PSF Treas. Dept. Henry Morgenthau May-June 1940

Came to file May 1, 1940.

PSF

THE SECRETARY OF THE TREASURY

WASHINGTON

~~STRICTLY CONFIDENTIAL~~

file

Dear Mr. President:

Under date of April 26, 1940, Mr. Pinsent, Financial Counselor of the British Embassy, has provided me with the following estimates of United Kingdom purchases of foodstuffs in the United States during the first year of war:

	"Million £ (f.o.b. values)
Maize	1.90
Other cereals	.77
Bacon and ham	1.32
Other meat	1.05
Lard, olco-oil	1.13
Canned salmon	.92
Apples and pears	.80
Canned fruit	3.45
Dried fruit	.88
Other foods	3.14
Maize starch (mainly industrial)	1.02
	16.38"

The above figures revise earlier estimates, made on February 22, 1940, which were as follows:

"Cereals and cereal products	3.5
Hog products	2.5
Fruit	4.5
Canned salmon	1.5
Other	1.0
	13.0"

Sincerely yours,

H. Morgenthau Jr.

Secretary of the Treasury.

The President,

The White House.

PSF Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

file confidential

May 8, 1940

My dear Mr. President:

I am inclosing herewith, for your confidential information, the latest report on orders, deliveries and unfilled orders for airplanes and airplane engines of the Allied Purchasing Commission.

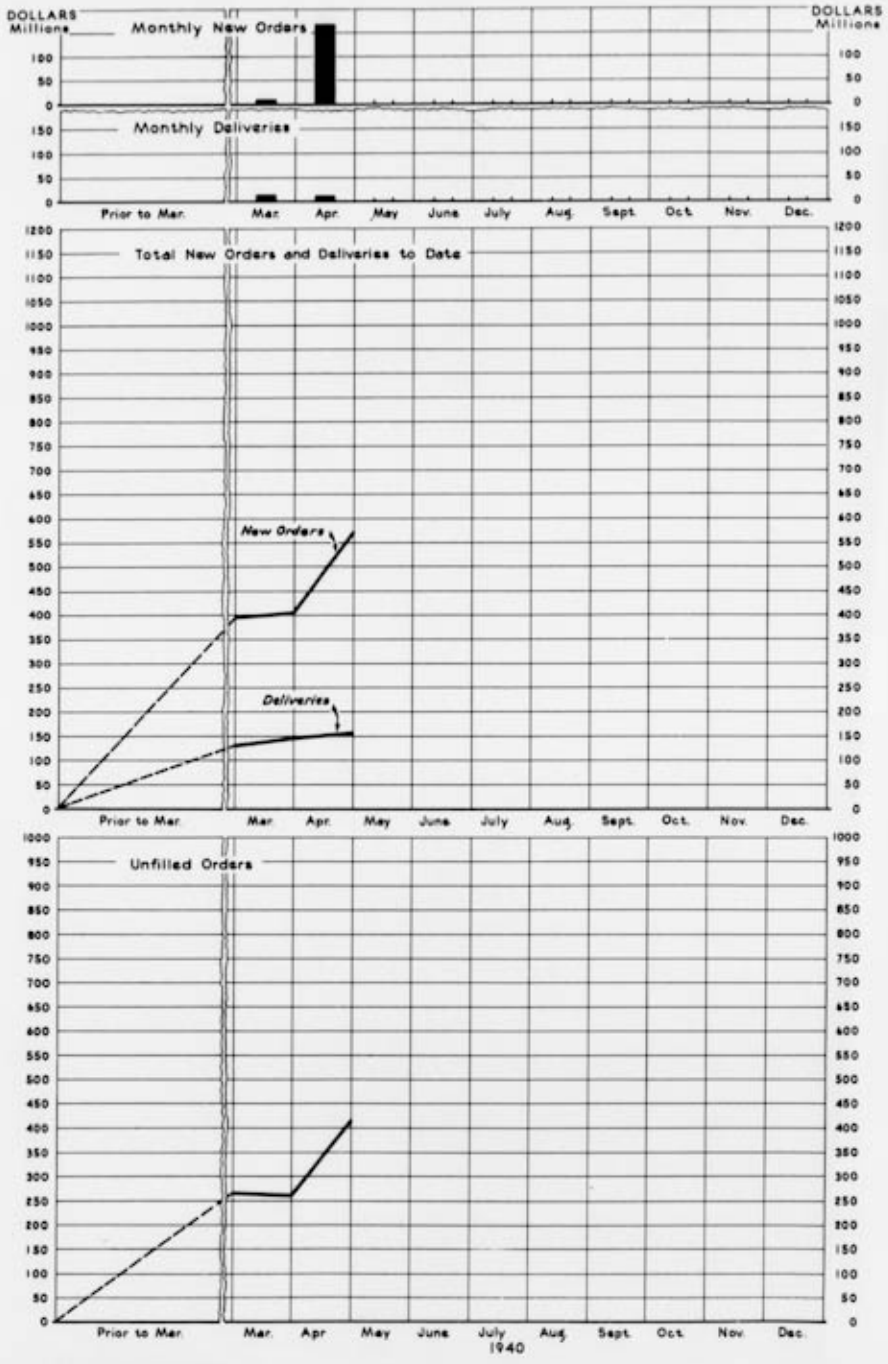
Yours sincerely,

H. Morgenthau Jr.

The President,

The White House.

VALUE OF AIRPLANES AND AIRPLANE ENGINES PURCHASED BY ENGLAND AND FRANCE



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

I-106

Estimated Value of Airplanes and Airplane Engines
Purchased by England and France

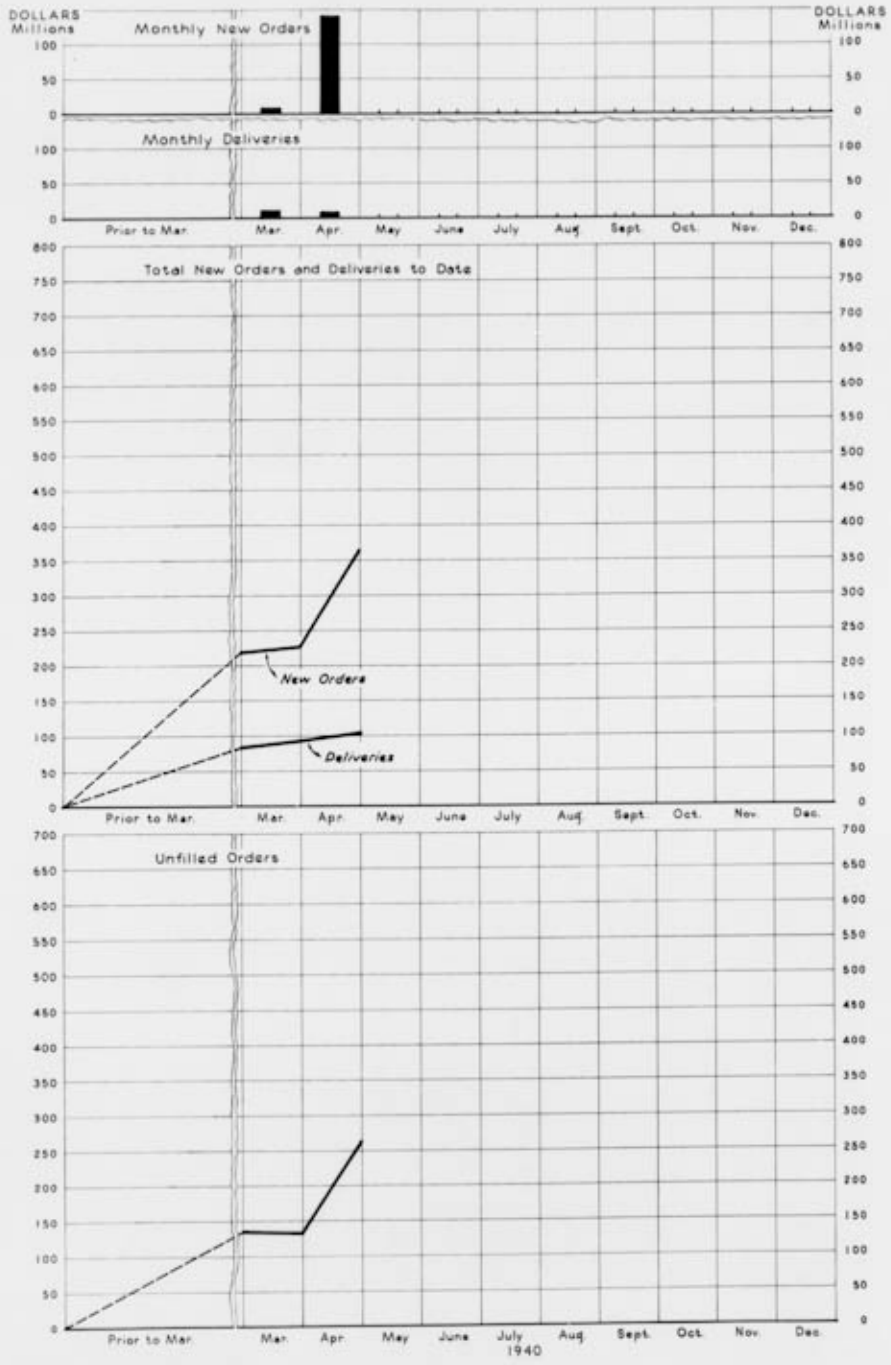
(In millions of dollars)

1940	Feb.	Mar.	April	May	June	July
Monthly New Orders:						
England		4.4	23.3			
France		5.1	37.3			
Joint		-	106.6			
Total		9.5	167.2			
Monthly Deliveries:						
England		2.9	3.6			
France		11.7	8.9			
Joint		-	-			
Total		14.6	12.5			
Total New Orders to Date:						
England	137.7	142.1	165.4			
France	258.5	263.6	300.9			
Joint	-	-	106.6			
Total	396.2	405.7	572.9			
Total Deliveries to Date:						
England	48.7	51.6	55.2			
France	81.8	93.5	102.4			
Joint	-	-	-			
Total	130.5	145.1	157.6			
Unfilled Orders:						
England	89.0	90.5	110.2			
France	176.7	170.1	198.5			
Joint	-	-	106.6			
Total	265.7	260.6	415.3			

Treasury Department, Division of Research and Statistics, May 6, 1940.

[redacted]

VALUE OF AIRPLANES PURCHASED BY ENGLAND AND FRANCE



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

1-107

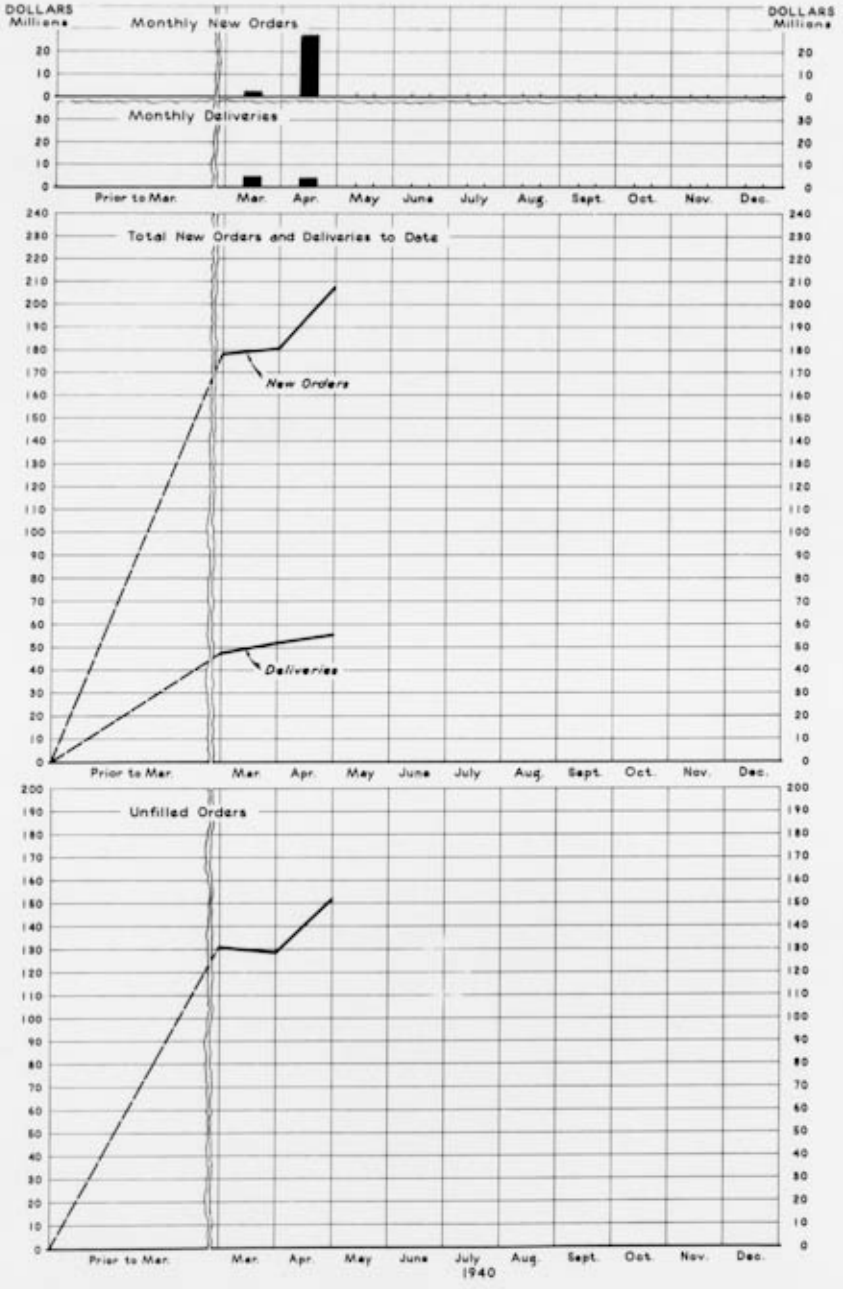
Estimated Value of Airplanes Purchased by England and France

(In millions of dollars)

1940	Feb.	Mar.	April	May	June	July
Monthly New Orders:						
England		3.0	22.7			
France		4.2	10.9			
Joint		-	106.6			
Total		7.2	140.2			
Monthly Deliveries:						
England		1.9	2.6			
France		8.3	6.1			
Joint		-	-			
Total		10.2	8.7			
Total New Orders to Date:						
England	91.6	94.6	117.3			
France	126.5	130.7	141.6			
Joint	-	-	106.6			
Total	218.1	225.3	365.5			
Total Deliveries to Date:						
England	33.5	35.4	38.0			
France	49.6	57.9	64.0			
Joint	-	-	-			
Total	83.1	93.3	102.0			
Unfilled Orders:						
England	58.1	59.2	79.3			
France	76.9	72.8	77.6			
Joint	-	-	106.6			
Total	135.0	132.0	263.5			

Treasury Department, Division of Research and Statistics, May 6, 1940.

VALUE OF AIRPLANE ENGINES PURCHASED BY ENGLAND AND FRANCE



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

I-108

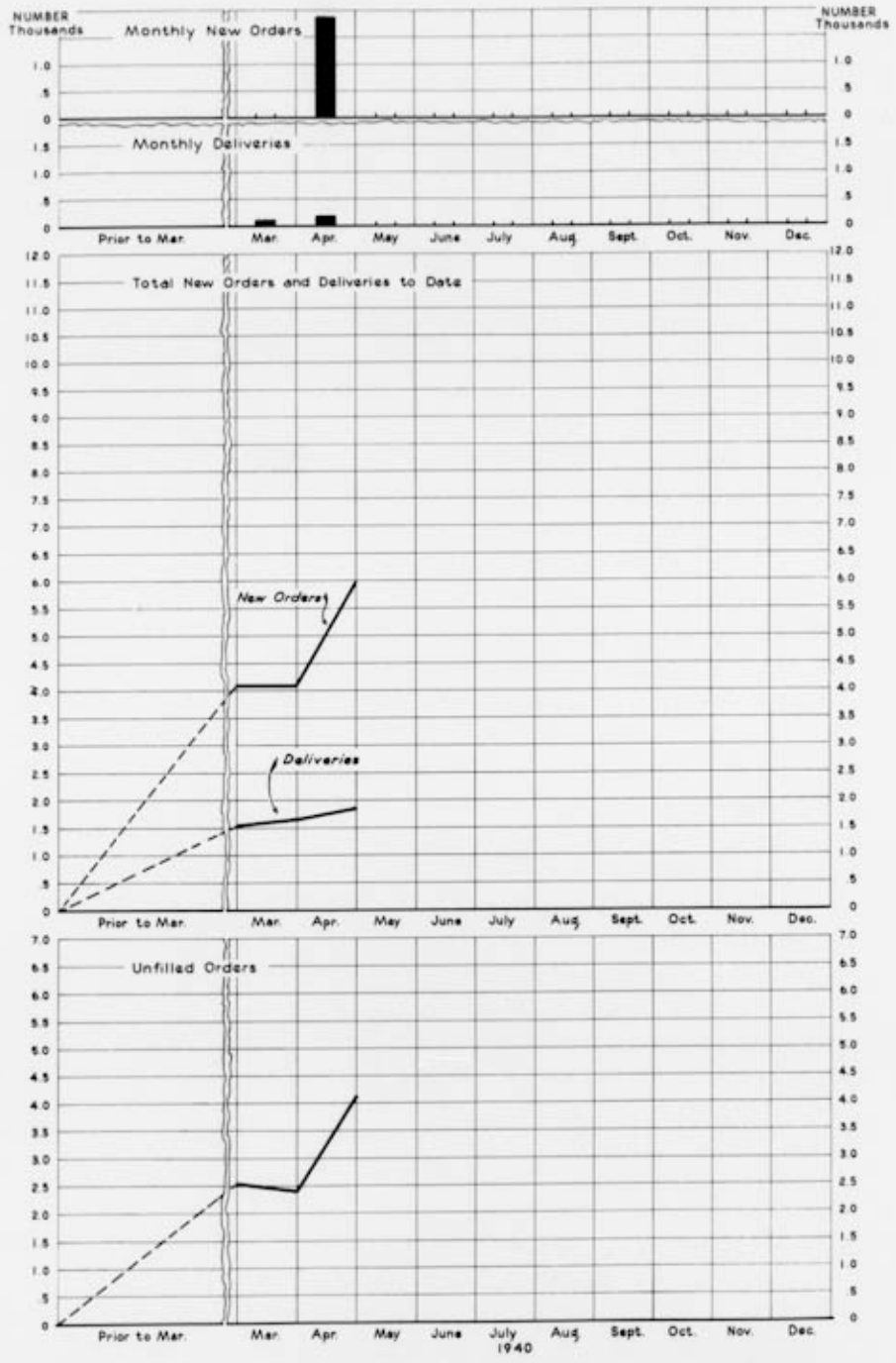
Estimated Value of Airplane Engines Purchased
by England and France

(In millions of dollars)

1940	Feb.	Mar.	April	May	June	July
Monthly New Orders:						
England		1.4	.6			
France		.9	26.4			
Joint		-	-			
Total		2.3	27.0			
Monthly Deliveries:						
England		1.0	1.0			
France		3.4	2.8			
Joint		-	-			
Total		4.4	3.8			
Total New Orders to Date:						
England	46.1	47.5	48.1			
France	132.0	132.9	159.3			
Joint	-	-	-			
Total	178.1	180.4	207.4			
Total Deliveries to Date:						
England	15.2	16.2	17.2			
France	32.2	35.6	38.4			
Joint	-	-	-			
Total	47.4	51.8	55.6			
Unfilled Orders:						
England	30.9	31.3	30.9			
France	99.8	97.3	120.9			
Joint	-	-	-			
Total	130.7	128.6	151.8			

Treasury Department, Division of Research and Statistics, May 6, 1940.

NUMBER OF AIRPLANES PURCHASED BY ENGLAND AND FRANCE



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

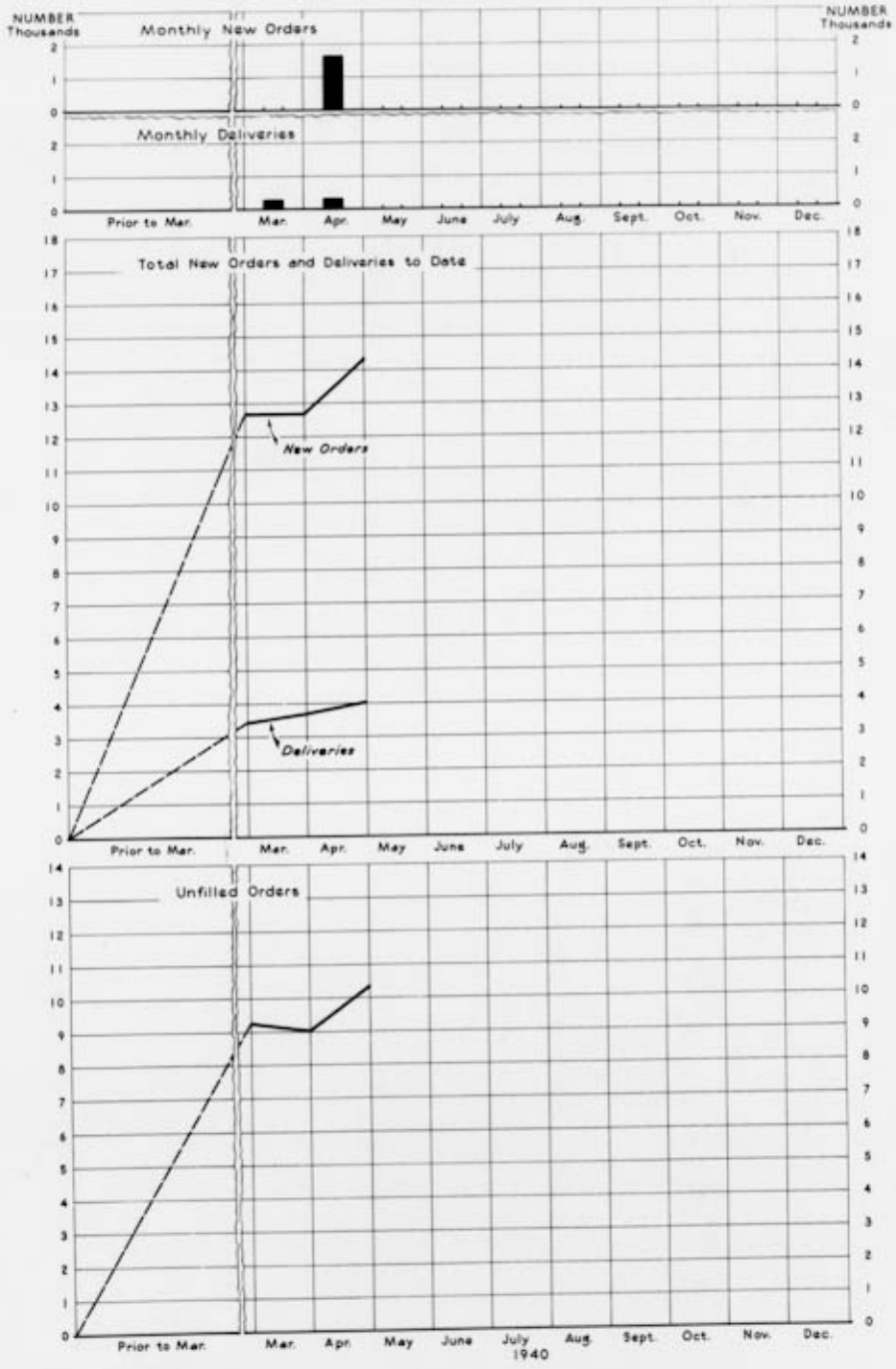
1-109

Number of Airplanes Purchased by England and France

1940	Feb.	Mar.	April	May	June	July
Monthly New Orders:						
England		-	204			
France		-	81			
Joint		-	1,600			
Total		-	1,885			
Monthly Deliveries:						
England		16	29			
France		104	160			
Joint		-	-			
Total		120	189			
Total New Orders to Date:						
England	2,050	2,050	2,254			
France	2,025	2,025	2,106			
Joint	-	-	1,600			
Total	4,075	4,075	5,960			
Total Deliveries to Date:						
England	750	766	795			
France	794	898	1,058			
Joint	-	-	-			
Total	1,544	1,664	1,853			
Unfilled Orders:						
England	1,300	1,284	1,459			
France	1,231	1,127	1,048			
Joint	-	-	1,600			
Total	2,531	2,411	4,107			

Treasury Department, Division of Research and Statistics, May 6, 1940.

NUMBER OF AIRPLANE ENGINES PURCHASED BY ENGLAND AND FRANCE



Number of Airplane Engines Purchased by England and France

1940	Feb.	Mar.	April	May	June	July
Monthly New Orders:						
England		-	48			
France		-	1,612			
Joint		-	-			
Total		-	1,660			
Monthly Deliveries:						
England		41	67			
France		213	268			
Joint		-	-			
Total		254	335			
Total New Orders to Date:						
England	3,893	3,893	3,941			
France	8,783	8,788	10,400			
Joint	-	-	-			
Total	12,681	12,681	14,341			
Total Deliveries to Date:						
England	1,284	1,325	1,392			
France	2,140	2,353	2,621			
Joint	-	-	-			
Total	3,424	3,678	4,013			
Unfilled Orders:						
England	2,609	2,568	2,549			
France	6,648	6,435	7,779			
Joint	-	-	-			
Total	9,257	9,003	10,328			

Treasury Department, Division of Research and Statistics, May 6, 1940.

PSF

~~STRICTLY CONFIDENTIAL~~

THE SECRETARY OF THE TREASURY

WASHINGTON

file

May 9, 1940

My dear Mr. President:

Through strictly confidential sources, I have learned that the Russian Government has stopped exporting copper from this country, for the time being, and has negotiated a loan with the Chase Bank for $2,000,000 for two months, putting up as collateral 10,000 tons of copper that they hold in the United States.

Yours sincerely,

H. Morgenthau Jr.

The President,

The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

file personal - PSF

DATE May 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Subject: Belgian, Dutch and Luxembourg assets in United States

The latest available estimates of Belgian, Dutch and Luxembourg assets in the United States are as follows (in millions of dollars):

	Belgium	Netherlands	Luxembourg
Long-term investments			
Direct	$ 71.0	$ 179.0	
Portfolio: Stocks	35.0	437.0	*
" : Bonds	7.0	207.0	
Others	8.0	8.0	
Short-term investments			
Balances: Official	2.9	10.9	-
" : Private	180.8	195.5	$ 20.3
Gold under earmark	173.1	348.9	-
Total	$477.8	$1,386.3	$ 20.3

*Long-term investment figures for Luxembourg are not available.

H. M. J.

Estimated United States' Claims Against
and Investments In
Belgium and Netherlands

(In millions of dollars)

	Belgium	Netherlands
Banking Funds (as of 4/24/40)	$ 8	$ 5
Portfolio Investments (as of 12/31/39)	30	-
Direct Investments (as of 12/31/36)	35	19
Total of known items	$ 73	$ 24
War Debt (1/31/40)	$458	-

Treasury Department, Division of Monetary Research.

May 10, 1940.

File PSF
Personal
Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

May 10, 1940.

MEMORANDUM FOR THE PRESIDENT:

Annexed is an Executive Order and Regulations which amend the outstanding Executive Order and Regulations relating to Danish and Norwegian property so as to apply the same control to Dutch, Belgian and Luxembourg property in this country. This control, of course, also applies to the property in this country belonging to the territories and possessions of the aforementioned countries.

The documents have been cleared with the Attorney General.

H Morgenthau Jr.

(Signed 7.55 a.m. E.S.T.
FDR)

PSF: Morgenthau

file

THE SECRETARY OF THE TREASURY
WASHINGTON

May 15, 1940

My dear Mr. President:

In view of my experience with the Army during the last couple of days, I am taking the liberty of making a suggestion.

Let General Marshall, and only General Marshall, do all the testifying in connection with the Bill which you are about to send up for additional appropriations for the Army.

Yours sincerely,

H Morgenthau Jr.

The President,

The White House.

~~Confidential~~

BF
Morg.

THE SECRETARY OF THE TREASURY
WASHINGTON

file personal & confidential

May 15, 1940

My dear Mr. President:

I am sending you, in strictest confidence, a review of the Bowman Elder case.

You will note that he has paid us approximately $84,000 in settlement of his tax delinquencies.

Yours sincerely,

H. Morgenthau Jr.

The President,
The White House.

~~Confidential~~

~~STRICTLY CONFIDENTIAL~~

MEMORANDUM

In re: Bowman Elder,
Indianapolis, Indiana.

Proposed Liabilities as shown by thirty-day letter:

Additional Taxes	$156,937.22
Fraud Penalties	78,468.63
Interest (approximate)	16,000.00
Total	$251,405.85

Agreed Liabilities as the result of conferences:

Additional Taxes	$74,921.02
Fraud Penalties	none
Interest	8,860.60
Total	$83,781.62

The additional taxes proposed for assessment in the thirty-day letter were based upon the inclusion in income of the following items:

1. Funds totaling $126,789.52 collected ostensibly for the Hoosier Democratic Club as a "Slush Fund" from various holders of permits from the State of Indiana which amounts were not entered on the books of the club nor accounted for by the club in any manner. Elder admitted the receipt of such amounts but could not or would not state what disposition he had made of the money other than it had been spent "for the general good of the Democratic Party."

2. A total of $117,500.00 withdrawn from the club by means of false entries indicating that the amounts in question had been paid to the Democratic State Central Committee. The checks in payment of such amounts were endorsed by the Treasurer of the Committee and such checks or the proceeds of them were turned over to Elder who admits the receipts of such amounts. His explanation of these items is the same as his explanation of the items covered in the preceeding paragraph.

3. Items totaling $125,000.00 during the years 1936, 1937 and 1938 representing the best estimate of funds collected by Elder for the "Slush Fund" under the same circumstances as under labove except that he did not admit them nor are they suceptible of proof. In other words, Elder admitted that the collections for the "Slush Fund" were $125,000.00,

and it was thought that the actual collections were probably twice as much as he admitted. The amount of $125,000.00 was included to cover such amounts as he had collected but not admitted.

As the result of the conferences, the third item above has been eliminated because it could not be established by proof acceptable to the Board of Tax Appeals or the courts.

The fraud penalty has been eliminated because the Bureau was unable to prove that Elder used any of the funds in question for his personal benefit. Without such proof, the Government was placed in the position of having to sustain the assertion of the fraud penalties on the ground that Elder had failed and refused to explain the disposition made by him of the money coming into his hands. Under such circumstances the prospects of success in the assertion of the penalties were quite remote.

Assessment of additional taxes for the years prior to 1936 was barred unless fraud could be established, and for the reasons given above the Government could not prevail on the fraud issue; consequently, the additional taxes totaling $9,006.88 for the years prior to 1936 have been eliminated.

PSF: Morgenthau
File
Personal
Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

9 P.M.

May 15, 1940.

My dear Mr. President:

As a result of your telephone conversation to Mr. Purvis he and I have been meeting this evening with Mr. Hinckley, Chairman of Civil Aeronautics, and Mr. Hinckley has outlined to us what the air transport plane situation is and what the private plane situation is and I am enclosing herewith a memorandum which has been dictated by Mr. Hinckley.

Faithfully,

H. Morgenthau Jr

The President,
The White House.

Enclosure.

MEMORANDUM

The air transport lines of our country at the present time are operating approximately 300 planes. About two thirds of these planes are of the Douglas DC-3 type. The balance is made up of Lockheeds and the old Boeing 247 D's.

Every air transport operator in the country today has unfilled orders ~~of~~ with manufacturers for additional equipment in order to meet the present traffic needs. If all of these 300 transport planes were taken out of use it would stop immediately all air transportation in this country. It is questionable how valuable they would be in the present emergency.

In the private plane field, there are from 50 to 75 private planes principally of the Lockheed type, owned and operated in the main by oil companies. These planes are the ten passenger type. These as well as the air transport planes would be useful only for transport purposes. In addition to this number of planes in the private fields that could be used for transport purposes there are probably an additional 50 planes grouped generally as Beachcraft, Vultees, Grumman and Stinsons that have a passenger capacity of from two to six passengers, none of them with enough speed to be of any military value and of such general characteristics that the hazard to the manpower that would be necessary to operate them would be too great to give them any serious consideration.

The air transport operators that have orders with manufacturers that are not now delivered might be prevailed upon to waive these deliveries, if these planes would be of any great value at this time.

As an estimate, there will be delivered to air transport operators within the next 90 days 30 to 40 Douglas DC-3's and other types of Lockheeds.

Robert A. Hinckley

PSF: Morgenthau 1

May 20, 1940.

MEMORANDUM FOR SECRETARY OF TREASURY FROM THE PRESIDENT
For his information and return for our appt file.

Encloses conf memo from Jerome Frank of May 18, 1940 suggesting Floyd Odlum for some important position--mentions Nat'l Power Policy Committee as a good place for him.

See:Appointment folder-Drawer 2-1940

PSF: Morgenthau / Morgenthau 1.

THE WHITE HOUSE
WASHINGTON

May 21, 1940.

MEMORANDUM FOR

SECRETARY MORGENTHAU:

To speak to me about.

F.D.R.

Dispatch received from Kennedy dated May 21 to Secretary of State. Gives a summary of what "we should not do in our rearmament program if we want to avoid the mistakes which I have seen the British make. Lists five suggestions"

FDR/dj

PSF
Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

May 25, 1940

My dear Mr. President:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Faithfully yours,

H. Morgenthau Jr.

The President,
The White House.

~~STRICTLY CONFIDENTIAL~~

Number of Airplanes Ordered by the British and French Governments from May 16 to May 22, 1940, Classified by Manufacturer and by Type of Plane

Glenn L. Martin Co.	
Martin 187 reconnaissance bomber	480
Douglas Aircraft	
DB7B 2-engine bomber	275
Boeing Airplane Co.	
DB7B bomber	275
Lockheed Aircraft Corp.	
P38 pursuit	800
Total All Companies	1,830

Treasury Department, Division of Research and Statistics.
May 23, 1940.

Source: Anglo-French Purchasing Board.

STRICTLY CONFIDENTIAL

Number of Airplanes Delivered to the British and French Governments from May 16 to May 22, 1940, Classified by Manufacturer and by Type of Plane

Glenn L. Martin Co.	
167F 2-engine bomber	12
Curtiss-Wright Corp.	
Hawk 75A5 pursuit	23
North American Aviation	
NA64 basic trainer	12
Douglas Aircraft	
DB7 2-engine bomber	10
Lockheed Aircraft Corp.	
H14 2-engine reconnaissance bomber	2
Total All Companies	59

Treasury Department, Division of Research and Statistics.
May 23, 1940.

Source: Anglo-French Purchasing Board.

~~STRICTLY CONFIDENTIAL~~

Number of Airplane Engines Ordered by the British and French Governments from May 16 to May 22, 1940, Classified by Manufacturer and by Type of Engine

Wright Aeronautical Corp.	
GR2600 (1700 h.p.)	1,824
Allison	
V1710-C15 (840 h.p.)	2,288
V1710-E4 (840 h.p.)	206
V1710-F3R (840 h.p.)	875
Total Allison	3,369
Total All Companies	5,193

Treasury Department, Division of Research and Statistics.
May 23, 1940.

Source: Anglo-French Purchasing Board.

STRICTLY CONFIDENTIAL

Number of Airplane Engines Delivered to the British and French Governments from May 16 to May 22, 1940, Classified by Manufacturer and by Type of Engine

Pratt & Whitney		
R985 - SB4G	(825 h.p.)	24
R1830-SC3G	(1050 h.p.)	5
R1830-S3C4G	(1200 h.p.)	9
R1830-S1C1G	(1200 h.p.)	2
Total Pratt & Whitney		40
Wright Aeronautical Corp.		
GR1820-G102A	(1200 h.p.)	4
GR1820-G205A	(1200 h.p.)	33
GR2600	(1700 h.p.)	12
Total Wright Aeronautical Corp.		49
Total All Companies		89

Treasury Department, Division of Research and Statistics.
May 23, 1940.

Source: Anglo-French Purchasing Board.

Scheduled Deliveries, by Months, of Airplane Orders of British and French Governments
Classified by Manufacturer and by Type of Plane, May 22, 1940

STRICTLY CONFIDENTIAL

Manufacturer and type of plane	Total unfilled orders as of May 22	Adjustments from prior months: Behind schedule as of May 22 (to be added to future scheduled deliveries)	Adjustments from prior months: Ahead of schedule as of May 22 (to be deducted from future scheduled deliveries)	Scheduled deliveries for future months: May 23 to May 31*	1940: June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1941: Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Glenn L. Martin Co.																							
167F 2-engine bomber	67	74		13																			
Martin 187 reconnaissance bomber	480											1	13	44	53	57	63	44	55	55	55	40	
Total Glenn L. Martin Co.	547	74		13								1	13	44	53	57	63	44	55	55	55	40	
Curtiss-Wright Corp.																							
Hawk 75A4 pursuit	20				20																		
Hawk 75A5 pursuit	187		56	8	69	54	44	33	15	4	16				43	50							
Hawk 81A pursuit	700					14	37	55	81	82	98	88	88	64	18	44	53	71	72	73	29		
Hawk 86A pursuit	360																						
Total Curtiss-Wright Corp.	1,267		56	8	89	68	81	88	96	86	114	88	88	64	61	94	53	71	72	73	29		
North American Aviation																							
NA64 basic trainer	129		41	10	40	40	50		30														
NA66 basic trainer	690	1			3	7	27	55	55	55	55	66	66	66	66	66	72	30					
Total North American Aviation	819	1	41	10	43	47	77	55	85	55	55	66	66	66	66	66	72	30					
Douglas Aircraft																							
DB7 2-engine bomber	142	24		8	40	40	30																
DB7A 2-engine bomber	100				1	5	10	15	20	24	25												
DB7B 2-engine bomber	635								2	4	7	9	44	56	67	73	84	87	90	44	68		
Total Douglas Aircraft	877	24		8	41	45	40	15	22	28	32	9	44	56	67	73	84	87	90	44	68		
Boeing Airplane Co.																							
B17B bomber	275													6	12	18	35	45	51	52	56		
United Aircraft Corp.																							
V156 Chance Vought bomber	50								3	7	11	12	12	5									
Consolidated Aircraft																							
28-5BE 2-engine bomber	60								1	2	1	4	3	5	5	4	4	4	6	5	6	5	5
28-5BF 2-engine bomber	40								1	2	3	4	5	5	5	5	5	5					
28-30 4-engine bomber	60													1	3	7	12	12	12	13			
Total Consolidated Aircraft	160								2	4	4	8	8	11	13	16	21	21	18	18	6	5	5
Grumman Aircraft																							
G36B navy fighter	81						50	20	11														
Brewster Aeronautical Corp.																							
Pursuit	168							12	17	24	24	24	31	36									
Bell Aircraft Corp.																							
P39 Airacobra pursuit	200									1	2	6	10	13	16	22	27	28	30	28	17		
Lockheed Aircraft Corp.																							
12 2-engine reconnaissance bomber	240																						
14 2-engine reconnaissance bomber	76	7		7	22	24	6	10		3	9	13	22	34	43	46	44	20					
14 102A 2-engine reconnaissance bomber	24						20	4															
14 205A 2-engine reconnaissance bomber	96						11	16	17	16	17	11	8										
P38 pursuit	800									20	21	50	60	70	73	100	100	100	100	100			
Total Lockheed Aircraft Corp.	1,716	7		7	22	24	37	30	17	39	47	74	90	104	116	146	144	120	100	100			
Total All Companies	5,700	106	97	46	195	184	285	220	253	244	283	288	362	405	416	432	439	446	416	370	231	45	5

Treasury Department, Division of Research and Statistics.

May 23, 1940.

Source: Anglo-French Purchasing Board.

STRICTLY CONFIDENTIAL

* Represents one quarter of scheduled deliveries for May.

Scheduled Deliveries, by Months, of Airplane Engine Orders of British and French Governments
Classified by Manufacturer and by Type of Engine, May 22, 1940

STRICTLY CONFIDENTIAL

Manufacturer and type of engine	Total unfilled orders as of May 22	Adjustments from prior months: Behind schedule as of May 22 (to be added to future scheduled deliveries)	Adjustments from prior months: Ahead of schedule as of May 22 (to be deducted from future scheduled deliveries)	Scheduled deliveries for future months: May 23 to May 31*	1940 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1941 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Pratt & Whitney																							
R795-E3 (450 h.p.)	57	17		5	5	5	10	5	5	5													
R985-SB2 (450 h.p.)	2	2																					
R1340-S1H1G (600 h.p.)	2				1		1																
R1340-S3H1 (600 h.p.)	862	1			3	7	27	55	55	55	55	72	78	77	78	77	83	82	57				
R985-SB4G (825 h.p.)	857		48	2	125	125	120	128	131	137	115	15	7										
R1830-S1C3 (1050 h.p.)	4				4																		
R1830-S3C3 (1050 h.p.)	32		31	6	25	32																	
R1830-S1C3G (1200 h.p.)	234				2	4	6	2	10	24	24	28	16	10	12	11	11	11	12	12	14	12	13
R1830-S3C4G (1200 h.p.)	3,003	331		64	258	261	259	261	243	207	275	220	237	250	137								
R2800-S1A4G (1850 h.p.)	906														75	166	166	167	167	167			
Total Pratt & Whitney	5,961	351	79	77	423	434	423	451	444	428	469	335	338	337	302	254	260	260	236	179	14	12	13
Wright Aeronautical Corp.																							
GR1820-G102A (1200 h.p.)	251	32		16	53	59	55	36															
GR1820-G105A (1200 h.p.)	192							12	17	24	24	24	39	52									
GR1820-G200 (1200 h.p.)	1,133												22	88	154	165	176	176	176	176			
GR1820-G205A (1200 h.p.)	1,003		11	17	98	88	117	120	117	110	147	100	100										
GR2600 (1700 h.p.)	3,194	21		15	194	180	190	200	200	200	200	10	30	150	240	270	250	250	260	260	104		
R2600A (1700 h.p.)	297													33	44	44	44	44	44	44			
GR2600-A5B (1700 h.p.)	583						22	30	50	80	101	150	150										
Total Wright Aeronautical Corp.	6,653	53	11	48	345	327	384	398	384	414	472	284	341	323	438	479	470	470	480	480	104		
Allison																							
V1710-C15 (840 h.p.)	3,103	7		2	9	51	73	148	280	270	320	325	333	333	306	276	258	112					
V1710-C4 (840 h.p.)	206							1	3	5	10	20	21	25	25	25	25	25	21				
V1710-F3R (840 h.p.)	875											8	33	43	43	67	109	128	213	225			
Total Allison	4,184	7		2	9	51	73	149	283	275	330	353	393	401	374	368	392	265	234	225			
Total All Companies	16,798	411	90	127	797	812	880	998	1,111	1,117	1,271	972	1,072	1,061	1,114	1,101	1,122	995	950	884	118	12	13

Treasury Department, Division of Research and Statistics.

May 23, 1940.

Source: Anglo-French Purchasing Board.

* Represents one quarter of scheduled deliveries for May.

STRICTLY CONFIDENTIAL

PSF: Treasury

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

May 29, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

In this matter of Ernest Feidler, who is in charge of the Opinion Section of the General Counsel's Office of the Treasury Department, I do not believe in taking chances and it is merely unfortunate for him that he seems to have been caught in the web of his personal opinions. We cannot have such people in high places. If you do not want to discharge him, send him to some office in the interior of a Southern State, and, at the same time, have some trusted person in such office report to you confidentially on what he says and does when he gets there.

In regard to Cairns, I suggest you tell him the story after Feidler has left, but not until then, and tell Cairns frankly that we have heard that his wife is extremely pro-German - stopping there.

F. D. R.

Ernest Feidler is in charge of the Opinion Section of the General Counsel's Office of the Treasury Department, acting under the immediate supervision of Huntington Cairns, who is an Assistant General Counsel in the Treasury. Cases involving a construction of the Neutrality Act of 1939 administered by the Treasury Department, principally section 2 (c) of that Act relating to the transfer of title requirements, come before Feidler and Cairns for decision. During Cairns' absence Feidler acts in his stead as Assistant General Counsel.

From the very inception of the administration of the Neutrality Act Feidler has given every indication of a disposition to construe that Act so as to bring about a result which is wholly contrary to the policy of the administration of assisting the democracies.

Shortly before the war began I discussed the prospects of war with several Treasury people (including Feidler) and I expressed my own conviction in no uncertain terms that an Allied defeat would be disastrous from our standpoint and that German domination of Europe would be calamitous for the United States. Feidler dissented heartily from this view.

After the Neutrality Act was passed conferences were held at the Treasury and certain shipping interests were pressing for a ruling with respect to transfer of title requirements and these interests attributed their haste for a ruling to the necessity of obtaining clearance for the vessels in time to permit them to join a British convoy. Feidler remarked to one of the persons present at the conference "What the hell do we care if they miss the convoy. We are not here to help the British enforce the convoy system."

While instructions and rulings were in the process of preparation immediately after the enactment of the Neutrality Act every horrible example cited by Feidler of danger to United States vessels involved their being sunk by British warships, whereas the rest of the conferees were talking of German submarines as being the potential villains.

Where questions of interpretation of the Neutrality Act have arisen from time to time Feidler has always been found to argue for a result which will be injurious to the Allies' cause by imposing a requirement for a transfer of title

wherever possible. As an example of Feidler's attitude in this regard, he was firmly of the view that a transfer of title was required for dunnage used for propping cargoes on vessels destined to belligerent ports for sale there. Fortunately Judge Townsend of the Department of Justice adopted a contrary view, and a ruling was prepared in accordance with Judge Townsend's views.

Another example of Feidler's attitude is his firm conviction that the De Gaussing of vessels in United States ports was not permissible.

A third example of Feidler's attitude came to my notice recently regarding the application of the statute under which the currencies, credits, and securities of Norway, Denmark, etc., were frozen by executive order. Feidler, I am told argued that the statute was not applicable to foreign securities and if his view had prevailed the effectiveness of the executive order would have been greatly impaired.

The foregoing examples are merely a few of the many instances which have arisen during the past eight or nine months which clearly indicate an approach to neutrality problems by a person who is "neutral against the Allies".

It may be stated that Feidler is a strong personality and possesses considerable ability. These qualities result in his exerting an influence on persons of less ability and independence of thought in deciding neutrality questions not only in the Treasury Department but also in other Departments since there is a free interchange of views by the Departments administering the Neutrality Act.

Obviously when the Neutrality Act is construed by a person of Feidler's predilections, the beneficial results which were intended to flow to the Allies from that Act are materially diminished.

I am not in a position to give very definite information with respect to Feidler's superior, Assistant General Counsel Huntington Cairns. I do know that at the time the COLUMBUS was scuttled Cairns felt quite upset and remarked "God help the United States if Germany wins the war", indicating that he thought that the United States was instrumental in the British knowing of the location of the COLUMBUS and that Germany would take punitive action.

I am told that Mrs. Cairns is extremely pro-German, and this factor undoubtedly influences her husband's views.

Cairns has not shown any disposition to resolve doubtful questions of construction of the Neutrality Act in a manner favorable to the Allies.

I am also informed that although Cairns expressed the opinion that the De Gaussing of vessels in United States ports was permissible, he stated that he hoped that the final decision would be not to permit De Gaussing to be done.

PSF

THE WHITE HOUSE
WASHINGTON

file personal
Morgenthau
Treas

June 3, 1940.

MEMORANDUM FOR

GENERAL WATSON

Where did this come from? If you do not know, file it in our confidential files.

F. D. R.

Respy Returned to the President
This is from Sec. Morgenthau
EMW.

Estimates for

50,000 PLANE PROGRAM

DISTRIBUTION

	Navy	Army	Totals
Trainers	3,500	14,000	17,500
Tactical	10,000	22,500	32,500
	13,500	36,500	50,000

AIRPLANES

Navy (without engines)	Number	Total
Trainers	3,500	$ 49,000,000
Tactical	10,000	675,000,000
	13,500	$ 724,000,000

Army (without engines)	Number	Total
Trainers	14,000	$ 231,500,000
Tactical	22,500	1,417,800,000
	36,500	$1,649,300,000
Total	50,000	$2,373,300,000

ENGINES

Power Range	Navy	Army	Total	Total
1,500 - 2,000 h.p.	11,600	25,600	37,200	$ 651,000,000
1,000 - 1,500 h.p.	4,900	17,100	22,000	264,000,000
200 - 600 h.p.	10,650	29,000	39,650	178,425,000
Total	27,150	71,700	98,850	$1,093,425,000

Cost Summary

Navy planes	$ 724,000,000
Navy engines	309,725,000
Total Navy requirements	$1,033,725,000
Army planes	$1,649,300,000
Army engines	783,700,000
Total Army requirements	$2,433,000,000
Grand Total	$3,466,725,000

May 28, 1940

PSF Morgenthau

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

June 4, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Can you hurry this up?

F. D. R.

Dispatch from Ambassador Bullitt in re request for Thompson sub-machine guns.

BF
Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

June 4, 1940

~~CONFIDENTIAL~~

My dear Mr. President: file

Since having lunch with you yesterday, the following information in regard to the Allison engine has been brought to my attention, which is in contradiction to the information which I gave you at lunch.

I had a talk with Mr. O. E. Hunt, Chief Engineer of General Motors, this morning and told him that I hoped that General Motors would begin soon to take this Allison situation seriously. Up to now, I gather, Mr. Hunt has had very little to do with the Allison motor, but he gave me his personal assurance that from now on he intends to concentrate on the Allison motor until he has corrected the serious defects.

Yours sincerely,

H Morgenthau Jr

The President,

The White House.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1940

TO Secretary Morgenthau

FROM Dr. George J. Mead

The two Allison engines which were run respectively at Dayton and Indianapolis with a reduced power rating of 950 hp. instead of the contract rating of 1090 hp., completed 50 hours as reported to you on May 31. Based on the completion of these tests, it seemed reasonably safe to release engines for production at this reduced rating. In view of the large number of failures in the past, however, it was thought desirable to take two additional steps: first, to tear down both engines completely and make a thorough examination of the parts, and secondly, to continue the tests of these engines, if found to be in good condition, to 100 hours each. Yesterday afternoon the tear-down reports became available and it was found that the Dayton engine had two cracked connecting rods and that one of the crankshaft bearings had failed, while the Indianapolis engine had a failure of the supercharger drive at 16½ hours, which required a penalty run, making a total of 70 hours on the engine when disassembled for final inspection. At that time the following main castings were found cracked: the reduction gear housing, the crankcase and the accessory housing. These failures throw an entirely different light on the situation and, in view of them, I called Mr. Sloan immediately with the result

~~CONFIDENTIAL~~

that Mr. O. E. Hunt, the chief engineer of General Motors, is here today to discuss a program of correcting the troubles in the quickest way possible. I will advise you just as soon as a definite plan of action has been determined.

Sanford J. Mead

6-8-40

Resp'y forwarded to the President.

file please

E.M.W.

OFFICE OF
THE SECRETARY OF THE TREASURY

June 7, 1940

TO: General Watson

FROM: Lieut. D. E. McKay

The Secretary asked me to send this over for the President's information.

D. E. M.

PSF
Morgenthau

TREASURY DEPARTMENT

WASHINGTON

June 7, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian steamer EURO, after loading a cargo of scrap iron in gulf ports, put into Newport News for bunkers and sailed from Newport News for Italy June 2nd.

This vessel returned to Newport News this morning.

Basil Harris.

PSF
Morgenthau
Treas

THE WHITE HOUSE
WASHINGTON

June 6, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I am delighted to have that list of surplus materiel which is "ready to roll". Give it an extra push every morning and every night until it is on board ship!

F. D. R.

6-5-40

For the President

E.M.W.

file confidential

THE TREASURY

STON

June 5, 1940

~~CONFIDENTIAL~~

My dear General Watson:

I am inclosing herewith a memorandum which I would appreciate your reading yourself and then putting it in the hands of the President.

To get this surplus material cleared has been one of the most difficult undertakings and I am pleased to be able to report that at last the materiel is rolling.

Yours sincerely,

H Morgenthau Jr

General Edward M. Watson,
The White House.

ORDNANCE MATERIEL TO BE RELEASED FOR SALE OR EXCHANGE

Quantity	Item	Unit Sales Price	Condition (Estimated) Serv.	Unserv.
1,157	Cal..30, Lewis mach. gun, ground, M1917	$ 33.92	18%	82%
7,071	Cal..30, mach. gun, Vickers, ground type	131.23	43%	57%
2,602	Cal..30, Marlin tank machine gun	74.35	67%	33%
15,638	Cal..30, Marlin aircr. machine gun	23.16	94%	6%
5,124	Cal..30, Vickers aircr. machine gun	33.92	70%	30%
38,040	Cal..30, Lewis aircraft machine gun	33.92	34%	66%
10,000	Cal..30, Browning machine gun M1917	215.49	Unmodified	
25,000	Cal..30, Browning automatic rifle M1918	60.76	Unmodified	
500,000	Cal..30, Rifle M1917 (Enfield), used	7.50	Serviceable	
395	75 mm Field Guns (British)	1,527.60	Serviceable	
308	3" Stokes Trench Mortars	12.50	Serviceable	
100,000,000	Rounds Cal..30 Ball Ammunition - per M	30.00	Deteriorated	
20,000	Cal..45 Revolvers	7.25	Serviceable	
1,000,000	Rounds 75 mm H.E. Shell	10.45	Deteriorated	
10,000,000	Lbs. TNT (per pound)	.15	Deteriorated	
8,693,000	Lbs. Smokeless Powder (bulk) for 155 mm Gun (per pound)	.42	Deteriorated	
1,000,000	Lbs. Smokeless Powder (bulk) for 155 mm How. (per pound)	.42	Deteriorated	
97,680	Rounds Shell H.E. for 3" Stokes Mortar	1.28		

ADDITIONAL ITEMS ADDED BY CHIEF OF ORDNANCE 6-4-40

Accessories for Browning Machine Gun M1917		
100,000	Ammunition Belts	1.81
100,000	Ammunition Chests	3.60
10,000	Water Chests	12.90
10,000	Steam Condensing Device	1.96
3,333	Belt Filling Machines	48.69
10,000	1918 Tripods	26.00
Accessories for Browning Automatic Rifle M1918		
1,000,000	20-Round Magazines	.95
Accessories for 75 mm Field Gun (British)		
600	Caissons	125.00
600	Caisson limbers	75.00

NOTE: All prices are "as is" and "where is", exclusive of packing, handling, and shipping charges. Any reconditioning must be effected without expense to the U. S. Government subsequent to sale and removal from War Department depots and by non-War Department agencies.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 4, 1940

~~CONFIDENTIAL~~

My dear Mr. President:

Mr. Francis Biddle, Mr. Sumner Welles, General Marshall, Mr. Ed Foley, Mr. Philip Young and I went into a session at four o'clock Monday afternoon in regard to the sale or exchange of surplus war materials to corporations in this country for resale to the Allied Purchasing Mission. After an hour and a quarter the meeting adjourned to Mr. Foley's office where it continued until after midnight.

I am pleased to report that we were finally able to get a ruling from the Attorney General covering this subject and I am inclosing a copy herewith.

This morning at 8:45 the Solicitor General, Mr. Foley and Mr. Young called on Secretary Woodring and General Marshall and I am pleased to report that the matter is finally settled so that the War Department can go ahead and dispose of its surplus and unserviceable war materials.

I telephoned Mr. Arthur Purvis to fly down immediately to Washington and he is to arrive here momentarily to go into a conference with the War Department so that telegrams can go out tonight to the various Army depots, starting the materiel on its way to the Atlantic seaboard.

Yours sincerely,

Henry Morgenthau Jr.

The President,

The White House.

C
O
P
Y

OFFICE of the ATTORNEY GENERAL

Washington, D.C.

(S e a l)

June 3, 1940.

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the materiel set out in two lists submitted by you.

The materiel listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

> "That * * * the Secretary of War be, and he is hereby, authorized to sell any surplus supplies including motor trucks and automobiles now owned by and in the possession of the Government for the use of the War Department to * * * any corporation or individual upon such terms as may be deemed best."

The provision that such surplus supplies may be sold upon "such terms as may be deemed best" undoubtedly gives the Secretary of War

power to sell without advertisement. American Sales Corporation v. United States, 32 F. (2d) 141 (C.C.A. 5th 1929); cert. denied 280 U.S. 574.

The act of July 9, 1918 (40 Stat. 850), as amended by the act of February 25, 1919 (40 Stat. 1173), limits the sales of guns and ammunition to other departments of the Government, to certain foreign states or governments, and to certain specified associations; but the act of July 11, 1919, supra, supersedes these provisions as to supplies on hand on July 11, 1919, including guns and ammunition, if they are at any time declared to be surplus. Once such supplies are determined to be surplus, they may be sold under the act of July 11, 1919. Georgia Wholesale Co. v. United States, 84 Ct. Cl. 150.

As to exchange of ammunition, the act of June 1, 1926 (c. 435, 44 Stat. 680), provides:

> "That the Secretary of War be, and he is hereby, authorized to exchange deteriorated and unserviceable ammunition and components thereof for ammunition or components thereof in condition for immediate use."

Under this statute the Secretary of War may exchange any deteriorated and unserviceable ammunition for other useful ammunition or components thereof without advertisement. All that is necessary to protect the Government's interest is the ascertainment of the fair value for the exchange. This ascertainment of fair value may be arrived at through an appraisal and the obtaining of an exchange value of not less than the appraised value. A determination thus made would not be subject to review.

Respectfully,

(Signed) Francis Biddle

Acting Attorney General.

BF / Morgenthau / Treas

June 12, 1940.

Dear Betty:-

I think you will like to see this. Please have a copy of it made and "By direction of the President" place it with your record.

Please send me back the original for my files.

Always sincerely,

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

(Enclosure) Letter to the President, dated June 11, 1940, from the Secretary of the Treasury in re meeting to discuss giving the Allies bombs.

THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

File Confidential

12 June 1940

Dear Mr. President:

I am perfectly delighted over your note and its enclosure. To us it was all in the day's work.

I will let Towers, Furlong, Noyes, Brainard and the rest who made this possible, know of your and Mr. Morgenthau's thoughtfulness and I know how highly pleased they will be.

Sincerely,

Betty.

The President,
The White House.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 11, 1940

~~CONFIDENTIAL~~

My dear Mr. President:

Sunday night, June 9th, Secretary Woodring, General Marshall and Admiral Stark met with Treasury officials and myself.

When the meeting started, it had been the intention of the Navy only to give the Allies 68 1,000 pound bombs. I showed them your telegram and insisted that the Allies be given 750 bombs. Admiral Stark readily agreed to this.

Monday morning, 180 bombs moved out of Yorktown, Virginia, for Rouses Point. I was informed they were having difficulty with the movement of this shipment and I immediately got in touch with John Pelley who promised me that he would run this shipment through at passenger schedule. The rest of the bombs are coming from Hawthorne, Nevada, and John Pelley has also promised that this movement will be expedited. The last I heard the point of destination was New York.

All but 30 of the fuses necessary for these bombs are coming via destroyer from Panama and the 30 which were in San Francisco are coming by Navy air transport ship.

Admiral Stark has been most cooperative, not only in the assembly of the 50 planes at Buffalo, which was done in record time, but also in working out the formula for the exchange of the bombs and fuses with the manufacturers.

This completes this mission.

Yours sincerely,

H. Morgenthau Jr.

The President,

The White House.

~~CONFIDENTIAL~~

Confidential

This is the first draft of proposed legislation for aid to the British.

I will be at your door mat 9.30 Monday morning with final draft. if any.

PSF Morgenthau Folder

Conf 8

JOINT RESOLUTION

To amend Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes"

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes" be, and is hereby, amended to read as follows:

Section 1. The President may, from time to time, when he deems it in the interests of the national defense, authorize the Secretary of War, the Secretary of the Navy and the head of any other department or agency of the Government concerned, any other law to the contrary notwithstanding, to: manufacture in arsenals, factories or shipyards under their jurisdiction, or otherwise procure, any weapon, ship, boat, aircraft, munitions or equipment or component parts thereof, or machinery, tools, or material or supplies necessary for the manufacture, servicing or operation thereof, or

any other article or commodity needed for defense, on behalf of the government of any American republic, of Great Britain, Greece, China or any other country whose defense against the forces of foreign aggression the President deems to be related to the defense or welfare of the United States; to sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any such article, or like article which the United States now has or hereafter acquires, upon such terms as the President may deem satisfactory, including, but not limited to, a sale, transfer, exchange, lease or loan providing for payment or repayment in kind, or property, or for any other direct or indirect consideration or benefit to the United States which the President may deem satisfactory; to test or prove any such article prior to disposition or delivery to any such government; to repair any such article, and otherwise to treat any such article as if it were for the use of the United States, on behalf of any such government; and to communicate to any such government plans, specifications, or other information relating to any such article: Provided, however, that no such transaction shall be entered into in violation of international law as interpreted by the Department of State: And provided further, that no action shall be taken hereunder which shall be inimical to the defense or welfare of the United States.

Section 2. In carrying out the transactions authorized by section 1, the Secretary of War, the Secretary of the Navy and the head of any department or agency concerned are authorized, in their discretion, and provided that it be not inconsistent with any defense requirements of the United States or its possessions, to communicate or transmit to the government of any country to which section 1 is applicable, and to any duly authorized person for the use of any such government any information pertaining to any article, therein referred to, for the use of such government in using any such article, or manufacturing such article within its own jurisdiction, and to export any such article and information for the use of any such government.

Section 3. All contracts or agreements made for the disposition of any article or information pursuant to section 1 shall contain a clause by which the foreign government undertakes not to transfer title or possession of such article or information by gift, sale or otherwise without the consent of the Secretary of War, the Secretary of the Navy or the head of the department or agency concerned.

Section 4. The Secretary of War, the Secretary of the Navy or the head of the department or agency concerned, as the case may be, shall when any such article or information is exported immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940

(54 Stat. 1090), of the quantities, character, value, terms of disposition and destination of the articles and information so exported.

Section 5(a). There is hereby authorized to be appropriated from time to time, out of any moneys in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this joint resolution.

(b) All moneys, and all property received from any government to which section 1 applies and which is converted into money, shall revert to the respective appropriation or appropriations out of which funds were expended in acquiring the article for which such consideration is received, and such moneys shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Section 6. The Secretary of War, the Secretary of the Navy and the head of the department or agency concerned shall in all contracts or agreements for the disposition of any such article fully protect the rights of all citizens of the United States who have patent rights in and to any such article which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Section 7. The Secretaries of War and of the Navy are hereby authorized to purchase arms, ammunition and implements of war produced within the jurisdiction of any country to which section 1 is applicable if such arms, ammunition and implements of war cannot be produced in the United States.

Section 8. The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this joint resolution; and he may exercise any power or authority conferred on him by this joint resolution through such department, agency or officer as he shall direct.

GENERAL COUNSEL
TREASURY DEPARTMENT

MEMORANDUM FOR THE SECRETARY

Interim Plan

Pending the enactment of the proposed joint resolution authorizing the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim plan can be used for (1) The expansion of productive facilities for defense materiel; and (2) The procurement of such materiel.

(1)

Expansion of Production Facilities

The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of $1,500,000,000 for such purposes. Of this amount approximately $400,000,000 is probably still available.

By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about $40,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy.

There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.

(2)

Procurement

For the actual placement of additional orders the War Department has available: (a) $60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) $430,000,000 for the procurement of ordnance items. The War Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example, for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

In all probability, the Navy Department can make similar funds available.

By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted.

E.N.H.

PSF Morgenthau

THE WHITE HOUSE
WASHINGTON

June 19, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Yes, I think the NORTHLAND should be equipped with armament before going to the west coast of Greenland.

Please show this to the Navy Department and request them to give this job priority.

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 18, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

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

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

H. Morgenthau Jr.

PSF: Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

June 25, 1940

file confidential

My dear Mr. President:

I am sending you herewith Mr. J. Carlton Ward's first report with reference to the French aircraft engine industry.

I have furnished copies to the Chief of Staff, Chief of Naval Operations, and Mr. Knudsen.

Yours sincerely,

H Morgenthau Jr.

The President,
The White House.

The President

Paris, June 4, 1940.

FIRST REPORT WITH REFERENCE TO FRENCH AIRCRAFT ENGINE INDUSTRY.

As you probably know, we were unable to disembark at Gibraltar a week ago last Saturday, on May 25th, as had been planned. Everything was in readiness for our trip through Spain to Paris; but the ship was asked to clear through to Italy without subjecting itself to the usual control and there was, therefore, no opportunity to land. We, therefore, arrived in Paris on Wednesday, the 29th, on the morning train from Genoa without incident.

We at once held a meeting with Colonel Mény, Under Secretary for Air, during which we discussed the problem before us. Colonel Mény stressed two aspects of the problem: (1) insufficient quantity of motors, (2) need for improving quality, and stated that they were equally important. He referred to the fact that they were able to assign two pilots to one of the Curtiss planes with the Pratt and Whitney engine, whereas, due to difficulties with equipment, one piece of French equipment did not take care of one pilot to the fullest extent. He then outlined the fact that they had standardized in France on the manufacture of the Gnome-Rhône, in the air-cooled field, and the Hispano-Suiza in the liquid-cooled field. They apparently give great weight to the air-cooled engine due to its lesser vulnerability, and their program places more emphasis on this type. The current production he gave as 600 Gnome-Rhône motors per month

and

and 300 Hispano-Suiza motors per month. Their plans were to get up to 1900 Gnome-Rhône motors per month and 1300 Hispano-Suiza motors per month before the middle of 1941. He considered the various categories of training engines to be relatively unimportant. These included Renault and Salmson.

With the situation at the front, the need for increased production at an early date was stated to be most urgent. The Gnome-Rhône program includes production in the parent plant in Paris, on Boulevard Kellermann, with a forge shop and foundry in Gennevilliers, and a new shadow factory being built at Le Mans, approximately 125 miles out of Paris, together with the production of the Government-owned factory SNCM (formerly Lorraine-Dietrich, also in Gennevilliers). In addition, the research facilities have been put in a new location, separate from manufacturing. Engine testing is also to be done in a separate location, and both are in the vicinity of Paris. Likewise, they have worked out a system of allocating certain parts to the various automobile factories for separate manufacture with the thought of assembling them at their underground assembling station, and this program is stated to be under way. This should be verified by later inspection.

It was stated that the Air Ministry is more concerned with getting an immediate increase in the production of the Hispano-Suiza than it is of the Gnome-Rhône, and felt that we should endeavor to find the reasons behind the relatively low production of

Hispano-Suiza

Hispano-Suiza motors. The manufacturing program for the manufacture of the Hispano-Suiza is somewhat like that of the Gnome-Rhône. The main, or parent, plant is at Bois Colombes, and is in the process of being moved to an underground quarry in the outskirts of Paris. A second unit, or shadow plant, is being constructed at Tarbes, about 550 miles out of Paris. In addition, the Ford Company of France are to manufacture the Hispano-Suiza motor at Poissy, outside of Paris, and at the same time outside of Bordeaux. The original intention had been to have the Ford Company manufacture the Rolls Royce engine but, upon the recommendation of the Ford Company, they standardized upon the Hispano-Suiza, thus holding France to two principal types of high horsepower engines manufactured here for their aviation service. Of distinctly lesser importance and in addition to the above, it was stated that the SIGMA factory is expected to manufacture Bristol engines of the English air-cooled type with the ultimate idea of a production of 70 engines a month. Similarly, Talbot Motors in Suresnes (Paris) were to undertake the manufacture of Pratt and Whitney motors under French Government license to an amount of 60 engines per month. It is evident that the latter is not in favor with the Ministry for reasons which were not made clear.

A general conversation then ensued and in response to questions with respect to the American aeronautical equipment, it was stated that on the whole it was excellent but that gas tanks were, in certain instances, too vulnerable, particularly when integral with the

wing

wing structure, that engine exhausts were visible at night, which was a bad feature of the American Martin bombers, and that they would like to have more speed at a higher altitude than obtained on the early Martin bombers.

Mention was made of the Brown-Boveri exhaust gas turbine, which they are getting ready to manufacture for high altitude performance on French planes similar in action to our General Electric exhaust gas turbines in the United States.

Propellers were stated to be not a production problem. What they were getting from the United States, plus their own output, they felt to be ahead of engines.

Production of accessories, such as carburetors, magnetos, generators, starting equipment, has been a problem, but at present is not; although it was hinted that this may become a serious problem again in the future.

With this introduction, it was arranged that we start our first inspection the following day at the Government's own factory, S.N.C.M.

Early in the morning we proceeded to Gennevilliers to the Government factory S.N.C.M., and were told that this factory was a very serious problem. We believe that a special importance was placed upon it for the reason that it is the only Government-owned engine factory and that it has done a poor job with respect to production. During the Front Populaire it was stated that this factory, with nearly three thousand workmen,

workmen, turned out only 20 or 30 engines per month. A new management had been put in by the Air Ministry, with the result that its current production is running slightly under 100 a month. Upon inspection of the factory, it was clear that:

1. Production methods, while improving, had been very bad.

2. The Labor attitude seemed serious and willing, but we were informed that during the Front Populaire it was necessary to be a Communist to be a workman, and that the troublemakers had since then all been put into the army.

3. Women were being introduced on machine operations normally allotted to men. There were 2800 workers, including office and management, of whom 1335 worked on machines. There were a total of 233 women workers. For three weeks engine plants have been working the new two 11-1/2 hour shifts, including Sunday. In the S.N.C.M., factory women were released after 7-1/2 hours of work at the maximum, and they used three shifts, the other two being 7 hours each.

4. The present schedule calls for four engines per day. Machining time is still high.

5. Because of war urgency, the usual method of testing finished engines has been completely revised. Now, after the engines receive a first test, an inspection is made by "pulling" two cylinders and if no trouble appears, the engine is shipped. This is strictly a wartime necessity, and is done to get the engines to the front more rapidly, even at the risk of less assurance of quality. This also reduced the

assembly

assembly and test time from 640 hours per engine to 400 hours, and turned an inventory of approximately 25 engines into finished production.

6. Spoiled work is high. No exact figures were given, but several sources stated it to run 10% to 12%, which is very much higher than engine practice in America.

7. The raw materials were in all cases not of best quality, although cylinder castings appeared unusually good, contrary to our information before sailing.

8. The shop is not clean nor well lighted by American standards, nor is it well laid out. Efforts have been made to improve some of these conditions but the matter is at a standstill until it is decided if the factory is to be removed from Paris due to danger from bombing, or other enemy penetration.

9. There is a shortage of cutting tools. When this situation was inquired about, it was stated that they would have preferred to have them come from the United States in order to get the needed quality and that the budgets for operations had not permitted the management to purchase in sufficient quantity.

10. The engine is an expensive one from the design point of view, and it is difficult to manufacture certain of the major parts at a low cost.

11. The number of engines actually shipped in May is 115 due to liquidating the inventory, as stated above. The plan for this factory is to bring production up to 150 a month. The engine manufactured

is

is the Gnome-Rhône 14-N-49, with a nominal horsepower of 980 at 4000 meters altitude, and 850 HP at sea level.

The management of this factory appeared almost eager to receive assistance of any kind and showed every cooperation in furnishing information. The Air Ministry likewise indicated that it did not wish to wait for our complete study before having some indication of our thoughts with respect to this factory. It is assumed that because of the bad production record and the fact that it is a Government plant, the Government is desirous of improving the situation at the earliest moment in order to get more engines and probably to lessen any criticism of the Government operation.

On Friday morning, the American group sat down and discussed the observations of the day before and the method of handling the Ministry's request. It was the original plan to study all facilities before determining what recommendations would be made to the Ministry. In view of the delicacy of the situation, a decision was reached to call in the Under Secretary for Air and lay before him only technical recommendations which would be of assistance in this connection. These recommendations were divided into:

1. Strengthening the organization with respect to the planning function, material control, requisitioning of raw material, etc.

2. Improve the technical aspects of the manufacturing processes, the machinery and equipment, etc.

3. A request for a report on the service difficulty

difficulty with this engine in order to see if its operation in the field could be improved by minor engineering modifications which could be readily incorporated.

4. Stressing the need for more careful delineation of responsibility for the various phases of management.

These were presented to the Air Ministry and it was decided to call a meeting of the plant management the next morning at the factory and present the American group's recommendations with both groups present.

Early Saturday morning, June 1st, the American group met with the officials of the S.N.C.M., factory and the Under Secretary of the Air Ministry during which detailed recommendations were presented. The meeting proved successful and, upon its conclusion, we were informed that our approach to the problem had succeeded in building up the morale in the Government plant.

It should be noted that this factory is doing no original engineering work, but is making a Chinese copy of the Gnome-Rhône engine from drawings given it by the parent company under license.

After luncheon, the Ministry then asked the American group to inspect the plant of Talbot Motors. Upon arrival at the factory in Suresnes, it seemed apparent that this also is primarily a Ministry problem. The Managing Director was known to the writer during his visit to the Pratt and Whitney

factory

factory in 1938 and the situation is complicated by the fact that he is partly Italian and partly French, and in addition was a British citizen due to long residence in England before taking over the Talbot factory a few years ago. The factory is divided into two units, one of which is represented by the motor car factory and the other is a brand new unit for the manufacture of Pratt and Whitney engines under license from the French Government. After an inspection of the two factories, the Managing Director informed the writer that the many difficulties which had arisen in connection with his relationship to the Air Ministry had made it impossible to go on, and he was anxious to find a way out. He had installed in the new addition over a million dollars' worth of the finest American machine tools and had spent $300,000 in making the jigs and fixtures from Pratt and Whitney drawings in order to begin manufacture of certain parts and gradually expand into a full-fledged plant.

The original plan of Talbot Motors also included the manufacture of the Pratt and Whitney engine to American dimensions and standards and by an exact duplication of the methods used by the Pratt and Whitney Company in the United States. It was felt that this would introduce into France certain refinements of manufacturing technique which are peculiar to the American engine industry and would be of real importance to France. In line with this policy, the Talbot Company had ordered all its steel forgings

from

from the Bethlehem Steel Company. With respect to aluminum, it had ordered all parts from the Heavy Duty Alloy Company of England. This was necessary because the parts required a refinement of the forging processes not at this time available in France. Likewise, all magnesium parts would come from the Magnesium Castings and Production Company of England for a similar reason. It was their opinion that if this plan were carried through to a successful conclusion, it would be a real contribution to French industry. However, there is little likelihood of this ambitious plan being carried out under the situation now existing between the Talbot Company and the Ministry.

In addition, "Talbot" had given to the Air Ministry in October a list of the machinery which (on an estimated basis) represented several million dollars additional and which would then equip "Talbot" to make complete engines.

There seems to be doubt as to whether this plan also will be carried out, and this probably is one of the Ministry's reasons for requesting the opinion of the American group without further delay.

It is also of interest to note that in the motor car factory most of the equipment was idle and very few of the men were at work which, it was inferred, was also due to the difficulties confronting this company and the fact that it can now go no further without substantial funds from the Government.

Due to the delicacy of this situation, the

Commission

Commission asked for time for further study before attempting any recommendations and expressed the desire to see some of the large privately-operated units before taking up this problem further.

The Air Ministry then suggested that on the following day an inspection trip be made to one of the larger air fields protecting the Paris area, located at Chantilly and half-way to the front line. This is the headquarters of all the aviation groups defending the area from Le Havre to Paris.

Upon arrival at the air field in Chantilly, we presented ourselves at General Headquarters and were greeted by General Pinsard and his staff. We were given every opportunity to see all phases of the operations, as well as the servicing of the motors, and to talk in detail with the mechanics and officers who had charge of servicing the power plants. We fortunately were able to suggest the inclusion in our party of Lieutenant Colonel Hunter of the United States Army Air Corps throughout this inspection and this report will, therefore, omit references to the large amount of military information which was given to us, which will be included in his report.

We were also fortunate in meeting the officer commanding a battery of 90 mm., anti-aircraft equipment installed for the defense of Paris and were invited to inspect this equipment on our way back

to

to the city, which we did.

The force located at Chantilly consisted of two squadrons of Bloch No. 152 pursuit ships equipped with Gnome-Rhône motors No. 14-N-38 which were approximately one month old. The motors replaced older motors which had been installed in these ships. The squadrons had seen considerable air activity, as witnessed by the fact that 9 enemy airplanes had been brought down during the last week by the first group consisting of twelve Bloch fighters. We heard several minor actions during our stay but were surprised to find out that the actual flying time of the engines had only averaged between forty and fifty hours apiece for the month. The second pursuit group of Chantilly had brought down three airplanes during the current week, neither group losing any personnel, although four airplanes had been cracked up in forced landings. The officers at the headquarters and in these groups appeared to be commanded by distinguished officers from the last war, and there was evidence of high morale and confidence. However, before leaving, the General showed us a military map in his headquarters and, after pointing out the front line, forcefully stated that with 600 more airplanes and 500 tanks their situation would be secure, whereas, to quote the General, they were now holding the Germans with their "bare chests".

We were unable to secure any very conclusive evidence as to engine equipment difficulties, for upon questioning the mechanics with respect to various

features

features of the motors, the only case where they were unanimously critical was in connection with spark plugs. However, there were two airplane engines under repair at that time in the one squadron of twelve ships in spite of the fact that the engines had had less than 50 hours' service in the air. We were also informed that there was considerable evidence of piston ring sticking. Also, we found a case where there was difficulty from exterior oil fittings. These are avoided in current American designs. In another case, the piston rings had been assembled into the engine incorrectly at the factory.

The location of the carburetor scoop was such that considerable sand worked its way into the engine, and this feature of the planes had been recently changed. The Bloch No. 152 was accredited with a speed of 300 miles per hour, and the new Dewoitine, with which some squadrons were equipped, was reported to operate at the rate of 330 miles per hour. No questions were asked by us with reference to American equipment since it is planned to visit a squadron equipped with American units at the front in the next few days. Two other instances of trouble which were reported, were: (1) a crankshaft breaking in two, stated as probably caused by the inertia of the propeller after the engine suddenly ceased, and (2) in another case the breakage of a propeller, causing it to fly off the engine.

The propellers were of French manufacture and were electrically-controlled variable pitch propellers.

It

It was also pointed out that the oil did not scavenge from the lower cylinders, which made difficulty in starting. Trouble was indicated in oil leaks from the cylinder head covers, which are held on by a method similar to that discarded approximately five years ago on the American equipment.

It should again be said that every courtesy was extended, all military equipment was shown in detail, including methods of operations, and with every possible consideration for our comfort, convenience, and safety.

Upon our return to Paris we were taken to a battery of 90 mm., anti-aircraft guns equipped with range-finders and the latest type French fire control, both for day and night firing. Unfortunately, we were told, there were only twelve of these guns in use in three batteries of four each. Colonel Hunter's report will no doubt contain all of the useful military information, and here again we were given every opportunity to see in detail all of the equipment and the battery was put through a special drill in order to show us the use of the equipment. The morale was unusually high, and we were told that the battery had been in place for twelve days, during which it had brought down two enemy planes.

On Monday morning, June 3rd, we were escorted to the Hispano-Suiza factory at Bois Colombes. The Paris units, we were informed, have 9900 workers, of which

which some 2000 are engaged in the production of the Hispano-Suiza airplane cannon. There is also a unit for making 100 Hamilton propellers per month under an American license. Engine production amounted to a nominal production of 250 engines per month, although we were informed that the previous month, the actual rate was 200. It was explained that this, in turn, was caused by the necessity for moving the factory as quickly as possible to an underground quarry, a few kilometers further out of Paris, where the operation will be entirely bombproof, even from the heaviest bombs. This quarry extends back to a period of 700 or 800 years ago and consists of a vast series of galleries amounting to 65,000 square meters in area.

In addition to the Paris units, a new shadow factory is located at Tarbes, for which the production schedule will call for 225 engines per month. Likewise, the Ford unit is expected to come up to 500 engines per month, which means that the Paris factory will ultimately have to be brought up to 575 engines per month in order to reach the total of 1300 Hispano-Suiza engines expected by the Ministry.

A foundry is operated in connection with the Bois Colombes factory and as yet no plans have been made to move this underground. All forgings are procured from outside sources, and we were informed that they have ordered large quantities of steel forgings in the United States, amounting to a

sufficient

sufficient quantity for 4800 engines. We were also told that at Tarbes they have 2500 employees and will be adding more. The management stated that it cost 2700 man hours to build an engine on the Paris equipment, but that at Tarbes, with all new equipment, the new engine could be built for 1400 hours. Assembly for engines would also be provided for in an underground plant north of Bordeaux. The horsepower of the present engine is 1000 at 4800 meters, and 1200 HP available for take-off. They expect to manufacture this year 400 of a new type which will be increased to 1500 HP and will be of a four-valve type and higher in RPM.

In this factory also, the Air Ministry has permitted greatly shortening the engine test in order to speed production and to get equipment at the front. However, the engine is still tested in two separate runs with a disassembly in between, unlike the practice at the S.N.C.M., factory, already reported. However, the tests are short and amount only to 3-1/2 hours' running on the first assembly and to a brief run of a half hour after the final reassembly. An inspection of manufacturing equipment and the factory gave the following impression:

1. A good type of workman.
2. A large quantity of women workers.
3. Neatness and cleanliness throughout.
4. Good tooling of the old-fashioned type.
5. Evidences that the engine is being designed with the idea of easier manufacture, although not to

be

be interpreted to mean that quality has been pushed aside for production.

6. Several of the General Motors members of the Commission stated that the engine was an easier one to manufacture than the American Allison and were pleased with the general character of the design.

7. The supercharger is a new development and is claimed to possess the operating features of a variable speed supercharger, something which is not yet available in the United States. The Commission, upon request, were informed that they would be given an opportunity to inspect this mechanism in the next few days. The units are received at the factory complete so that inspection was not readily available.

8. All of the newest and best equipment had been moved to the quarry and it was possible that the remainder of the equipment would be moved without much further delay. The speed of these moves, as stated to us, is rather extraordinary, and we were informed that in three or four days the rest of the plant could be relocated.

We were then escorted through the engine wind tunnel. This is a most impressive and important facility and a similar unit is not available at this date in an American engine factory. The writer was informed that the cost of this unit was between eleven and twelve million francs which, at a loose guess, would represent an expenditure in the neighborhood of half a million dollars in America with American labor. The unit consisted of two facilities: (1) a small scale high wind velocity unit for model

installation

installation with a velocity of 300 miles per hour. Here preliminary studies are made of engine cowling, radiator scoops, carburetor scoops, exhaust pipes, and the like. The efficient installation is evident from figures which we were given in connection with the large unit, (2) the large unit is for complete fuselage or nacelle tests and is made at a slower wind velocity with a tunnel throat diameter of five meters. The wind is furnished by a fan driven by a 4500 kilowatt motor.

We were shown research photographs of smoke jets taken stroboscopically in the tunnel as applied to the new Dewoitine fighter. The importance of this demonstration can be best appreciated by the statement made to us that the speed of this fighter had been raised from 525 kilometers per hour, as now manufactured, to 575 kilometers per hour, and with the use of no more horsepower and at the same time that the liquid cooling temperature was reduced 35° Centigrade. The curves of data showed that the propellor thrust had been increased from 550 kilograms to 590 kilograms, contributed by the improved air flow through the oil cooler, also the Prestone radiator, and the improvement in the exhaust jet effect.

In consequence, the Ministry is now asking this firm to test all engine installations in all new model ships by this method.

We were also shown the altitude testing facilities for engines, which consisted of a unit giving a temperature as low as 55° below 0 Centigrade, and at all desired

equivalent

equivalent altitude pressures. We were, therefore, much impressed with the engineering work being done.

Unfortunately, this unit cannot be moved, and could readily be destroyed by bombing.

We were then invited to a final lunch by the Minister for Air, his staff and associates, and certain members of the industry. Upon arrival we found the American Ambassador and, four minutes after our arrival, an alert signal was sounded and we witnessed the bombing of the Air Ministry building in which we were located, as well as the adjoining factory of the Caudron Airplane Works before it was possible for us to reach a bomb shelter. Bombs struck the building in which we were located, as well as the immediate neighborhood but, upon the sounding of the "all clear" signal, we were again immediately invited to attend the luncheon, which adjourned to a restaurant removed from the scene of the attack. It was evident at the luncheon that the effect of this first major bombing of Paris crystallized in the minds of the Ministry and certain of the industry leaders who were present the urgent necessity for better protection of factories and their location.

We were then conducted to the underground quarry to which the Hispano-Suiza factory was being moved. As we approached this district, we noticed that several bombs had also fallen in the neighborhood, but no damage resulted other than the destruction of a few workmen's homes.

It

It was an amazing sight to see the manner in which these underground galleries had been equipped with machine tools and to find thousands of men and women machining engine parts in this location. The two entrances to the quarry were well protected from the air, and the amount of rock and loam between the roof of the gallery and the ground itself varied from 30 to 60 feet. Overhead were fields and farms and occasionally a small ventilating shaft which looked like a well. The temperature remained very constant and with machines running stabilized at around 58° Fahrenheit. When the machines are not running this temperature drops to a little below 50° Fahrenheit. However, the workmen did not seem to appear uncomfortable and, as stated above, there were a great many women operating the machine tools. For the most part, the equipment was modern and of recent design and manufacture - many machines being of American manufacture.

It was not decided as to the location of the heat treating facilities and motor assembly and test. However, it was evident that the experience of the bombing raid a few hours before had made such a decision much more necessary. Likewise, it was evident that a secondary source of power would be desirable since the power lines had been struck and severed and only been spliced again a short time before we arrived.

Reels of cable have been stationed all around the city and were noticed in railroad yards with

the

the obvious intention of having them available to mend power circuits when put out of action.

An emergency system of lighting had been installed in the quarry in the event that all power were severed. It was necessary to build a false ceiling of corrugated gypsum to avoid any moisture or dust, which might fall on the work. Other than this, the working conditions were pleasant and the air was clean and free of any movement, which is helpful to precision manufacturing. Factory offices, planning units, inspection units, electric trucking, and all like facilities had been provided for in a very practical manner. The equipment was in many cases quite modern and much new equipment was in evidence from the outside, as well as some Swiss, English, and French equipment. It was evident, however, that the main reliance is being placed upon the United States machine tools and that this is, therefore, one of the urgent supply considerations. The morale of the workmen seemed high, but we were informed that many highly skilled artisans had been taken by the army and that this was a serious mistake. The management also stated that due to the necessity for keeping over a hundred million francs in United States funds ahead of receipt of materials, the growth of this enterprise and the increase in production had been greatly hampered. It should be noted here that this unit is a private enterprise and outside of obtaining equipment, in certain instances from the Government, it operates as a normal industrial unit.

It

It is proper to point out that the standards of operation are mugh higher than had been encountered in the Government-operated plant. This operation indicated:

1. Enterprising management under most trying conditions.
2. Good attitude by workmen, and high morale.
3. Good equipment and tooling.
4. Good shop management.
5. Use of women and specialized workers.
6. Good inspection.
7. Orderliness and neatness.

On Tuesday morning, June 4th, we were conducted to the Ford plant at Poissy. Here a new factory of model construction which was begun in March 1939 was being completed. It was originally designed to make a new small automobile which was put aside upon declaration of war. The original plan of the Ministry had been to manufacture Rolls Royce engines, but the Ford management, upon studying the Rolls Royce engine, came to the decision that it would be unwise for two reasons: (1) the Rolls Royce engine is the most complicated engine of its type, (2) by manufacturing the Hispano-Suiza, France could standardize on only two main types of engine, namely, Gnome-Rhône in the air-cooled field, and the Hispano-Suiza in the liquid-cooled field. However, this factory is very vulnerable to bombing, and the management quickly realized that

it

that it was necessary to solve this problem. It, therefore, moved all of the late American machines and its best equipment to a location near Bordeaux, leaving behind standard equipment which, if lost, would not be irreparable. The management stated that its main difficulty was in the fact that it had lost its toolmakers to the army and was 50,000 hours behind in its tool program. The management had made a study of the manufacture of the Hispano-Suiza engine and confirmed the fact that the engine, with new equipment, could be built for much less than the cost at the present Hispano-Suiza factory. These figures are interesting and are as follows: at Bois Colombes 2700 man hours, at Tarbes 1400 man hours. The Ford estimate for high production on new equipment: 1200 man hours. It is obvious that this management approaches the manufacture from the automotive point of view and would like to change the design in order to improve production. However, it recognizes that this would have to be a very slow process because of the unusual demands placed upon an aviation engine for quality and reliability, and the fact that designs cannot be altered without a great deal of careful research and testing if the equipment is to function reliably and if life is to be conserved.

The factory is in all respects a model one, even to latest American standards, (1) the lighting is excellent, (2) ventilation is excellent, (3) the neatness is outstanding, and (4) machine arrangement and process location are efficient.

Only a thousand workers are employed, of which approximately

approximately half are women. Another unusual feature is that young boys between 14 and 17 years of age are employed. These young boys and the women are worked on short shifts of 7 and 7-1/2 hours, as against 11-1/2 hours for the men. The workmen appeared intelligent, and the morale good. This factory would prefer to make its production from American steels since they are stated to be much more uniform than French steels.

This factory is equipped with a Diesel emergency power plant which was running due to the fact that the power lines had been severed the day before by the bombs. The bombing had extended to this area, although this plant is 12 or 15 miles outside of Paris.

The factory is 65,000 square meters, of which less than one-third is used for the aviation activity, one-third vacant, and one-third is used for assembling trucks. A very model system of truck assembly had been installed, of the latest type found in the United States.

The management showed us an exchange of cables which were highly confidential, wherein the United States divisions of the Ford Motor Company had agreed to help the Allies. This telegram referred to Mr. Henry Ford as well as Mr. Edsel Ford, and indicated that the decision had only just been reached that day. The management indicated that in their opinion Germany was manufacturing 1600 airplanes per month, France and England combined, 1100, and the United States 300, and that further immediate and urgent help was necessary but that, unfortunately, it was needed within

the

the next two months, which seemed improbable. It was said that while the Ford Company had the sole rights for manufacturing Hispano-Suiza motors, they had given them free of charge to the United States Government in hopes that help might be forthcoming from the Ford divisions in America. The management further added that their estimate of manufacturing Rolls Royce engines was 4100 hours, or many times the cost of the manufacturing of the Hispano-Suiza design. It is not known the basis on which these studies were undertaken or made.

We were then conducted back to the Hispano-Suiza factory, where an inspection was made of the foundry, the bearing plant, the Hispano-Suiza airplane cannons and the shell plant, and lastly, an examination made of a German airplane motor which had been disassembled, reassembled, and had been test-run, and which represented one of the latest types of German pursuit motors. We were informed that this motor was a very complicated one to make. It is the Jumo No. 211 of 1000 HP to 1050 HP and was said to weigh 675 kilograms. The motor had run only 50 hours and indicated that it would not run very much longer without difficulty. The management gave it as their opinion, based on inspection of several German motors, that the motors, as a general rule, would not run over 50 hours without extensive repairing, and that perhaps this was part of the German plan. The installation of the motor was such that it could be changed rapidly and replaced in the airplane. Its altitude performance was calculated at 4000 meters

and,

and, from an analysis of the fuel left in the tank when it was brought down, the gas was found to be 85 to 90 fuel octane quality.

As we went out, a motor was seen on the test stand with exhaust gas trappings of the Brown-Boveri type referred to elsewhere.

J. Carlton Ward, Jr.

Copies for:

The President of the United States of America,

The Secretary of the Treasury,

~~General~~ Admiral Towers,

General Arnold.

JCW/lhh

H. Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

June 26, 1940

File Personal Confidential

My dear Mr. President:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

H Morgenthau Jr.

The President,
The White House.

LEGATION OF THE
UNITED STATES OF AMERICA

Lisbon, Portugal, June 19, 1940.

Report No. 3.

Subject: The Situation with Respect to the Production of Aviation Engines in France.

The Honorable

Henry B. Morganthau,

Secretary of Treasury,

Washington, D. C.

Sir:

Note - Report No. 2 concluded the notes on the situation as observed in the Paris area. It was intended to follow with inspection of the larger key "shadow" factories erected outside the Paris area and including the overhaul station at Bordeaux. In spite of the progressive deterioration of the military situation and the tension caused by the resulting necessity for additional migrations of industrial plants from the northern area, this work was practically completed and final report in writing made to the Under Secretary of Air for France. This report took the place of a final conference, as had originally been planned, due to the critical situation which had developed and which preceded the decision to ask for an armistice by the French Army Command.

It was a fortunate circumstance that led to a chance meeting with Mr. Bernard Wait the Special Attaché of the United States Treasury

Department

Department who had opened an office in Bordeaux and it was through the thoughtful cooperation of the office that it was possible to write our final report to the Under Secretary of Air for France.

It was requested of Mr. Wait that a copy of this report be sent by diplomatic pouch to your office for the purpose of a record in the United States of the suggestions and recommendations of the Commission. This was in accord with a conversation between Amabssador Bullitt and the writer reached in the United States Embassy in Paris.

After leaving Paris on Saturday June 8th we reached the Gnome-Rhone "shadow" factory at Le Mans about 125 miles southwest of Paris late in the evening. Refugees and military movements delayed the trip and evidences of past bombing were seen at the landing field in Chartres and where an alert caused all cars to halt on the road. No bombing occurred.

We inspected the factory that night. The factory was built new in September 1939. It was painted a dark brown color for protection, was protected with heavy machine guns mounted on the roof and adjacent to a large air field constructed at the same time. English Hurricane Fighters were on station there. Up the road a quarter mile a new bomb proof structure was under construction as an additional "shadow" factory. An eighth of a mile further, located in a pine grove, there had been constructed a large well planned housing development for the workers called the "City-in-the-Pines".

Precise information on this factory was difficult

to

to obtain due to the fact that the Air Ministry had recently changed its policy thereby causing a complete rearrangement of facilities with consequent dislocation of production. The original policy called for each of the several Gnome-Rhone factories to specialize on the production of certain components with the thought that this would lead to maximum efficiency. Then it was subsequently realized that bombing attack or other dislocation of production would result in paralysing all Gnome-Rhone production.

During our visit the factory was being reconverted into a complete unit for producing all parts for the Gnome-Rhone model "N" engine. The assembly was to be done in an underground factory at Ponthierry. The model "R" was to be built similarly elsewhere, likewise model "M" and similarly for additional model "N" parts. Model "N" was, at the time, the main production model.

Large quantities of machinery had just arrived and it was estimated that a period of three weeks would be required before the factory would again be in operation. It was stated that over 700 machines had been shipped in within the past week. As was also observed in most of the factories in the Paris area which were not underground, the roofs were treated to prevent the night light from being visible from above. Recently, however, several night flights of French planes had shown that the protection was not sufficient and the factory

was

was therefore not operating at full efficiency until this could be taken care of. They were operating on a temporary basis whereby they were to shut down upon warning from the military headquarters. It was explained that on the two previous nights they had received such warnings and consequently had to send their employees home with the result that very little was being accomplished except on the day shifts.

With the 700 additional machines received the previous week, they expected to employ 4000 workmen though it was stated only 1500 were at work under present conditions. There was available a manufacturing area of 200,000 square feet devoted entirely to machine shops.

The following morning we inspected the housing development of the "City-in-the-Pines". 1500 houses had been constructed of four different architectural designs. The designs were such that the house could be turned in such manner that any one of the four sides could be presented to the street. Each of the four designs was finished in four different colors thus making 64 architectural combinations. skillfully mixed together. The streets were laid out in curves and beautifully landscaped which was made easy by the natural surroundings as well. We spent the night in one of these houses and found them equipped with all sanitary facilities and heat from a central system. In other words they

were

were modern and much finer than the average French house particularly for the working classes.

It is interesting to note that both the factory and the housing development as well as the landing field were constructed by the Gnome-Rhone Company at the time the war started. All three were subsequently taken over by the Government. In addition the Gnome-Rhone management had started the bomb-proof factory which will now be described.

This unit was not complete and for reasons explained had been taken over by the Government in a half finished state. The Government intended to complete the construction. The Director of the Gnome-Rhone Company stated he did not know why the construction was so far behind the schedule. He stated that the Gnome-Rhone Company had planned to complete it in April but it was learned subsequently from an army engineer that it would not be finished until August. This structure was one of several different types which are used in France for bomb-proof factories. It consisted of a massive reinforced concrete shell over 600 feet long and built like the letter D with curved side toward the sky. The base of the D was under the ground approximately 10 feet and was over 6 feet thick of solid concrete reinforced with large steel bars. At the end of the building steel rails were used for reinforcement and the entire structure

had

had no windows or doors with the exception of one massive opening through which railway cars could be switched. The inner structure consisting of four floor levels was an independent structure of reinforced concrete and was not tied in with the outer envelope.

We were informed that the outer envelope would be covered with dirt and planted in grass with artificial roadways made to look like part of the normal country side when viewed from the air. The structure would be ventilated with electric fans and we were not able to learn if the source of power was independent of outside sources.

We then left for the Bordeaux area which was extremely congested with tremendous quantities of machinery and factory employees as well as refugees pouring into the area. Our first visit was to the Ford-Air factory which we were informed had originally been built for the first American Expeditionary Force as a locomotive shop. This factory was in two units. One for the production of trucks and the other for Hispano-Suiza motors. This unit was one of the "shadow" units for the production of this motor and was being set up to make complete parts only. The parts were to be assembled at Jonzac a few kilometers outside of Bordeaux. Much of the equipment came from Poissy in the Paris area and more was being brought down and

installed

installed. New building construction was being planned. There was at the moment 120,000 square feet for the aircraft activities.

We were informed that the Bordeaux area had not been an important manufacturing area particularly for metal work. The pace of labor was much slower than in the north of France. There was a great shortage of tradesmen and other skilled employees. There is a complete shortage of housing facilities due in a large part to the inpouring of refugees from Belguim and northern France. There was no auxiliary source of power if bombed. This was planned for later if they could remove the unit from Poissy in time. Work was carried on twenty-four hours a day with two long shifts. The industrial leaders with whom we discussed the situation felt this to be a mistake. It was their opinion that three eight hour shifts would be much more productive and efficient. No bonus or wage incentive system was yet in evidence.

The same problem was encountered as elsewhere, namely the loss of skilled workers to the army.

This unit was depending upon the Ford factory in America to furnish the bulk of the special jigs and tooling.because of the shortage of tool makers in France. In the meantime they had tooled up certain parts of the engines themselves and understood that a great deal of American equipment was on the way.

It

It was interesting to note that the new construction would use up the space allotted to the material storage yard with the result that the management was expanding into a piece of idle property adjacent thereto. The management informed us that they had been unable to get action through the Air Ministry in time and were expropriating the land themselves, advising the owner that in time he should get a requisition from the Air Ministry. They did not inform the owner until they had already started construction gangs. preparing his property. There were many other evidences of the inadequacy of the Government planning to meet the accelerated requirements of the military needs behind the lines.

The schedule for this factory was given to us roughly as follows: the complete machinery was to be received within the next three months. All machinery and tools for manufacturing the crank shaft were to come from the machine tool industry in the United States fully tooled. It was their plan to make 500 complete sets of parts per month with extra parts where they would be needed for repairs of engines. Thus in the case of cylinders they planned to make 800 per month. Their schedule called for starting shipments in August and full production by the end of the year.

They began this work at Bordeaux in September 1939 when they took over the old A.E.F. locomotive

shop

shop and cleaned it up, turning it into a factory for making 40 truck engines and running gear per month. They began the aviation work six weeks before our arrival. They had ordered all the American machinery possible through a Holland firm and first consignments were then en route from the United States. They also ordered their tools through the Ford representative in the United States.

It is also intended to set up a unit for the manufacturing of the Hispano aircraft cannon. It is expected to have a total employment of 4000 people.

There will also be a large Hispano gun factory near by in the town of Saintes and the engine assembly will be carried on at the nearby town of Jonzac which we understand will be an underground factory.

The Bordeaux district will also manufacture airplane engine parts in other factory units. Thus the Bugatti factory will make crank shafts, propeller shafts and other parts.

As a result of the German invasion of the raw material centers in northern France production was down by 60% in the last six weeks caused by lack of certain raw materials. The management felt that the United States was the only possible source to look to for this missing material.

The management summed up their problem as consisting of four factors: (1) material, (2) machines (3) tools

(3) tools, and (4) men. All four were serious, the latter only with regard to skilled workers and supervisors. It was estimated that they needed 400 additional experts in order to start the complete operation for 4000 workers. On that very day the army had announced that all men from 18 to 26 years of age were being requisitioned for the army.irrespective of their factory status.

The housing situation was so serious that we witnessed the placing of large groups of families of new workers coming down from the north into nearby emergency barrack-like structures. The Air Ministry representative stated that their review of the engine situation indicated that engines would be seriously behind airplane production in the later part of 1940 and that in two months from now it will handicap their pursuit program.

The next factory visited was the Bloch located in Bordeaux adjacent to the Ford-Air property. This unit is a Government-owned factory which was part of the nationalization program of the Front Populaire. From information obtained both from French industrial leaders and from American service representatives production in this unit had been notoriously low. Under the impetus of war conditions and with a new manager furnished by the Air Ministry production was increasing. The manager informed us however that he was still very dissatisfied with his

production

production. At the time of our inspection they were switching over from the use of Gnome-Rhone engines to the American built Pratt and Whitney engines.

The model is known as 175 with Gnome-Rhone engines and it has a speed of 560 kilometers per hour at 5000 meters altitude. With Pratt and Whitney engines it was known as the 176 and had a speed of 520 kilometers at 3000 meters altitude. Later type Pratt and Whitney engines now on order of the two-speed construction would increase this performance considerably. Theweight of the unit complete we were informed was 7000 kilograms. This unit has been in construction for only one and a half months and the first units were only just reaching the front. In addition to the factory in Bordeaux they had several additional manufacturing units, several of which will be referred to later. Of the workers twenty-five to thirty percent were women and it was their plan to increase them to fifty percent of the total. The manager estimates that the production was at that time approximately half of what he would expect in the Paris area. He informed us that wages were 8 francs per hour for men and 5 to 6 francs per hour for women.

Airplanes manoeuvering over-head were pointed out to us as executing an imaginary bombing attack on Bordeaux so that the military could learn to protect

Bordeaux in the event of a German attack.

We then proceeded to the final assembly and test units at the large air field of Merignac about ten kilometers out of the city. Here we saw the ships put through finish assembly in one manufacturing unit and then wheeled into another large unit where the auxiliary equipment such as armament was added and the airplanes camouflaged ready for delivery to flight test.

The field was surrounded by a succession of a large military hangers as well as new and substantial barracks for Air Force enlisted personnel and for officers. Headquarters buildings were across the field and opposite from a commercial station and control tower. The entire area was heavily policed with troops.

Our next visit was at the emergency Purgeot factory in Bordeaux which had been assigned the task of making sets of engine parts. The Purgeot organization prior to the war had been making 300 cars per day and during the last war had manufactured Hispano-Suiza engines for the Government. We were informed on American authority that they were among the best of the Hispano-Suizas built during that period. However the management had requested that it be allowed to make Gnome-Rhone parts and was therefore organizing a group of small factory units

scattered

scattered through the Bordeaux area for this purpose. The machinery had been ordered in America by the Allied Purchasing Commission and was coming in and as fast as it arrived it was being set up. We saw a large quantity of it in operation.

To complete their program they still needed additional machine tools and they had to complete new buildings some of which they had moved from the Paris areas. It was also necessary to recruit new workers as well as bring down a great many from the Paris areas and in addition they were lacking important items of raw materials. It is interesting to note that they were bringing from Paris to the Merignac location a factory building of 100,000 square feet which we later saw partly erected.

Mr. Purgeot complained that some of his best men were taken by the army. His schedule called for 600 sets of parts per month beginning in July 1940. Each of his factory units of which there were three in Bordeaux and one a few kilometers outside of Bordeaux at Merignac produced different parts. The assembly and test we were informed was to be done at the underground assembly base for the Gnome-Rhone "shadow" system.

He also had been assigned the manufacturing of landing gears and in one unit was to make the Amiot fuselage. The Gnome-Rhone engine model was the small model "M" used on the two-engine Potez and Breguet.

We

We had an interesting meeting with Captain Henri Pagny formerly a member of an American oil company organization and recently appointed as the Air Ministry officer in charge of contact with all American service representatives. It was very obvious to the commission that the Air Ministry had not provided in its planning for the efficient use of the American service representatives. This was confirmed by Captain Pagny. Thus it seems difficult to find out where the American equipment was being assembled, set up, overhauled or operated. It was also difficult for the Service representatives to get housing accommodations, travel permits, gasoline and the like. Much work was necessary before the Ministry could satisfactorily clear up this situation.

Captain Pagny volunteered the information that one Pratt and Whitney motor was equivalent to three Hispano-Suiza motors or four Gnome-Rhone motors in overall usefulness at the front.

The following day we set out for the city of Tarbes to inspect the main Hispano-Suiza "shadow" factory. This is located approximately 150 miles east by south of Bordeaux. This unit was designed to produce 250 engines complete including assembly and test. However, by this time the military situation had become sufficiently acute so that they were evacuating the Hispano-Suiza factory

from

from the Paris quarries to which it had moved from Bois Colombes. In other words this large production unit had no sooner begun to well establish itself at the quarry before it againhad to move. The loss in production is obvious.

It will also be remembered that Ford-Air had in the same period built its new factory at Poissy and had in turn been forced to move to Bordeaux. Similarly the "B-G" accessory factory was rushing its new unit in southern France as did the Turbomerca super-charger company and lastly the Gnome-Rhone Company had to move from Blvd. Kellerman which had been its main factory. There was no way of finding out whether it would have been possible to evacuate the remaining aviation units from the Paris area. It was obvious that such factories as the Gnome-Rhone forge shop at Gennevilliers with its heavy machinery could not be moved in time to prevent it from falling into German hands.

Prior to the inspection of the factory a conference was held between the Hispano-Suiza and the Ford managements to formulate a policy in connection with the plan of the American Ford unit for the manufacture of Hispano-Suiza engines or parts. A copy of their conclusions as typed by them and given to the commission is attached. The commission was asked to familiarize themselves with the reasons for these decisions so that unofficially they might be

of

assistance upon returning to America if additional background were asked for by the American officials concerned. The commission made it clear that their action in this case would have to be entirely unofficial; from which point of view it would be glad to be helpful in passing along the situation which it had observed first hand.

In general the commission felt that the Gnome-Rhone program had been better planned and more skillfully executed from production point of view than the Hispano-Suiza program and that while it could not draw any clean cut conclusion it felt that if anything the Hispano-Suiza engine was the better engineered of the two. From what had been observed it did not seem possible that the Hispano-Suiza production program of 1300 engines per month could possibly be obtained until well into 1941.

The Tarbes unit was originally a factory for making heavy electrical machinery. Practically 100% of the machine tool equipment had come from the United States and was practically new and of the very latest and best design. The machines had been started up by American machine tool representatives and it seemed well within possibility that the cost could approximate the figures which we had been given in Paris. It will be recalled that we were told that it cost 2700 hours to build an engine at Bois Colombe whereas they expected Tarbes to manufacture

for

for 1400 hours the same engine.

The equipment was efficiently arranged and except for certain minor shortages of raw material production was active in all departments. A number of Belgian workmen had been evacuated from Chaleroi and were at work. Some Belgian machinery also came through and was being set up in a separate building to help out in the program.

The Tarbes factory had been started in September and had 3500 employees. It was not necessary to ship the engines to Jonzac since it was fully equipped to do all the assemblying. 4800 sets of forging had been ordered in Americanbut as yet no aluminum castings. They were desirious of furnishing the patterns and an expert to go to America to obtain the castings along with the forgings since it was assumed that the enemy invasion had caused the large aluminum foundry to shut down in the Paris area.

The Tarbes factory is now 300,000 square feet in size and they were in the process of increasing it to 400,000 square feet in area. In addition to the machine shop and the testing facilities they had/an exceptionally well equipped aluminum foundry and a very fine metalurgical and chemical unit. All of the heating and melting equipment was electric and was equipped with the latest type of control instruments.

instruments. The metalurgical laboratory included x-ray, spectrograph, and refractive index equipment, besides having the usual chemical and physical testing facilities.

The degree to which women were employed was in certain instances remarkable. We saw for the first time in our experience women who had been trained as expert scraper hands. There also were several instances of women being used as supervisors and as tool setters. One notable instance was that of a woman setting up precision machines for thread grinding. They maintain a simple vestibule school for women and young men.

The method of handling tools and gauges was of the best. Inspection equipment and storage facilities were good. Whenever tools were used they were reconditioned and reinspected automatically before again being issued. The engine test operation was, as in the case of the other plants visited, cut down to a minimum. The facilities and the instrumentation were excellent.

We next returned to Bordeaux where we inspected the principal government overhaul station for aviation engines. This also was in the process of development although during our inspection they were overhauling at the rate of five complete engines per day. This unit was carefully planned by the military in spite of, as we were informed, the factory formerly having

having been a jam and preserve factory. Engines were received at one end of the property and separate production lines were maintained for the different makes of motors. Gnome-Rhone, Hispano-Suiza and Pratt and Whitney lines were already in production and a new line was being set up to get ready for the Wright engines which were beginning to come from America.

Along-side the assembly lines was a small shop for making minor parts and for doing salvage work. Two separate sets of test facilities were provided, one for liquid, and one for air-cooled motors.

We were informed by the personnel that the American motors upon overhaul plainly showed themselves to be superior to the French motors. We encountered a number of American representatives who were engaged in co-operating with the French personnel in servicing this equipment at this station. Their plan is to work up to complete overhaul of 550 engine units per month. Also on the property was a sheet metal department for repairing cowling and other engine installation sheet metal accessories. A larger shop was being started at Limoges some distance away.

On the following day due to the fact that we had been unable for the past week to get any contact with the Under Secretary for Air because of the military restrictions and the fact that the military situation was becoming each day more seriously

critical

critical it was decided to complete our report and recommendations without further delay. Accordingly this was done the following day and presented at the Air Ministry office which had been moved to Bordeaux during the night. The report was first discussed with General Martinot Lagarde. Arrangements were then made for the commission to leave France via the Spanish border.

The information in this report is based upon personal observations of the writer or, where stated, was given directly to him by the officials contacted. It is believed that this is in line with your request.

Respectfully submitted,

J. Carlton Ward Jr.

J. CARLTON WARD, JR.

Note:

There was insufficient time for copies to be made of the memorandum referred to herein. Copies of the memorandum will be sent under separate cover.

J. C. W.

PSF: Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

file personal

June 28, 1940

My dear Mr. President:

I am sending you herewith Mr. Carlton Ward's Report No. 2. This is the one referred to in Report No. 3, which I sent you on June 26th.

Yours sincerely,

Henry Morgenthau Jr.

The President,
The White House.

Encl.

[redacted].

SECOND REPORT WITH REFERENCE TO FRENCH AIRCRAFT ENGINE INDUSTRY.

On the evening of June 4th, a dinner was given for the American group by the officials of the Gnome-Rhône organization. It was learned at this dinner that the Air Ministry had not committed itself on Gnome-Rhône engines beyond December 15, 1940, thereby creating a very difficult problem for private industry to face. The Gnome-Rhône management felt that it required, for efficient planning, a schedule from the Government that would cover it for at least a year (this would check with American practice, under war conditions, as a minimum). The Gnome-Rhône management also stated that due to the use of a penalty clause for non-delivery which had cumulative penalties up to 10%, whereas the allowable profit on any contract is limited to not over 4%, that, therefore, the company was forced to always be ahead of time on its deliveries if it was to stay solvent. The company felt that this was not a practical or efficient situation under the circumstances.

It is also of interest to note that losses on one contract are not applicable, as an offset to any excessive profit over the 4%, on another contract, even though both run concurrently. (It is obvious that without some very flexible administration such a policy would be impractical under present conditions where factories are being moved at a moment's notice, women workers are being substituted for men, old machinery is being put into active production, new sources of material are being

started/

started up, all tending toward a situation which would make accurate predictable costs almost impossible with any reasonable degree of accuracy). It is also interesting to note that the head of the Gnome-Rhône company is the first one to advance to our group the thought that what France should have is complete airplanes, including engines, instruments, and armament, all ready to fly rather than, for instance, the purchases of engines as a separate item. It was also pointed out that up to five years ago Gnome-Rhône actually had engines in stock ahead of installation, although there had been improvement in the Government airplane production factories since that date, which, it was stated, tended to more nearly balance the situation. It was also further stated that what France needed was long-range heavy bombers, such as the American B-17 (it must be remembered that the bombing of Paris had occurred the day before, and the thought in this gentleman's mind was that such bombers as the American B-17 could readily fly over Berlin and duplicate the results of the bombardment of Paris, thereby bringing home the result of such tactics to the German people and German officials in an important and practical manner). It was again impressed upon us that one unit of aeronautical equipment available at the front under today's conditions would be worth many units perhaps six months from now.

The impression of the American group at this dinner was that the Gnome-Rhône management is thoroughly production-minded and is attempting to let nothing stand in the way of production that lies within their own power (it was learned on the following day that the Air

Ministry/

Ministry gave them an order for three months additional engine capacity).

On the morning of June 5th, an official from the Air Ministry arrived early at our hotel with a query as to whether America could furnish landing gears for French airplanes, as the industry was behind on this unit. The writer recalled having seen outside the Caudron factory during a visit to the Air Ministry a large quantity of training planes which were complete, except for landing gears. They were stored in the open landing field which was being bombed during the writer's visit. The American group advised that this matter of landing gear procurement be directly taken up through the representatives of the French Mission in America without delay, and with sufficient technical information so that American landing gears could be supplied to the planes in question. It was stated that 300 per month would be needed.

The group then proceeded to the Gnome-Rhône forge and foundry at Gennevilliers. The Gnome-Rhône management explained that this unit is a unit which makes raw materials of any kind and for any purpose wherever and whenever a shortage appears in their regular procurement. It is an extremely large operation and is very vulnerable to bombing. The equipment would be difficult to move in many instances, since it consisted of large-sized steam hammers, presses, and other equipment involving not only great weight but very heavy foundations. The management operated a Diesel power plant, although the factory is

within/

within a short distance from the largest power station in the Paris area. It runs the Diesel station at part capacity at all times, alternating its units in such a way that all of them are kept in perfect condition for any emergency, and takes the rest of its power under normal conditions from the power company station.

The American group observed in this factory the casting of aviation cylinder heads in metal molds, a process which is not available in America. It has been stated by many American engineers that this process is an improvement over the same casting methods used in America. It is evident that this casting is more precise, with a lower scrap and with a much lower finishing labor requirement. Sand cast heads are also made in this factory to fill in production needs, so that the two processes could be viewed under like conditions by our group.

The working conditions in this factory were almost feverish, and the pitch of activity was very high. Women were used wherever possible and, in one instance, a woman was observed operating a new American Erie forging press which had been set up and begun operating two days before. This apparently was the first introduction of women into the heavy forging shop, where conditions are hot, dirty, and extremely noisy. We also observed a woman in the foundry running a medium molding machine, as well as large numbers of women on core work and finishing operations. We observed crankcases being forged in a 35,000 kilogram hammer, as well as propeller blades and other large aluminum forgings. In the same shop, steel crankshafts,

master/

master rods, and other ferrous parts are being fabricated. A press was available with a 1500-ton capacity, but it was interesting to note that most of the large equipment had been built in Germany before the war.

The workmen are all on a bonus system and are guaranteed a base rate of 10 to 12 francs per hour. While the factory is designed to make up shortages and, therefore, must be able to make any piece of raw material in any of the various metals, nevertheless the rate of production on certain items was rather high. In the case of cylinder heads, it amounted to between 500 and 1000 per day, consisting of the permanent mold type and the sand cast type. The company is also procuring steel and steel forgings in the United States. The feeling seemed to exist that aluminum would not be procurable in a forged form due to the demands of American industry on its own sources (from information given to the writer before sailing, it is believed that conditions at that time would have permitted American industry to aid in this direction if called upon).

Some rough finishing work is also done in the Gennevilliers plant as well as making forged dies and patterns. A summary of our views on this factory unit is:

1. Extraordinary degree of production activity in both numbers of workers and as to the rate at which each worker applied himself.

2. An extremely flexible management.

3. Lack of efficient or late types of equipment were not permitted to stand in the way of using everything available, even though roundabout methods had to be

adopted/

adopted.

4. A preference for American steels, wherever they can be obtained, on the basis of greater uniformity.

5. No magnesium being used for castings or forgings. No satisfactory answer was given for this, and it is inferred that there is no sufficient supply available.

6. The vulnerability of this plant is one of much concern, although there are facilities existing outside of Paris for furnishing every one of the items manufactured at this location.

The management was unwilling to state the rate of its production, on the basis that it was not privileged to give this information. From other sources, it was said to be 820 engines last month, of which 700 were actually manufactured and the balance were put together from inventory and by shortening the final testing. We were again informed that the Model 14-R engine will be available before the end of this year, to have a normal HP of approximately 1500, but that there are few airplanes which are available for taking this motor at this time. Two of these motors are said to have had considerable test time. The company continues to be ahead of the Air Ministry schedule for reasons outlined and, with its affiliated groups, plans to attain an over all production of 1800 per month early in 1941. It was learned elsewhere that this organization is looked upon favorably with respect to its ability to produce, and that the management is energetic. We were informed that its main plant, on Boulevard Kellermann in Paris, is rapidly being dismantled and moved to another location, so that it was not necessary to inspect this unit although, up

to/

to the war, this plant had been its principal one.

At noon a luncheon was given to us by the management of the Ford and Ford Air interests in France. It was learned that at the present time six Dewoitine fighters are being made per day at the Toulouse factory. This is regarded as the best French fighter.

This factory plans to increase this output to 15 a day and, while there were a few motors ahead, the airplane production now has been brought up to a point where it is equalized with that of the Hispano-Suiza motors. The Ford Company has been given firm orders for 10 months ahead, but the Ministry has instructed them to keep on manufacturing in any event. In other words, this firm has found it desirable to contract for materials at times beyond the 10-month production schedule if, in its judgment, this is necessary. It does not feel that this is a systematic method of operating a private enterprise, even in wartime, and the writer was informed that industry is endeavoring to correct this situation by longer range planning. From all sources with whom we contacted, high praise is given to the present head of the governmental aeronautical procurement, the Under Secretary for Air, Colonel Mény. During his several months of office, it is stated that the Government has straightened out many procurement problems and policies, and is making decisions promptly when needed. It is said that this present procurement administration for the aeronautical industry is a non-political one, the head being a former chief administrative officer for the (oil company with which Colonel Mény was associated).

The/

The Ford Air Company is not yet in production, but expects to be within three months, it was stated. Their plan is to produce parts for 300 motors per month by the end of this year and, using their own estimate of the Hispano-Suiza production, both in the main and shadow plants, it was stated that it was doubtful if the total would reach the totals planned for, but would have a rate of production of around 700 engines a month by the turn of the year. It will be recalled that the Ministry plan is to build this up to 1300 a month at the first opportunity. The writer was informed, although this could not be verified, that one of the causes for the financial difficulty of the main Hispano-Suiza organization, which has already been referred to, was, in some measure due to payments to the Government because of inability to make deliveries as expected. The Ford Company stated that this brought about a contract between the Government and the Ford Company which had no penalty provision, and it was predicted that this would soon be general.

We were also informed that the Government had greatly curtailed its inspection services and that Government inspectors were pretty generally removed from all process operation inspection, and that final inspection had in some measure also been curtailed. The Government requires a guarantee of 150-hour, or one year, operation, depending upon which is attained first. In the Hispano-Suiza group, it was planned to set up one to one and a half percent of the sale price of each engine as a pooled fund from which to back up this guarantee and that, since the Ford Company made parts only and the inspection and assembly and test were to be done by the Hispano-Suiza operation in a

separate/

separate unit, the division of responsibility would in each instance have to be worked out between the companies concerned. It was admitted that this was rather cumbersome and it was evident that there is uncertainty as to the business practices which will have to be adopted because of the unusual production conditions that are prevailing. The Ford Air Company pointed out that its lack of toolmakers is extreme and that important help will have to come from the outside. This company has attempted to procure all of its raw materials, wherever possible, from the United States. Its crankshafts are bought in the following manner: steel from Republic; forgings from Wyman-Gordon, and machining of the crankshafts from "Jackson". Its forged rods will come from Bethlehem Steel. Its cylinder barrels or sleeves come from Timken, its valves from Thompson Products, and its tool steel from America.

Later in the afternoon, our group visited an accessory plant. This company is the "B-G" and is at present in Paris. Plans have been completed and construction is nearing completion for a new plant in the department of Gironde. This plant is a licensee of the "B-G" Company of America for spark plugs, but also manufactures magnetos, "gyro" instruments, ignition harnesses. This factory, as well as the design of the magneto, impressed our group. The magneto is a new development, having been completed within the last eight months and already the production is 1000 per month. It is made of excellent die castings, and apparently high-grade material in all respects. The

machine/

machine equipment is good and the tooling appears good. Here again a great many women are used and all departments, except assembly, worked twenty-four hours, seven days a week. The same number of harnesses is made per month both for Hispano-Suiza and Gnome-Rhône motors. Large quantities of spark plugs are manufactured, although the gyro instruments are only in the early stages. The magneto is much simpler than the American types, but apparently contains all of the important features, such as even-firing, booster connections (although it was stated that no booster is required, nor have the French engines been forced to use boosters), careful attention to oil seals, single and double magneto types, etc. It is not known, however, whether this magneto would pass American Army and Navy tests.

In conclusion, the Ministry has not indicated to us that accessories as yet have become a serious problem in connection with speeding up engine production.

On Thursday morning, the Commission had been asked to present to the Ministry its analysis of the plant and facilities of the sub-licensee of the French Government, Talbot Motors, for the manufacture of American Pratt and Whitney engines. A survey of this plant has been noted in Report No. 1. From our inspection and information gained subsequently, it was pretty evident that:

1. The management of Talbot Motors and the Ministry had lost confidence in each other.

2. It was the Ministry's feeling that they never knew whether to take the face value of either the

financial/

financial schedules or the production schedules worked out by the Talbot management.

3. On the part of the Talbot management, it was freely stated that the Ministry had made it plain that they did not enjoy the confidence of the Ministry and they felt that they had reached the limit of their own resources with the result that the plan could not be concluded.

4. A survey of the plant indicated that:

(a) Over a million dollars in the latest and best machine tools, almost entirely American, were installed in a brand new factory.

(b) A great quantity of tools and fixtures had been manufactured from Pratt and Whitney drawings for producing parts.

(c) The management said that in two more months it could complete the tooling of the engine.

(d) To make the complete engine would require approximately two more million dollars of machine tools, in accordance with the list submitted to the Ministry in October.

(e) No evidence of a strong organization was found.

(f) There was evidence of poor financial administration and good engineering administration.

(g) Likewise, in the separate plant formerly used for automobile manufacture, there was a large amount of suitable but old equipment, only a small portion of which was now being used by wartime procurement.

(h) The plant was highly vulnerable to bombing and, in the event that enemy forces secured the Paris area, very valuable equipment would fall into their hands unless quickly destroyed.

5. Much of the equipment which was not being put to good use in the factory would be of material assistance elsewhere. However, much of the equipment could be put to actual advantage in the manufacture of separate parts for the considerable quantity of Pratt and Whitney engines now being used at the front and for an even larger amount yet to come from America.

It was evident from the Commission's inspection of the various plants that there was a shortage of toolmakers and tools of the nature which Talbot already possessed. The Commission came to the conclusion that the most practical thing to do with all of the above circumstances in mind was to consider:

1. Immediately removing the equipment from the Paris danger zone.

2. Cleaning up and terminating the present arrangements with the Talbot Company.

3. Turning over the Talbot facilities to a strong industrial organization, preferably one with a good knowledge of American methods and with a sympathy and understanding for American manufacturing technique, where the facilities could be combined with like facilities on similar work as a separate department or unit.

4. Such a unit was exemplified by the Ford Air unit at Poissy, where there was every evidence of high-class management, a full knowledge of American methods, a contract to manufacture liquid-cooled engine parts, a shortage of first-class machinery of the type owned by Talbot, a severe lack of tools and fixtures of the type owned by Talbot, and last but not least, an organization which

had/

had already moved to a location near Bordeaux a majority of its aeronautical activity and where it was said to have additional room available.

Upon receiving the analysis of the American Mission, Colonel Mény, Under Secretary for Air, suggested that the Ford organization might be the one to consider. No alternate plans were suggested, therefore, by the American Mission unless requested by the Ministry. It was indicated that if the plan can be worked out, production will be started on spare parts from materials already received from America, and serious consideration will be given to completing the installation of sufficient equipment to have a complete engine plant, with this latter consideration being left open until a more detailed study could be made.

In the afternoon the Mission journeyed to the Ford Truck plant at Asnières, in the Paris area, at the request of the Ford management to discuss general procurement problems. The two groups were joined by Colonel Mény, the Under Secretary for Air, whereupon it was announced that the Ford organization in the United States had cabled that it was willing to consider manufacturing the Hispano-Suiza motor recently developed of the four-valve type and said to be of considerably increased HP.

It was stated, however, that the Ford organization would undertake to do this only upon direction of the United States Government, through whom the engines would be diverted to France, and providing the United States Government was interested in investigating the use of

this/

this motor to its own advantage, perhaps as a fourth source of motor types in the United States.

The Commission felt that this matter was officially not within the scope of its considerations and merely attempted to answer questions with respect to the known facts concerning American power plants compared with the Hispano-Suiza engine. In this regard, the discussion covered the fact that the American motors so far used in France had proven superior to engines of local manufacture, and that, in addition, larger HP models would be available in these types in the United States before the Hispano-Suiza motors could be put into production, and that the new Hispano-Suiza had apparently not yet as much engineering background of experience in the new form as had the newer American types of motors with which it might readily be called upon to compete. It was pointed out that this was a matter which would undoubtedly be considered carefully by the engineers in the various Government services, and that if the decision were to be made in the near future, it would undoubtedly thoroughly test the Hispano-Suiza motor which is being immediately despatched to the United States for the purpose.

At this point, the Ford management put out some very interesting figures in connection with the costs of the various types of motors here. These figures indicated that the Hispano-Suiza motor of equivalent HP could be procured by the French Government more cheaply than the equivalent Gnome-Rhône type. Secondly, that Rolls Royce engines could be procured in France for £2650 which, on the basis of their method of conversion, was also cheaper than the Gnome-Rhône engine. However, all of these figures

work/

work out between 425,000 francs and 475,000 francs for the Hispano-Suiza and the Rolls Royce engines, and 500,000 francs for the Gnome-Rhône engine. The Commission was in no position to comment except to say that it was the opinion of many engineers in the United States that a liquid-cooled engine, exclusive of the cooling radiators, etc., which it was necessary to include in an engine of this type, would cost in the United States from 10% to 20% more than an equivalent air-cooled engine of an American type. At the present moment, of course, actual costs were nearly 50% higher since the liquid-cooled engine had not yet had the benefit of normal production. The question of greater vulnerability for the liquid-cooled engine in times of war as against the results with air-cooled engines was brought out by Colonel Mény.

The American Commission closed this discussion by stating that it was their belief that these aspects of the situation would be thoroughly appreciated in the United States by competent authorities.

Colonel Mény then retired and the discussions were turned into considerations which would lean to an improvement in the production situation here in France. This discussion brought out the fact that the more advanced units of the indstry believed that a more orderly control of production and planning for production and a system of following up production was needed. To best bring this into being, it was suggested that it should be started in the Ministry office with a view toward reasonably standardizing the types of schedules from the various units, making them all part of a larger plan. Secondly,

it/

it was brought out that much would be gained by having the representatives of the various industries visit each other's plants with a view toward picking out the better features and attempting to combine them in all of the various manufacturing plants.

The Commission's inspection plainly revealed that some factories were outstanding in their use of planning methods which others lacked, and that in other instances, some of the units which did lack planning methods had outstandingly high labor attitudes together with high standards of supervision having to do with production. Still others had more advanced inspection technique, etc., so that if these could be combined the general efficiency throughout the industry would be promoted.

The Ford management then outlined certain features of procurement which, it is felt, are of interest:

1. Each contract is limited to a 4% profit and is audited by representatives of the Government, but without any standard form of accounting procedure. In other words, our inference is that there is considerable discretion permitted to take care of the unusual situation prevailing. There is no averaging of profit among contracts.

2. Penalty clauses had been tried and were apparently falling into disfavor.

3. Extraordinary war facilities such as buildings, machinery, etc., were being amortized on a formula as follows: 50% the first year, 25% the second year, and 25% the third year. At present no agreement exists with reference to the possibility of the war ending after a brief period and leaving the private industries with high book

values/

values for war facilities. This is under discussion at the present time between industry and the Ministry.

4. The original warranty required of the engines demanded a guarantee of two years, or 200 hours of operation, whichever was attained first. This was found to be too long a period and recently was reduced to one year, or 150 hours of operation.

5. If a manufacturer continues to use the war facilities upon conclusion of the war, it is assumed he will rebate to the Government excess depreciation allowed.

It was then explained to us that the Ford Air, which is set up as a part of the Hispano-Suiza production plan, has so far been given the job of making complete sets of parts which are to be assembled by Hispano-Suiza in an underground assembly plant at Jonzac, in the Bordeaux region. The Ford Company is responsible for delivery of the parts to the assembly plant and for the quality. Industry is short of qualified inspectors, it was then brought out. So far, Ford Air has an order for 2100 motors spread out over 12 months. It has no penalty clause for non-delivery and is setting aside 1-1/2% as a fund for supporting the warranty. Complex problems are involved in deciding upon responsibility for failure or damage to an engine within the warranty period. Many of these problems are yet to be worked out in the light of experience. It is part of the Ford Air plan to secure all of the raw materials that it possibly can in America.

Arrangements were made by the Ministry to take the American Commission to the Société Turbomeca at Billancourt (Paris). The purpose of this trip was to show the American

Commission/

Commission a highly advanced supercharger design of a type not well known in America. This is known as the Szylowski compressor. Work was started on this unit at the request of the present Inspector General of Aeronautics, Martinot Lagarde, in the year 1928. The inventor, Szylowski, has worked on the unit continuously during the intervening period in order to develop what he claims is the scientific background of elastic flow at high speeds for which he claims to have a mathematical analysis. The supercharger has a unique system of variable blades which permits it to maintain its efficiency over a relatively wide range of operation. The mechanism, while more complicated than the standard supercharger, is a purely automatic device and is operated by a sylphon control which corrects the blade setting of the supercharger to give the highest efficiency at all altitudes without attention from the pilot. In other words, for a mechanically driven supercharger, it attempts to approximate in its operation the desirable features of an exhaust gas turbine-driven supercharger. Manufacture of this unit was begun in September, when war was declared, and last month the factory made over 200 of these units, all of which are to be on the Hispano-Suiza engines and which are to be used on the Dewoitine fighter. The curve of efficiency for the supercharger, it was stated by the inventor, shows a top efficiency of 80% and this drops very slowly on a curve instead of in a straight line, so that it has a high efficiency over a relatively wide range.

Work of the Commission has apparently been concluded in the Paris area and we leave for the three outlying shadow factories as follows: Le Mans - Gnome-Rhône;

Bordeaux/

Bordeaux - Ford Air; Tarbes - Hispano-Suiza.

THE WHITE HOUSE
WASHINGTON

File personal Mary

June 29, 1940.

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY:

To speak to me about on Monday.

F.D.R.

PSF
HMJr

THE SECRETARY OF THE TREASURY
WASHINGTON

JUN 28 1940

My dear Mr. President:

In your letter to me of December 6, 1939, you advised that you had created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

Subsequently, the Executive Assistant to the Assistant Secretary of War, Colonel Burns, was designated to serve on this committee in lieu of the Quartermaster General of the Army.

At the time of the formation of the committee, Captain Collins was Director of Procurement. Captain Collins carried on these important committee duties along with his regular duties as Director of Procurement with the result that it was physically impossible for him to give to the regular work of the Division the supervision necessary for its efficient functioning.

Upon the resignation of Captain Collins, Mr. Donald M. Nelson came to the Treasury and took over the Procurement duties. As he is now to leave the Treasury under his new assignment, I think it is an opportune time to separate the supervision of the regular procurement functions from those of the foreign purchases under your committee set-up. I should like, therefore, to recommend that Mr. Philip Young, Assistant to the Secretary, be designated as Treasury Representative on the committee having to do with matters relating to foreign government purchasing in the United States, in lieu of the Director of Procurement.

For the supervision of the regular procurement duties I propose to appoint Mr. Clifton E. Mack as Director of Procurement by transfer from his present position in the Bureau of Internal Revenue. Mr. Mack has been devoting his time for the past several months to the reorganization of the Division and he has brought about such fine results and has shown such marked capacity for the work that I feel he is ideally equipped to take charge of the Division.

Faithfully yours,

Henry Morgenthau Jr.
Secretary of the Treasury.

The President,

The White House.

THE SECRETARY OF COMMERCE
WASHINGTON

File personal

June 29, 1940

Dear Missy:

Here is a memorandum on excess profits tax. I meant to give this to the President yesterday afternoon. I wonder if you could get it to him when he gets back from the trip, because I think he is going to send a message up on Monday.

Sincerely,

Miss Marguerite LeHand,
The White House.

National defense is a national task to which every American must contribute with his talents and treasure in accordance with his ability and the country's need.

I am convinced that our people are gladly willing to make whatever sacrifices may be necessary to make America strong and keep America free.

But when we are asking even our humblest citizens to contribute their mite to the national defense, it is our duty to see that the burden of national defense is equitably distributed according to ability to pay and that a few do not gain from the sacrifices of the many. We want no national defense millionaires.

If we wish to avoid requisitioning or regimenting private industry for national defense and, instead, to utilize the driving force of private enterprise to push forward our national defense program, we must see to it that excess profits - profits in excess of a fair return on invested capital - are subject to steeply graduated taxation.

As it seems likely that the Congress will be in session during the summer I hope that the Ways and Means Committee of the House and the Finance Committee of the Senate will immediately undertake with the help

of the Treasury to formulate and recommend a fair, workable and progressive excess profits tax that will convince the country that a national defense program intended to protect our democracy is not going to make the rich richer and the poor poorer.

On the assumption that such excess profits tax legislation is to be promptly enacted, I recommend the repeal of the Tobey Amendment to the Vinson-Trammell Navy Act of March 27, 1934 as well as subsequent acts containing the Tobey Amendment in various forms. The purpose of the Tobey Amendment was to prevent excess profits being realized from certain ship and aircraft contracts, but that purpose can be much better and more equitably achieved by a steeply graduated excess profits tax applicable to all business without discrimination. The Tobey Amendment limits profits in relation to costs or contract prices, which frequently bear little or no relation to a fair return on capital. It has greatly delayed, and in many cases prevented, the execution of essential contracts because of the inability of business men, especially remote subcontractors, to understand or to gauge the effects of its provisions.

The Senate Munitions Committee found that under the Tobey Amendment

of the Vinson-Trammell Act "there is absolutely no effective control of costs possible without a huge policing system of auditors and inspectors constantly on the premises." (Senate Report No. 944, 74th Congress, 1st Session, Pt. I, p. 324), and that despite the amendment "there is no effective profit-limitation law today". (ibid., Pt. VII, p. 12) The amendment only leads to waste, increases contract costs, and imposes an intolerable burden of cost accounting which hinders rapid production without yielding any compensatory advantage to the government. The Treasury estimates that the direct costs of its administration exceed the revenues it produces. It is imperative that the unnecessary and burdensome restraints that it imposes be removed.

2

File personal

THE WHITE HOUSE
WASHINGTON

Dear Mooy -

This is a rewrite of a statement on excess profits taxes which Harry asked for and which I gave him yesterday.

He told me to get this rewrite to you tonight

Tom.

STATEMENT ON EXCESS PROFITS TAX

National defense is a national task to which every American must contribute with his talents and treasure in accordance with his ability and the country's need.

I am convinced that our people are gladly willing to make whatever sacrifices may be necessary to make America strong and keep America free.

But when we are asking even our humblest citizens to contribute their mite to the national defense, it is our duty to see that the burden of national defense is equitably distributed according to ability to pay and that a few do not gain from the sacrifices of the many. As I have said before, we [want no] cannot afford any national defense millionaires.

If we wish to avoid requisitioning or regimenting private industry for national defense and, instead, to utilize the driving force of private enterprise to push forward our national defense program, we must see to it that excess profits -- profits in excess of a fair return on invested capital -- are subject to steeply graduated taxation.

As it seems likely that the Congress will be in session during the

summer I hope that the Ways and Means Committee of the House and the Finance Committee of the Senate will immediately undertake with the help of the Treasury to formulate and recommend a fair, workable and progressive excess profits tax [a tax] that will convince the country that a national defense program intended to protect our democracy is not going to make the rich richer and the poor poorer. Time is important -- the crystallization of national willingness to make other sacrifices that may lie ahead may depend upon such proof to the common man that we are defending democracy -- not plutocracy.

If such excess profits tax legislation should be promptly enacted, it would be practicable to repeal, and I recommend the repeal of, the Tobey Amendment to the Vinson-Trammell Navy Act of March 27, 1934 as well as subsequent acts containing the Tobey Amendment in various forms.

The Tobey Amendment limits profits from certain ship and aircraft contracts in relation to costs or contract prices. Business men sincerely willing to help have pointed out that such costs and prices frequently bear little or no relation to a fair return on capital -- and that the

Amendment has greatly delayed, end in many cases, prevented the execution of essential contracts because of the inability of business men, especially remote subcontractors, to understand or to gauge the effects of its provisions.

The Senate Munitions Committee found that the Tobey Amendment is not effective. The Treasury estimates that the direct costs of its administration exceed the revenues it produces. The Amendment only leads to waste, increases contract costs, and imposes an intolerable burden of cost accounting which hinders rapid production without yielding any compensatory advantage to the government. Its purpose can be much better and more equitably achieved by a steeply graduated excess profits tax applicable to all business without discrimination.