Chap. I

CHAPTER I

FOREIGN FUNDS CONTROL AT PEAK OF OPERATIONS

Total war is fought in every part of the world on every front — financial, economic and psychological, as well as military. In such a war the contributions of economic and financial warfare to ultimate victory are far beyond what is generally known. In the long run no army can be more powerful than the economic machine that supports it. Any operation which stops the enemy from producing war materials or from paying for his operations hits him in a vulnerable spot.

The Axis nations planned their economic and financial battle lines for World War II long before actual hostilities began, remembering that in World War I collapse came first on the economic front. Rigid controls on foreign exchange and trade were among the first steps of the Hitler government and the Japanese militarists. German and Japanese industry was encouraged to penetrate throughout Europe, the Americas and the Far East. They bought up raw materials and production facilities. German cartels made financial and trade arrangements which restricted production of vital materials in other nations. Financial and commercial "fronts" were planted throughout the world and through them propaganda and espionage were financed on an extensive scale.

The United States was aware of these moves. By executive order of the President and pursuant to his authority under Section 5(b) of the Trading with the enemy Act, Foreign Funds Control began its economic and financial war nearly two years before Pearl Harbor and the commencement of World War II. Through the mechanism of Foreign Funds Control the Nazis were kept from using billions of assets in this country; Axis fronts were uncovered; the Japanese were prevented

331334

from getting American oil long before war was declared. It was the one agency responsible for seeing that the Axis reaped no benefits from the billions of dollars looted from its victims; that enemy dollars were prevented from competing with Allied dollars for the acquisition of war materials; that the Axis were deprived of money necessary for espionage, sabotage and propaganda; that rewards to collaborationists and cloaks for their services to dictators were adequately cut off; that as territory commenced to be liberated by our forces the controls were used as a firm basis from which our armies moved forward, and for further weakening the enemy's position. The Control could accomplish these objectives since the United States is not only the largest depository of foreign assets in the world, but is also the world's dominant financial market. As a result, a large portion of all major international financial transactions, particularly those affecting the Western Hemisphere, utilized the financial facilities of the United States and such transactions came under the scrutiny of Foreign Funds Control.

The objectives of Foreign Funds Control shifted rapidly: at first, to protect the assets of countries over-run by Hitler; then to defend against the effects of the spread of Hitlerism in the United States; and thereafter, to supplement the tides of the military war as they changed. The continued object of Foreign Funds Control was to hit the enemy where he was weak; to strangle his faultering economy; to destroy his ability to get and use resources; and to prevent him from financing his activities at home, in neutral countries, and within our border.

The history of Foreign Funds Control, both in terms of the programs undertaken and methods of execution, reveals a pattern of improvement and refinement derived from experience and increased awareness of the potential ities ~~significance~~ of

331335

Foreign Funds Control as this Government's financial spearhead in its economic attack on the Axis. The following chapters will attempt to describe this evolutionary process, both in terms of programs adopted and the administrative organization established to effect these programs. Since the basic philosophy of Foreign Funds changed consistent with the changes in the war progress throughout the world the history of Foreign Funds Control can conveniently be treated along the following lines: "Genesis of Foreign Funds Control - 1937-1939"; "Period of Protective Blocking, April 1940-June, 1941"; "Period of Defensive Blocking, June 1941-December, 1941"; "Period of Aggressive Blocking, December, 1941-August, 1945;" "Termination of Blocking Controls, November, 1944-April, 1948". ~~A concluding chapter will attempt to set forth some of the lessons we learned in our administration of Foreign Funds Control.~~ Before detailing how Foreign Funds Control adapted itself both from the point of view of administrative techniques and concrete programs of action throughout its years of operation, it was considered useful ~~to attempt~~ to present at the outset a bird's eye view of the functions and administration of Foreign Funds at the peak of its operations in the latter part of 1942 and early part of 1943.

A. MAJOR PROGRAMS

At the peak of its operations Foreign Funds Control was carrying on five main financial warfare programs throughout the world. These programs, based on Executive Order 8389, as amended, and pursuant to Section 5(b) of the Trading with the Enemy Act, as amended, were as follows:

1. Prevent enemy from using assets in U.S.

During the uncertain years prior to the war large sums were transferred to this country for safekeeping. When the nations fell the Axis powers began a

331336

systematic campaign of gaining control of all of these assets held in the United States. Foreign Funds Control took vigorous measures to insure that the innocent owners who put their trust in the strength and integrity of this country were not deprived of their property by the force and fraud practiced by the enemy. Under the authority of the Trading with the Enemy Act and Executive Order 8389, as amended, all assets held here by nationals of invaded countries were placed under "protective blocking". Under the Treasury's powers attempts to transfer any blocked funds without Treasury licenses were made null and void. Operations in the United States of business enterprises which were substantially owned by nationals of blocked countries were rigidly controlled by Treasury licenses.

2. Prevent enemy from benefitting from loot.

Germany was desperately in need of foreign exchange from the time the Hitler machine began grinding out the tools of war in the '30's. She needed greater balances abroad in order to buy from other nations the goods and services to feed her military economy. As the war progressed she required even more exchange to buy from Switzerland, Spain, Turkey and other neutral areas the metals, ~~the~~ goods and ~~the~~ labor she required.

When Germany overran the Netherlands, Belgium, and France, she seized large quantities of negotiable securities, American currency, diamonds, and gold. It soon became apparent that the German government intended to use these readily marketable assets to help pay the costs of the war, and that efforts would be made over a period of time to liquidate and dispose of all American securities and currency which had been seized. Many schemes were developed to turn the valuables into foreign exchange. The general pattern, however, was to make use of black market operators or "fences" in neutral countries who were willing to gamble

331337

that they could sneak the looted billions into respectable channels until eventually they could be redeemed at full value in the United States itself. Among the functions assigned to Foreign Funds Control was the responsibility of rendering ineffectual any such attempt of the Axis to realize on its loot.

Under one program initiated to meet this problem, all securities and currency imported into this country were required to be delivered to a Federal Reserve Bank for examination. The securities and currency were not released unless the Control was satisfied that the title thereto was free from Axis taint. Thus, in effect, all dealers in questionable securities and currency were told that they purchased them at their peril. By this means the value of looted securities and currency in neutral markets was substantially decreased, thereby sharply reducing their worth to the Axis.

Through the currency control program over three million dollars of tainted currency which the holders were trying to run past the blockade were seized and impounded. Hundreds of millions more are undoubtedly in the possession of the Axis, much of it held idle because of the tightness of the freezing controls.

Because of the many devious systems concocted by the enemy to convert stolen assets, the control program developed many varied techniques besides that of licensing. For example, several of the large banking houses in a particular South American country were doing an extensive business in black market dollars. Three of the large dealers were "specially blocked" by Foreign Funds Control. This blocking tied up the United States holdings of the companies and stopped them from doing business in black market dollars. When forced to decide between doing business with the Nazis or with the United States they quickly agreed to submit all major transactions to the American Mission for prior approval. Black market activity in that country dropped to a fraction of its former volume.

Another technique was the strengthening of currency controls throughout the Western Hemisphere through cooperation with the respective governments. In non-dollar-using areas all currency transfers to this country were channelized through the Central Banks of the countries involved. In dollar-using areas the Control encouraged local governments to establish strict importation controls to supplement our own, so as to afford the Axis no opportunity to realize on their hoard of looted dollar currency.

After the invasion of Holland and Belgium, the German High Command seized valuable stores of diamonds and other gems held by the industry there. Systems similar to those used for currency and securities were worked out to convert this loot into foreign exchange for the Reichwehr. Foreign Funds Control exercised constant care to frustrate attempts to dispose of the gems to persons within the jurisdiction of the United States. The effectiveness of the measures undertaken is exemplified by the conviction of the German Agent, Von Clemm. Von Clemm, a relative of Von Ribbentrop, was acting as the "fence" in this country to dispose of the stolen gems through his apparently respectable Pioneer Import Company. He was prosecuted and convicted under the Trading with the Enemy Act. His conviction was subsequently affirmed by the United States Circuit Court of Appeals (2nd Circuit).

The restrictions imposed by Foreign Funds Control drastically impeded the enemy in his efforts to secure much needed foreign exchange. The success of the Control was evidenced by the fact that in Spain, Switzerland, and Portugal the Axis countries accumulated huge adverse balances and that they had increasing difficulties in purchasing supplies from these countries. Reliable sources indicated that the Axis was unable to compete with United States representatives in Portugal bidding for such a vital war material as wolfram, and that Germany was forced to sell airplanes and merchant ships to Spain in order to provide funds with which to buy other essential materials for the Axis war machine. Likewise, the Germans were known during this period to be seeking frantically for pesetas to pay the "Spanish Blue Division" and Spanish laborers working in Germany.

3. Stop trade and communication with enemy.

Responsibility for administering the licensing controls under Section 3(a) of the Trading with the enemy Act was assigned to Foreign Funds Control. Pursuant to this provision, regulations restricting trade and communications with enemy nationals were issued providing that unless a Treasury license was obtained no financial or commercial transaction could be effected by any persons within the jurisdiction of the United States if it involved directly or indirectly an enemy national.

Foreign Funds Control adhered to a general policy of severing and eliminating all financial and commercial intercourse direct and indirect between the United States and the Axis and Axis-dominated countries.

At the peak of its operations it examined and regulated all communications of a financial, business or commercial character and all trade transactions between persons subject to the jurisdiction of the United States and persons in enemy countries or persons in Europe or Latin America included on "The Proclaimed List of Certain Blocked Nationals." Its staff studied and analyzed thousands of censorship despatches each month; reports from commercial attaches were reviewed. Through the examination of communications between the United States and European neutrals instances were uncovered where persons and firms in this country attempted to effect financial transactions in Axis occupied countries through willing intermediaries in neutral countries. One American company, for example, was found to have been directing a Swiss "front" to see to it that certain patent royalties were paid on its behalf in Germany.

331340

In addition, standards of conduct were prescribed for American controlled concerns in Latin America and the neutral countries prohibiting them from having any financial, business, trade or other commercial dealings with persons or firms in enemy territory or with persons or firms on the Black List except pursuant to specific Treasury authorization. It was found that certain branches and subsidiaries of American firms doing business in neutral countries were exporting and importing goods to and from Germany. In one case one firm actually manufactured and delivered across the border radio-telephone transmitters for trucks of the German army. Such supplying of vital equipment to the enemy was stopped.

All communications with the enemy, of course, could not be denied. Certain communications with persons under enemy influence had to be licensed because the release of such communications would have rendered greater benefit to the United States Government than would have been rendered to the enemy. For example, it was found desirable in some cases to grant licenses for trade or communication with persons on the Proclaimed List so that American suppliers could be paid for goods purchased prior to their black listing. Again in certain Portuguese territory a number of producers of a critical war material, sisal, were designated as Proclaimed List enemy nationals. However, because of the great need for sisal, large remittances to these producers were permitted. With the cooperation of the agencies of the Government engaged in the purchase program, arrangements were made to insure that the funds thus made available would be utilized for the production of more sisal for our uses.

The control of the trading with the enemy was complicated by the fact that residents of the United States were permitted under certain conditions to effect limited remittances for living expenses in the neutral countries of Europe. Close

331341

surveillance of such cases was maintained to insure that the remittances were not finding their way into enemy hands abroad.

The "ransom racket" was one of the favorite techniques the Nazis used in extortion of money. Nazi representatives would ferret out refugees with holdings in the United States who had relatives remaining in Germany. The victims were notified that their relatives would be tortured unless certain sums were paid. Strict control over remittances from this country abroad cut off this black mail.

4. Direct weapons of foreign exchange.

The United States is the outstanding market for international financial operations in the world today. Because of its immense resources, its large volume of foreign trade, and its effieient machinery for financing international dealings, the United States was the channel through which a large portion of transactions between nations flowed. Through its banking facilities payments were effected for foodstuffs and raw materials moving from South America to the European neutrals and for the goods and services moved in return.

The dominant position of the United States in international finance was enhanced by the strength of the dollar as a medium of foreign exchange. Dollar balances are one of the few media generally acceptable in transactions between nations. Because the United States was the outstanding channel for financial exchange between nations, it was in a strategic position to apply controls over transactions between nations all over the world. Foreign Funds Control exercised these controls for the United States Government throughout the world. Executive Order 8389, as amended, prohibited, except pursuant to Treasury license, "all transactions in foreign exchange..." Under this power to license, Foreign Funds Control was in a position to exert tremendous influence, first, to insure that no

331342

transactions beneficial to the Axis could be consummated and, second, to promote transactions of benefit to the Allied cause.

In many instances, licenses seeking to finance trade and commercial transactions involving neutral countries were denied when careful study showed that, while appearing on the surface to be trade transactions to benefit this country, the ultimate results were advantageous to the enemy. For example, the neutral countries of Europe and their nationals repeatedly attempted to use blocked dollar assets in the United States to purchase large stocks of food and strategic raw materials from the Latin American market for storage until after the war when they would be available for trade. In view of the fact that such purchase programs competed with our wartime purchase programs in Latin American countries, Foreign Funds Control discouraged these stockpiling operations.

A considerable volume of trade in foodstuffs, raw materials and manufactured goods flowed between Latin America and Europe. Even though the goods flowed directly, the payments in the large majority of instances, were effected through New York because no other means were available. This permitted Foreign Funds Control to scrutinize the circumstances surrounding thousands of shipments that otherwise would be outside the purview of the United States. Payments which involved suspicious firms were stopped and the apparently clean checks which carry Proclaimed List endorsements were held up until the underlying transaction was investigated.

In addition, the Control's review of the financing of Latin American-European trade provided a fund of information vital to the agencies of this and other governments engaged in blockade and commodity purchase programs. Foreign Funds Control's "Trade and Economic Information" reports constituted the only comprehensive source of information available on that trade from which Government

331343

agencies such as the "Foreign Economic Administration" (refers to all predecessor organizations) and the State Department could construct the total picture of international movements of vital materials in order to set export quotas, determine preclusive purchase programs, or to check on the activities of suspicious individuals or companies. Through these reports, for example, the State Department was able to prevent a duplicate shipment of machinery and replacement parts for the Madrid Subway, only one of which was authorized by export license. In another instance, these reports indicated that a letter of credit was opened to finance $100,000 of canned tuna fish and salmon to Switzerland. Since these commodities were virtually unobtainable in this country, the export was prohibited by the Foreign Economic Administration, although the letter of credit could have been opened under the Swiss general license.

Through the use of certain licensing techniques, normal financial transactions between the United States and European neutrals were required to be effected in a manner which would produce the Swiss francs, the pesetas, and the escudos required by this Government.

The positive use of financial controls was likewise apparent in Foreign Funds Control's "China Program". Under that program all assets and transactions in the United States involving China were regulated at the request of the Chinese Government and in cooperation with the Stabilization Board of China. Because the bulk of China's trade and financial transactions were effected in dollars and sterling, this joint regulation in combination with a similar control by the British helped China apply an effective control over foreign exchange and trade operations. The tripartite arrangement permitted China to exercise control not only in her free areas, but also in her territories occupied by the Japanese.

5. Procurement of Vital Financial Information.

In June, 1941, the world situation which resulted in the extension of freezing control to the entire continent of Europe also made it imperative that this Government obtain comprehensive information on all foreign-owned property in the United States, including that held by non-blocked countries and their nationals. Foreign Funds Control made provision for reports on Form TFR-300 by all persons in the United States having custody, possession, or control of any property in which a foreign national had an interest, direct or indirect. Foreign nationals who had arrived in this country since June, 1940, were also required to report their own property.

About 565,000 reports were submitted. The study of these reports, which is nearly completed, shows that total assets in the United States belonging to persons in foreign countries amount to about $12,700,000,000, of which over $6,000,000,000 is held by blocked countries and their nationals.

As the war progressed, it became apparent that the Treasury and other agencies of this government needed more information on American property interests abroad not only to deal with blocked countries and to meet problems of reoccupation but also to enable this government to perform its duties in formulating the peace and taking its place in the post-war world. In June, 1943, persons subject to the jurisdiction of the United States having foreign assets valued at $10,000 or more were required to file reports on Form TFR-500. Foreign-issued securities held in this country, as well as property physically located abroad, were covered by the requirements.

Some 235,000 reports were submitted, of which 171,000 came from individuals. Preliminary tabulations, which may be subject to considerable change in the final analysis, indicate total holdings abroad of approximately $13,000,000,000.

331345

6. Liberated Areas Program.

The liberation of territory which had previously been under enemy domination imposed heavy additional responsibilities upon the Treasury and, in turn, upon the staff of Foreign Funds Control. By order of the President, the Treasury was initially responsible for applying comprehensive financial, economic and property controls in each re-won area. The scope of its operations in this field were in direct relation to the success of the military advance.

The North African experience illustrates on a small scale the type of problems which the field staff of Foreign Funds Control was required to meet and the work which the Washington office of Foreign Funds Control was called upon to do in preparing programs for territories liberated or then near liberation.

One of the first requirements in the liberated areas was the establishment of adequate and reliable financial facilities for internal and external operations. Reliable financial channels were essential to (1) the successful financing of our military forces in the area, (2) the importation of materials needed in the area and the exportation of materials useful to the United Nations, and (3) the adequate operation of the internal economy. The possibility of using existing financial institutions to provide these facilities was complicated by the danger of remaining enemy influence. Accordingly, the staff, both in Washington and in the field, exercised every precaution before any North African financial institution was permitted to deal with the United States or before its representatives in this country were accepted for carrying on transactions here.

For example, after careful investigation a proposed agent in the United States was prevented from acting on behalf of the Bank of Morocco because he was found by Foreign Funds Control investigators to have (1) acted as an agent in the United States for two banks on the Proclaimed List; (2) participated in a scheme whereby funds in the South American branch of an Italian bank were transferred from New York to an Argentine bank and thence into the control of the Italian interests; (3) withdrawn his personal funds from a New York bank in violation of regulations just after France was frozen; (4) associated with and held a financial interest in a firm controlled by a person on the Proclaimed List; and (5) visited Paris in 1941 with the permission of the German authorities and promoted the interest of munitions plants in occupied France.

There was a further requirement for effective investigative work and adequate sanctions to dry up possible sources of Axis financing still in the liberated area. In this respect the situation in each area was roughly the same as that confronting Foreign Funds Control in the United States. Axis or collaborationist ownership went underground. Unless the true control was discovered and neutralized, money and property were available for sabotage, espionage, and the purchase of strategic materials in the heart of our military installations. Investigations of such persons or firms were conducted both in the United States and in the area. Information available from both sources often rounded out a complete story of enemy affiliation. By coordinating foreign and domestic investigations the Control was able to throw a spotlight on the operations of two large French banks which control vast industries in North Africa and exclude them in the strategic period from any operations in areas subject to our control.

The investigation of one of these banks disclosed fully the role it had played in arranging Franco-German financial collaboration. Practically all of its partners and associates figured prominently in the Vichy Government. One associate played a leading part in the negotiations of July 1940, facilitating the surrender of French Indo-China to the Japanese. A second associate was (1) manager of a

Franco-German iron and steel cartel which administered the program for handing over the control of all large French enterprises to the German interests; (2) was responsible for the organization of the French chemical industry into a unit of which the German I. G. Farben owns 51 percent of the stock; and (3) as Minister of the Interior toured French North Africa to exploit the production facilities for the Germans. Another associate was found to be the moving force behind Vichy's financial decrees which organized France's banking institutions within the Franco-German economic program. Still another had collaborated closely with the Germans in developing financial arrangements to cover the occupation costs and other demands by the Germans.

A further necessity for the United States in the newly liberated area was elimination of communication and trading with the enemy from the newly-won area. From the view point of allied military operations, this measure was of particular importance as long as the enemy held any territory. Every precaution was required to be taken in cooperation with all agencies in the area to destroy possible vehicles for transmission of information to the enemy. Furthermore, as more and more territories were liberated and the enemy was correspondingly weakened, his efforts to use his waning resources increased. The agents and collaborationists who were left behind doubled their efforts to send financial and economic aid to the enemy.

To sharpen controls over trade and communication, Treasury representatives were able to secure the issuance of the "Trading with the Enemy Ordinance" by the French African officials. Yet, in spite of regulations, certain collaborationist managers of a bank in Morocco were actually able to spirit $700,000 in gold from North Africa after the completion of our invasion. Acting upon the basis of illegal communications from Paris the collaborationists flew the gold to a neutral

331348

country to be used to finance Nazi purchases. These machinations were investigated by Foreign Funds Control representatives who made a detailed report of the facts surrounding the flight. Foreign Funds Control thereafter ordered the segregation of and specially blocked an equivalent $700,000 held in the United States by the Moroccan bank for such disposition as this Government may deem desirable. The violators of the Ordinance were arrested.

To meet these various requirements in liberated areas, Foreign Funds Control assembled all available economic and financial information which would be of use to the liberating forces. In particular, they concentrated on the collation of data on the significant operations and relationship of official and private banks, the other financial institutions, and the industrial combines in each territory to be entered. They made available members of their staff to advise with respect to the institution of the necessary financial controls in liberated areas and to develop new controls in the light of local conditions.

B. ADMINISTRATIVE ORGANIZATION

The effective application of freezing control measures was not accomplished merely by the enactment of suitable legislation and the establishment of appropriate regulations. It required an active and flexible administrative organization which was able effectively to enforce the objectives of the Control. It required a competent and imaginative staff capable of rapid adjustment to constantly changing problems who were thoroughly familiar with the aims of the Control and with the techniques which might be used.

The Treasury Department created such an organization in Foreign Funds Control. By the time the operations of Foreign Funds Control had reached their peak, Foreign Funds Control was divorced from the Office of the Secretary and accorded separate administrative status comparable to other bureaus of similar size and importance. It was supervised by a Director who was also Assistant to the Secretary, subject to general direction of the General Counsel. It utilized the services of other Departments of the Treasury Department to perfect its operations. A staff of lawyers within the General Counsel's Office were assigned to devote entire time to freezing control legal problems. Highly trained economists from the Division of Monetary Research were employed in the analysis and solution of the many and complex problems of economic and financial policy confronting the Control. Customs officials policed our regulations with respect to the control of securities and currency. The Office of the Coordinator assisted the Field Investigative Staff of Foreign Funds Control in its investigations and enforcement problems. Close cooperation was maintained with the Bureau of Internal Revenue.

At the peak of its operations Foreign Funds Control, whose staff both within and outside of Washington numbered approximately 2000 people, was organized into four major divisions which were, in turn, sub-divided into clearly defined operating units. The Licensing Division, which developed and implemented the licensing policies to carry out the major programs of Foreign Funds Control, was made up of three separate sections: Business and Securities; Liberated Areas; and Trade. The Enforcement Division, which initiated and developed programs to increase the effectiveness of the freezing control and to direct its enforcement, was made up of four individual sections: Censorship Relations; Compliance; Foreign Enforcement and Program Planning. In addition, the Enforcement Division had field staffs of investigators in New York, Chicago, San Francisco and Los Angeles. The Statistics and Reporting Division, which developed, directed and carried out the statistics and reporting program in Foreign Funds Control based on the census of foreign owned property in the United States and the census of American owned property abroad, was organized into three sections: Property Accounts; Statistical Operations; and Machine Operations. The Administrative Services Division, which provided Foreign Funds Control with administrative management services and advised generally on the problems of organizational and operation relationships, was organized into three sections: Personnel; Budget and Planning; and Office Services. In addition, there was an Office of the Special Assistant to the Director which was charged primarily with representing the director in discussions and negotiations with foreign governments and diplomats concerning the policies of the freezing control as related to their interests. Directly responsible to the Director were three field organizations: the Hawaiian office which carried out Foreign Funds Control operations in the Territory of Hawaii and advised the Civil Governor and the military authorities on the policies and procedures of the freezing control; the Liberated Areas Staff which consisted of Treasury representatives located in areas liberated from enemy domination who were charged with the responsibility of generally assisting the foreign governments in the development and application of fiscal financial and banking, property control measures within such areas and to integrate such measures with those in effect in the United States. The Puerto Rico Office carried out Foreign Funds Control operations in Puerto Rico and advised the Insular Government as to the policies and procedures of the freezing control.

Since the direct application of the freezing control was effected principally through the banking system, the Treasury selected the 12 Federal Reserve Banks to act as its field offices in administering the control. Each of these Federal Reserve Banks maintained close contact with the banks and other financial institutions in its district and thus provided effective regional administration of the policies established by the Control. The individual banks in turn, were kept advised through Federal Reserve Banks of the rules and regulations concerning transactions affected by the freezing control.

331351

The banks regulated their own transactions and those of their customers in accordance with the policies of the Treasury Department. In fact, the major part of the enforcement was done by the banks themselves. A bank which participated in a transaction in violation of the freezing order or regulations was not only subject to severe penalties but was also likely to find the contracts entered into in violation of such regulations were unenforceable. Thus, the banks had an interest in enforcing the Order both because of their desire to cooperate in the war effort and because of the fact that they might be held criminally or civilly responsible for any transactions in violation of the freezing regulations in which they might have been involved. In recognition of the fact that a heavy responsibility was placed on the banks for transactions which, in many cases, they themselves did not initiate and with respect to which they may not have been in possession of all the facts, Foreign Funds Control generally took a lenient view of unintentional or purely technical violations.

The administrative advantage of operating through the 12 Federal Reserve Banks and the 15,000 commercial banks in the United States cannot be over emphasized. Effective liaison between the banks and Foreign Funds Control was secured and maintained through the operations of an advisory committee of bankers, known as the "Loree Committee". This committee not only served as a medium for advising Foreign Funds Control how to meet technical banking problems which might be involved in Foreign Funds Control regulations, but also assisted in educating the principal banks engaged in foreign business, thus providing for effective administration of the regulations.

Because the activities of Foreign Funds Control affected so many aspects of our domestic and international relations, the Control cooperated closely with many other Government agencies. A close liaison was maintained with the Department of State, Office of Censorship, Foreign Economic Administration, Maritime Commission, Navy and War Departments, the Federal Bureau of Investigation, the Bureau of Immigration and Naturalization, the Coordinator of Inter-American Affairs, the Office of Strategic Services, and the Office of the Alien Property Custodian. Major policy decisions were frequently considered by interdepartmental groups. The services of Foreign Funds Control were used to implement many of the operations of these departments. For example, Foreign Funds Control investigated for the War Department the branches of neutral insurance companies which operated in the United States under Foreign Funds Control licenses and was thus able to assist the War Department in developing an appropriate security program consistent with our military objectives to be followed by foreign owned insurance companies. By the same token, Foreign Funds Control was enabled from time to time to increase its effectiveness through securing assistance from these agencies. For example, the Office of Censorship furnished to Foreign Funds Control appropriate dispatches which revealed financial schemes inimical to the interests of the United States and which were in violation of Foreign Funds Control regulations. These schemes could as a result either be "nipped in the bud", or appropriate punitive action was taken. Frequently, Foreign Funds Control worked jointly with one or more of these departments to secure a primary objective. Foreign Funds Control, together with the Foreign Economic Administration, was able to stop a Swedish company from sending ball-bearing parts to Germany, thus cutting down Germany's primary source of supply for this strategic material. To succeed in accomplishing this objective Foreign Funds Control cut off practically all financial relationships between the United States subsidiary of the Swedish firm and its Swedish parent.

331353

Actually, the administration of Foreign Funds Control throughout its history cannot be considered a costly operation of this Government. Funds in the amounts listed below were granted by Congress for Foreign Funds Control operations from 1940 through 1948:

1940	$ 700,000	1944	$3,825,000
1941	616,000	1945	4,000,000
1942	6,253,075	1946	2,000,000
1943	5,146,200	1947	1,000,000

1948 - $275,000

CHAPTER II

Genesis of Foreign Funds Control - 1937-1939