative?

H.M.Jr: No, I didn't. He is a good man.

This is going to be mostly a one way conversation. Firstly, I want to thank everybody for all the help they have given me the last couple of weeks, which has made it possible for me to carry out this special mission of the President's, namely, not to give the Allies any possible excuse to say that the United States isn't giving them everything they want, and you can see from what's his name's - Paul Reynaud's message last night, it looks as though he was looking for an excuse to lay down. But if he does, I want you to be sure to keep a written record of everything we do so we will have a written record. I realize I have seen very little of you and I realize sometimes

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I have been a little edgy, but I have been doing about three men's work, but thanks for the splendid cooperation I have had from everybody. I think I have been doing what the President wants and I just want to take this chance and say thank you.

Now, to show that I don't let my boys down - this is for Sullivan and Mr. Foley and Mr. Thompson - I want you to get over into the hands of the Chief Clerk, Forster, tonight, a memorandum because Mr. Hopkins evidently heard of a case where a fellow had been around town for three days looking for a contract with the Navy and the Navy gave him a present of \$80,000 to go into building, and the President went through the ceiling, so when they got through I started to speak up and Edison got very ugly and he said, "Secretary Morgenthau has never understood this thing and he never will understand it." I said, "The trouble is, I understand it too well, Mr. Edison," so I said, "You know, Mr. President, you told the Navy you wanted the thing to continue, as far as profits are concerned, to go through the Treasury," and I said, "It does, and it does not go through the Navy. The Navy got this little thing through, although you told them not to." So then Bob Jackson spoke up and said, "The taxing powers and regulation of taxing powers are entirely within the Treasury," so the President said to me in a stage whisper, he said, "Henry, I want you to prepare a memorandum for me to sign to the Secretary of the Navy directing him that all contracts go through the Treasury pertaining to Vinson-Trammell or anything else that has taxation in it." Mr. Sullivan, I made good.

Sullivan: I'll say you did.

H.M.Jr: All right. Get it over tonight yet. I don't have to see it. You two fellows

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cooperate and get it to Norman and get it into Forster's hands tonight. Edison is so sore that he wouldn't even say - well, he was just furious. He got so ugly about it, he said, "Well, why do I have to do these things? Why this Vinson-Trammell and the Walsh-Healey and the Wages and Hours?" He said, "How can I get anything done?" He got so mad he spilled the whole beans.

Sullivan: He may feel worse next week, because there is a fight going on on the Hill now, and it looks as though they are going to bring all Army and Navy contracts under Vinson-Trammell and lower it 7%.

H.M.Jr: Well, anyway, I wanted you fellows to know about this thing and it is in your hands, and please get it over with tonight.

(Mr. Bell entered the conference.)

H.M.Jr: Mr. Bell didn't hear my little speech. Will you (Thompson) repeat to Bell what I said?

Thompson: Yes.

H.M.Jr: And you (Klotz) make a note this is not for Captain - the only other thing, you tell Bell - the only other thing is this: I think Harold Iokes wanted to know if we were still sending money orders to Italy. I said I thought we were sending money orders to all belligerents. I asked Jim Farley and he says, "Well, you opened my mail sacks." Now, this was a nice Cabinet meeting.

White: Only on the incoming mail, not the outgoing.

H.M.Jr: I said to Mr. Hull - he says, "I don't know anything about it." I said, "Yes you do. We don't do anything on the stuff going out, only on the incoming stuff." He said, "As far as I know, you don't."

Foley: Mr. Secretary, we are not doing anything about Italy, because Italy isn't in the freeze.

We might be able to do something about those money orders if --

White: No.

H.M.Jr: Supposing if they wanted to send money to Germany or --

White: They can. Nobody is stopping them.

Foley: They can now. I say if we put it on the German --

White: But they are not going to let us. The State Department disapproved.

H.M.Jr: Mr. Hull sat there and acted as if he knew nothing about it.

Foley: That is the thing we wanted to take care of.

H.M.Jr: He also said this is the Treasury's business. I said, "Why, Cordell, you know about this."

White: Not only does he know about it, but they just disapproved of our recommendation that it be done. I asked Berle specifically, "Is this your opinion you are giving or is it Secretary Hull's?" and he said, "Secretary Hull has been in on it and it is the State Department opinion."

H.M.Jr: Jim Farley's attitude was I opened the mail sacks so he has nothing to do with it. I asked Cordell what about this thing and he said, "I don't know anything about it." I am repeating verbatim. This is all in the family. So inasmuch as he doesn't know anything about it and Jim Farley doesn't care, will you fix me up something, Bell, and Monday we will fix up something - I am thinking awfully fast. We will stop all money orders, possibly to everybody, and then let the Allies open up a branch post office here and we will let them go through them or something like that, but seriously, why don't the English have a post office here and accept money orders to go across?

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White: That is the exchange control that we want to impose.

H.M.Jr: Well anyway, it is perfectly silly to let them continue to send money out of here.

White: That is the very thing, --

Foley: That is why we said there ought to be a general freeze.

H.M.Jr: How about me, what did I say?

White: You agreed with it, to begin with.

H.M.Jr: I stuck by it.

Foley: That is right.

H.M.Jr: What I said was - the hysterical remark I made was, I wasn't going to plug one hole in the sieve.

White: Yes, yes.

H.M.Jr: Did you make a signal to him?

Klotz: No, I didn't do a thing, did I, Harry?

H.M.Jr: I believe you. Well all right, I am leaving. Thank you all again for all the help.

Bell: Let me make this statement. French and British financial attaches were just in and Merle Cochran dumped them on my doorstep and then ran in here, and they raised this same question, particularly about Germany and I told them I thought it was a diplomatic matter and they ought to take it up with the Secretary of State.

H.M.Jr: Listen, Dan, I agree with you, but it is up to us to do something. They have kicked this thing around for two weeks and Jim Farley and Hull are sore because I said it has been going around for two weeks. I said, "Now, you fellows make up your minds in 24 hours or I will do it on the mail sacks," and I did it, didn't I, and the

same thing on this thing. Let me clear it with the President on Monday. You fellows get together, and I will say, "Mr. President, this is what you want and let's start with money orders," and if he says, "Okay," we will give these other birds 24 hours to say yes or no.

- Bell: I wouldn't start with the money orders.
- White: You can't do money orders unless you do it all.
- Bell: That is right.
- H.H.Jr: Well, happy week end. And don't you (Youn.) raise your hand. One thing, this is interesting to everybody. I don't know about this, but Harry Hopkins said the 93 planes were in upper Maine, Houlton. They couldn't go across because the planes are too wide and the telegraph poles are in the way and they wanted - they wanted, as a WPA project, to pull the things down and he said it wasn't legal. I said, "Why don't you saw them down and let them sue afterward?"
- Young: It is worse than that. The field is un-serviceable and a large number of the 90 planes that are bogged down there now haven't budged.
- H.H.Jr: God Almighty, why did they send them there? It is just crazy.