

CHAPTER IV

PERIOD OF DEFENSIVE BLOCKING, JUNE, 1941-DECEMBER, 1941

As indicated above, events moved quickly in Europe from April 1940 to June 1941. During this same period international pressures were being exerted in other parts of the world. The course of both Italy and Japan had been causing disquietude throughout the world for many years. Italy had thrown in its lot in active war with Germany shortly before the collapse of France. Progressively alienated from the democracies and hopeful of easy booty it had joined with Germany.

Japan, the chief ally of the Axis, had profited from the democracies but now had become an active collaborating member of the Axis. Japan also had been an ally of the victors in the last war and had gained considerably in the alliance. Its army and navy had been called upon but little. Its industries had profitably expanded. It had been the recipient of friendly foreign financing. It did not, as Germany, profit from the furtherance of its plans by the process of borrowing and default; its imperial and industrial bonds were serviced until World War II. Prior to World War II the financial and industrial organization of Manchuria had been completed. Since 1937, Japan had been attempting the conquest and absorption of China and at the same time, internally and by foreign trade, particularly with the democracies, was supplying itself for even greater conquest. To assist its own expansion by force, Japan eagerly endorsed the German plans of conquest.

The three Axis powers had certain similarities. All had actively adopted conquest as a national policy. All had profited by friendly relations with the democracies. Each had been able to secure the conquest and industrial and financial

absorption of an important area without general war and was engaged in the conquest and absorption of others.

With conquest growing both in Europe and Asia, the free use of credits within the United States would, in fact, have made the United States a substantial contributor to the cause of the invaders by acting as the financial medium for the supply of goods and services even though the Neutrality Act of 1939 forbade direct trade with an aggressor. Credits of the aggressors too could have been used for sabotage and espionage to the detriment of the United States and its world position. The unsupervised use by neutrals of their property might be contrary to necessary policies of the United States. And lastly, the unanswered question became more insistent — had Germany and Japan, which had so carefully planned their economic and financial warfare elsewhere overlooked the United States? Outposts were here in abundance — the branches and affiliates of I. G. Farben and Mitsubishi are just two examples of the extent of the Axis penetration in the United States prior to 1940.

Many things which the enemy required for the continuance of his aggression were not within his borders, nor were they available from areas under their control. Products of the Western Hemisphere, of Africa and Asia were urgently required for an efficient operation of the Axis war machine. Modern warfare, which was dependent on large scale production of the powerful and complicated war machines of today, was also dependent on the operation of a highly complex system of production, transportation and communication. A complicated machine is likely to be more powerful than a simple machine but it is, at the same time, certain that a shortage of one or two essential agents of production will cause more damage to the complicated mechanism.

The importance of these economic trends on behalf of the Axis and their potential threat to our defense was early recognized by the Treasury. From May, 1940 until June, 1941, the Treasury pressed for State's approval of a program which would apply the freezing control to the funds of Germany, Italy, Japan and the neutrals. State Department was opposed and continued its opposition during this entire period because of the political situation then prevailing. On the other hand, the opposition by the State Department did not prevent us from continuously arguing the desirability of extending the freezing control, particularly as it became more and more apparent that German, Italian and Japanese funds were leaving the United States and going under cover in Latin America, particularly in Argentina. We would not have fulfilled our responsibility if we had not protested. By the same token, the State Department had the final word on this issue as they properly should have had on a matter of this nature which would have caused repercussions in the diplomatic and political field.

By October, 1940, the Attorney General joined with the Treasury in pointing out to the State Department that there was perhaps no greater step that might be taken to stop subversive activities within the United States on the part of the Axis than the freezing of their assets in the United States. The F.B.I. and other enforcement agencies could uncover isolated instances of such activities, but the real way to stop them would have been to padlock their purse. It is true that such action would have prevented isolated transactions; but subversive activity operation is a very costly operation and the more difficult we would have made it for them to carry out those activities the more we would have accomplished.

Moreover, Treasury officials recognized, as early as November 1940, the importance of economic power as a weapon of modern war; the importance of utilizing the freezing control powers of the Treasury Department for defense; the strength

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for defense implicit in coordinating the activities of the many departments and agencies of the Government exercising economic powers. The economic powers of the Government available for defense were manifold. Strategic and critical raw materials, as well as machine tools and other finished goods necessary for war purposes, could be kept out of the hands of other nations by the use of the embargo powers. The exportation of such goods could be curtailed by control over ship movements exercised by the Treasury and the Control over property, etc., exercised by the Maritime Commission. Foreign exchange and the wherewithal of other nations to purchase goods in our own or other markets could be seriously delimited by the use of the freezing order. The freezing control could, in fact, amount to an import embargo. The purchasing power of the Government in foreign markets could be used to make necessary war material unavailable to other nations which in 1940 were spread all over the Government and were being used in an uncoordinated manner without proper timing. In the interest of self defense it was immediately recognized by certain Treasury officials that an over-all committee should be created to coordinate and handle these economic defense matters. Exploratory discussions were held continuously between Treasury officials and officials of the Department of State, Justice and the Foreign Economic Administration, then known as the B.E.W.

In December, 1940, Treasury officials initiated interdepartmental discussions with a view to securing an extension of the freezing control to all of Continental Europe, and the desirability of coordinating the various economic warfare functions within the Government. At that time there were two major organizations in the field: Foreign Funds Control and Export Control. Export Control was originally established under an Administrator of Export Control who was charged with the

functions of administering in accordance with a policy determined by the State Department. An order was actually prepared in December, 1940, which would have had the effect of extending the freezing control and coordinating the activities of Foreign Funds Control and Export Control together with the preclusive buying program in which the Government was already engaged. No action, however, was taken on these matters until June 1941.

A. DEFENSIVE MEASURES

1. Extended Blocking

Actually, the Executive Order extending the freezing control order was issued in June 1941. Specifically, it covered the funds of the following countries: Albania, Andorra, Austria, Czechoslovakia, Danzig, Finland, Germany, Italy, Liechtenstein, Poland, Portugal, San Marino, Spain, Sweden, Switzerland and the Union of Soviet Socialist Republics. China and Japan were not included under the freezing control until July 26, 1941.

When the Executive Order was issued in June, 1941, extending this freezing control a press release was issued stating boldly for the first time some of the purposes of the freezing control and the reason for our action. The press release stated:

"In view of the unlimited national emergency declared by the President, he has today issued an Executive Order freezing immediately all German and Italian assets in the United States.

"At the same time the Order also freezes the assets of all invaded or occupied European countries not previously frozen. These include Albania, Austria, Czechoslovakia, Danzig and Poland. The freezing control will be administered by the Treasury Department.

"These measures in effect bring all financial transactions in which German and Italian interests are involved under the control of the Government, and impose heavy criminal penalties upon persons failing to comply herewith. The Executive Order is designed, among other things, to prevent the use of the financial facilities of the United States in ways harmful to

national defense and other American interests, to prevent the liquidation in the United States of assets looted by duress or conquest, and to curb subversive activities in the United States."

It was further stated in the press release:

"With a view to implementing the control of German and Italian assets in this country and in view of the inter-relationship of international financial transactions, the Executive Order has also been extended to the remaining countries of continental Europe. However, it is intended that through the Medium of general licenses the freezing control will be lifted with respect to Finland, Portugal, Spain, Sweden, Switzerland and the Union of Soviet Socialist Republics, conditional upon the receipt of adequate assurances from the governments of such countries that the general licenses will not be employed by them or their nationals to evade the purposes of this Order. Furthermore, transactions under the general licenses will be subject to reporting and careful scrutiny.

"Simultaneously, with the issuance of the Executive Order, the President approved regulations ordering a census of all foreign-owned property in the United States. This census will relate not only to property in the United States belonging to countries and nationals subject to freezing control but to all other countries as well."

No attempt will be made here to discuss the technicalities of this Executive Order since this subject has been adequately covered in the document entitled "Discussion of Documents and Other Matters Pertaining to Foreign Funds Control". However, it might be significant to indicate one important distinction of this Order from the earlier orders.

Executive Order 8389 did not purport to be an amendment to the old Executive Order No. 6560. Executive Order 8389, as issued in June, 1941, was divorced from the old Executive Order 6560. In the new order the President had declared an emergency that permitted the operation of the freezing control without reference to the 1933 emergency. Obviously, it made far more sense in a separate document rather than having it tacked on to an amendment of the 1933 order. The title of the order "Regulating transactions in foreign exchange for foreign-owned property, providing for the reporting of all foreign-owned property and related matters" was more descriptive than the earlier title which had been in very technical terms.

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The form of the Order blocking China and Japan on July 26, 1941 was different from that of the previous orders. In this Executive Order, China and Japan was subjected to the freezing control by the mere addition of an item (k) to Section 3 of the June 14 order listing "China and Japan."

The date listed as the effective date for the freezing of China and Japan was June 14, 1941. The reason for that was that at the time of the extension of the Control to the balance of Europe in June, the date of June 14, 1941 was fixed as the effective date for all countries not specifically mentioned in the Order in order to provide us with a reporting date. Accordingly, when the Control was extended to China and Japan the same date was retained and the retroactive aspects of the problem were handled through a general license.

Chinese assets in the United States were blocked at the specific request of Generalissimo Chiang Kai-Shek, largely because a large portion of China was already under occupation by the Japanese. The administration of the licensing system with respect to Chinese assets was to be conducted with a view to strengthening the foreign trade and exchange position of the Chinese Government in accordance with the wishes of the Chinese Government and in continuation of this Government's policy of assisting China.

In addition, there were the international settlements as typified by Shanghai. Although it had not been occupied by Japan, it was in the control of the Japanese. The Chinese were effectively blockaded and at the same time the city, itself, had not been occupied. Accordingly, if Japan had been frozen without the Chinese having been frozen there would have been provided a simple medium for circumventing the Control through such areas as Shanghai. By freezing China, including Shanghai, it was possible for us to use the Control to make Shanghai a

help to China. Goods were moving into Shanghai and a certain portion of them were filtering through into free China. The same was true of Hongkong which was under British control. These were the areas through which goods were getting to the Chinese. The freezing control allowed us to pick out those in China whom we wished to help and those in Shanghai we wished to help while at the same time leaving us free to interfere with transactions involving those we opposed.

The significance of the freezing order as applied to Japan was that it represented the first example of joint action on the part of Great Britain, the Dutch, Canada and the United States. All of these countries imposed economic sanctions on Japan simultaneously within a period of a day. It was agreed that the vehicle through which the economic sanction should be applied with respect to Japan should be through the freezing control because of its eminent flexibility. As has been indicated, simultaneously with the freezing of Japan, China was frozen. This is probably a classic example of the flexibility of the Control. We were using it as a hostile economic weapon against Japan and at the same time using it as a benevolent measure in the case of China.

Our Government's policy in the Far East had not been crystallized by July 26, 1941. Accordingly, although Japan was frozen we moved very cautiously in this area and some of the documents issued as applied to Japan were not decisive in pointing to what our policy would be.

One of the problems that came up with the extension of the Control to the Far East areas was the fact that Hawaii and the Philippine Islands had substantial segments of population which were Japanese or Chinese.

Prior to July 26, 1941, the operations of Foreign Funds Control in Hawaii were very limited. There was no office there; only a few and insignificant applications were received from Hawaii. However, with the extension of the Control.

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to China and Japan it became necessary to deal with its repercussions in Hawaii and the Philippine Islands. For example, General License No. 56 was addressed to the problem of business enterprises in Hawaii with Japanese and Chinese backgrounds. It was not desired to paralyze business or substantially interfere with it in either of these areas. Accordingly, the General License to business enterprises engaged in commercial activities within Hawaii was issued allowing them to engage in all transactions incidental to the normal conduct of their business within the territory provided that they did not engage in any transaction which an American could not engage in. The license further provided that these business enterprises could not draw on their balances in the United States, nor would they take any steps which, directly or indirectly, substantially diminishes or imperils the assets of such organization within the Territory of Hawaii.

It might be appropriate here to indicate how the British Crown Colony of Hongkong was treated. General License No. 57 was issued and provided that although Hongkong was not part of China within the meaning of the Order, it was to enjoy the same privileges of the General Licenses which were issued to China. Actually, the Chinese general licenses were issued after the Hongkong general license and we were in effect putting the cart before the horse. To appreciate the significance of the Hongkong general license it is important to know the scope of the general licenses issued to China.

(a) Geographic General Licenses.

When the fundamental objective of Foreign Funds Control changed on June 14, 1941, from one of benevolent protection and conservation of the assets of occupied countries to one of aggressive total economic and financial warfare, the remaining unblocked countries of Europe were brought into the scope of the freezing control, and friendly and unfriendly countries were

blocked. To impede the consummation of legitimate and innocent transactions as little as possible, certain friendly neutral European countries whose territory was contiguous to enemy or enemy occupied territory were granted general licenses. It will be recalled that in the press release, issued at the time the extension of the freezing control was effected on June 14, reference was made to the fact that special provision would be made permitting the lifting of the freezing control with respect to Finland, Portugal, Spain, Sweden, Switzerland and the U.S.S.R.

(1) Neutral General Licenses.

General Licenses were granted to Sweden, Spain, Portugal and Switzerland after their respective governments gave guarantees and assurances to the United States Government that all the terms and conditions of the general licenses would be strictly adhered to.

These general licenses permitted consummation of trade and financial transactions with these countries without a specific license provided that the transactions were not by or on behalf of, or pursuant to the direction of any blocked country or blocked national (other than the country to which the general license is granted or national thereof); and provided also that the transaction did not otherwise involve any blocked country or blocked national. If the transaction was not by or on behalf of the government or the central bank or equivalent institution a duly designated agent certified or confirmed that the transaction complied with the terms of the appropriate general

license. A trade or financial transaction, accordingly, could be effected under such license with one of the generally licensed countries only if the interest involved in the transaction or the interest in the property affected were interests of nationals of the country to which the general license had been granted or of the government or central bank of that country.

One of the questions that came up in connection with the extension of the freezing control to all of Europe was the status of Tangier. Originally, Tangier had been within the joint control of France and Spain. At the time France fell, Spain took over the area and the question arose as to whether Tangier was blocked. A ruling was issued (General Ruling No. 9) advising that Tangier did not come within the Spanish general license (General License No. 52). Although Tangier was blocked as part of Spain the Spanish Exchange Control did not cover Tangier. Tangier was in a sense French area and there were no exchange controls. It was desirable to bar transactions under the Spanish general license so far as Tangier was concerned. This constituted the first whittling away of the Spanish general license.

(11) Russian General License.

The general license issued to U.S.S.R. did not require the formal assurances which had been requested of the European neutral nations affected by the freezing order since the U.S.S.R. was an ally of this Government. Likewise, the general licenses issued with respect to China, after Chinese funds were blocked, did not require prior assurances from the Chinese Government.

(iii) Chinese General Licenses.

The China program as established by General Licenses Nos. 58, 59, 60, 61, and 62 permitted trade between any part of China, occupied or unoccupied and the United States under strictly controlled conditions. In the case of exports from China to the United States it was required either that the proceeds of such exports be made available to the Stabilization Board of China or that the transaction be approved by the Stabilization Board. In the case of imports into China from the United States it was required that either the dollars to pay for such imports be provided by the Stabilization Board of China or one of the cooperation banks. This had the effect of assuring that on all transactions with China the dollar funds were channeled to and from this Board through appropriate designated commercial and Chinese Government banks.

Financial transactions between the United States and China were likewise permitted only if they had the approval of the Stabilization Board of China. Financial remittances could be effected from the United States to China only if the dollars were made available to the Stabilization Board of China, while financial remittances from China to the United States could be effected only if the dollars for such remittances were provided by the Stabilization Board of China, or such remittances were specifically approved by the Board.

A similar program with respect to China was adopted by Great Britain and, since the great bulk of China's trade and financial

transactions were effected in dollars and sterling, the control of the Chinese Government over the economic and financial activities of even the occupied areas of China was complete to an extremely high degree.

In its purposes and effects the China program exemplifies the high degree of effective control which two friendly governments can exercise by interlocking exchange of Foreign Funds Control when the vicissitudes of war and invasion call for the use of economic weapons. This program achieved its ends by a friendly blocking, accompanied by appropriate general licenses designed to meet the specific requirements of the situation caused by the unprovoked Japanese aggression against China.

(iv) Generally Licensed Trade Area

After the freezing control was extended to cover China and Japan it became practicable to give a designation to those areas which were not subject to the restrictions of the freezing control. As will be indicated below, with the adoption of the Proclaimed List, General License No. 53 was issued which removed certain persons in Latin America from the effects of the freezing control. In August 1941, General License No. 53 was amended and the concept of the generally licensed trade area was introduced. In this category of countries were included not only the Latin American countries but the British Commonwealth of Nations, the Union of Soviet Socialist Republics, the Netherlands East Indies, the Netherlands West Indies, the Belgian Congo, Ruanda-Urundi, as

well as Greenland and Iceland. The American Republics were included in the generally licensed trade area since there was in existence a Proclaimed List for that area. With regard to the British Commonwealth of Nations, we did not know whether the blocked nationals there were good or bad, but the intelligent place to control their activity was not from our end but from the British end. The other areas mentioned above generally fall into one of these categories. China was excluded from the generally licensed trade area because we never had a Proclaimed List for China and that was an area where one was needed. Moreover, we had a Chinese program and under General License No. 58, as will be indicated below, the Chinese could engage in transactions with any of the areas mentioned in General License No. 58 rather than through General License No. 53.

(b) Status of the Philippines and Hawaii.

(i) Philippines.

In general the status of the Philippines under the Executive Order between April 10, 1940, and July 26, 1941, was the same as that of any other area under the jurisdiction of the United States. Nationals of blocked countries residing in the Philippines were subject to the same restrictions as they would have been had they been residing in the continental United States. During this period Sayre, High Commissioner of the United States in the Philippines, acted as representative of the Secretary for the purpose of administering the freezing control pursuant to an authorization from the Secretary of the Treasury dated May 1, 1940.

The extension of the freezing control to China and Japan had a direct affect on the Philippines by virtue of the economic interdependence between these countries as evidenced by the fact that (1) a substantial proportion of the population of the Philippines was Chinese and Japanese, (2) trade flowed between the Philippines and China and Japan, and (3) there were extensive Chinese and Japanese interests in the Philippines.

The Treasury had no representatives in the Philippines to deal with these problems on a specific licensing basis. Furthermore, it did not want to be responsible for precipitating an international incident through the application of the freezing weapon to Japan. Accordingly, it issued, coincidentally with the promulgation of Executive Order 8832 blocking China and Japan, General Licenses Nos. 63, 64, and 65, dealing with Japanese and Chinese banks and enterprises in the Philippines, and trade between the Philippines and China and Japan.

Specifically, General License No. 63 granted generally licensed national status to two Chinese banks (China Banking Corporation - Philippine Bank of Communications) and two Japanese banks (Yokohama Specie Banks - Bank of Taiwan). Bank examiners were placed in the Japanese banks and qualified men placed in the Chinese banks to cooperate with the Treasury representatives who arrived in the Philippines and set up an office there early in August 1941.

General License No. 64 dealing with trade between the Philippines and China and Japan was of very broad scope. It licensed all transactions ordinarily incident to the exporting and importing of goods between the Philippines and China and between the Philippines and Japan under certain specified conditions. It did not, however, permit transactions involving any payment of transfer from a blocked account outside the Philippines. In other words, if the dollars involved in a transaction were in the United States, they could not be used to finance trade between the areas designated in this license. Actually, very little trade moved between the Philippines and Japan despite this general license. In November, 1941, when General License No. 58 was amended to control trade between the Philippines and China, General License No. 64 was revoked, thus eliminating general license provisions for trade between the Philippines and Japan.

General License No. 65 permitted blocked Chinese and Japanese enterprises to engage in normal activities within the Philippines. Pursuant thereto they were allowed to engage in all transactions incidental to the normal conduct of their business within the territory except those denied to Americans. The license did not authorize them to draw on their balances in the Philippines. Furthermore, they could take no steps which would directly or indirectly diminish or imperil the assets of an organization in the Philippines.

The most difficult problem met in the Philippines during this period was to get the Philippine banks to recognize and follow the general licenses. There was considerable antipathy between the Philippines and the Chinese. Consequently the Philippine bankers were using the freezing controls to discriminate against the Chinese rather than the Japanese and would not let the Chinese withdraw funds from bank accounts.

(ii) Hawaii.

Prior to July 26, 1941, the operations in Foreign Funds Control in Hawaii had been very limited. We had no office there. The problems relating to Foreign Funds Control had been handled by the Governor and one secretary. They actually had had only two applications since the inception of the Control and those had been sent on to Washington.

On July 26, 1941, members of the staff of Foreign Funds Control were already in Hawaii. The Island's business and banks were found paralyzed. There had been runs on the banks. The main problem for the first few days was to set up an office and calm down the community so that there would be no further runs on the banks on the Island.

Cooperation was sought from the American, Chinese, and Japanese bankers in Hawaii. The American and Chinese bankers were first invited into a meeting with members of the Foreign Funds Control staff and discussions were held with them with respect to the history and meaning of the freezing control. That was followed

by a meeting with the Japanese bankers who, strangely, enough, were quite familiar with the freezing controls.

General licenses were issued for Hawaii similar in scope and objective to those which were issued with respect to the Philippines. General License No. 56 was addressed to the problem of business enterprises with Japanese and Chinese backgrounds. They were allowed to engage in all transactions incidental to normal conduct of their business within the territory provided that they might not engage in any transaction which an American could not engage in. It was further provided that the license did not authorize them to draw on their balances in the United States. They could not take steps which would directly or indirectly substantially diminish or imperil the assets of the organization within Hawaii. General License No. 66 was issued granting generally licensed national status to Chinese and Japanese banks in Hawaii.

Within approximately five days after the members of the staff of Foreign Funds Control had arrived in Hawaii the office was operating at full force and business running smoothly. The problems in Hawaii were not problems of trade with foreign countries but mainly trade with the main land.

2. Census of Foreign Owned Property in the United States.

During the early history of Foreign Funds Control, it will be recalled, a project to secure information basic to the whole freezing program was undertaken. With the freezing of Norway and Denmark the Treasury had required reports of the assets in the United States belonging to those countries and their nationals on TFR-100. Reports were similarly required for the assets of other countries as those countries were frozen until June 14, 1941.

The situation as of June 14, 1941, when the freezing control was extended to all occupied European countries not previously frozen, the aggressor nations and the European neutral nations, made imperative a comprehensive survey to determine the amount of foreign property existing in the United States not only for the countries blocked but for all other countries as well. Certain reasons are obvious why this census was applied to the property of non-blocked countries, even though friendly, as well as those affected by the Order. The course of the war and what nations might be overrun could not then have been foreseen. Change of title might run through various countries including friendly, unblocked countries. Axis agents might be operating in any country.

The census was directed toward showing not only the amount of property within the United States, but the identity of the persons holding it, their relation to it, and the type and kind of property. The census was of a scope and detail unprecedented in the United States. The Treasury regulation implementing Executive Order 8339, which was issued in June 1941, called for the property reports on Form TFF-300. At the same time a public circular was issued, supplemented by questions and answers as to the manner and method in which these reports should be made.

Reports were required from all persons owning, holding or controlling any type of property in which there was any foreign interest direct or indirect. All corporations or other business organizations issuing shares, bonds or other securities were required to report the interest of each foreign national as appeared from their books. Every agent or representative in the United States of any foreign country or of any foreign national had to report any property which he held for his principal. Every partnership, trust, corporation or organization issuing shares, bonds, debentures or other securities in which any foreign country

or national had any interest on either reporting date was required to report such nationals and their interest in such securities. Where two or more nationals had an interest in the same property, a separate report was required for each national.

In order to determine the amount of property which might have been transferred from the beginning of freezing and to enable the Government to trace such transfers should that be necessary, all persons reporting were required to specify the amount of property on two separate dates, June 1, 1940 and June 14, 1941. If reportable property was held on one date but not on the other a report was nevertheless required. No one was required to report property less than \$1,000 in value excepting property of unascertainable value such as patents. In the case of the reports called for with respect to China and Japan, a third reporting date - June 26, 1941 - was added, to provide a current picture of Chinese and Japanese assets in the United States.

All "nationals of foreign countries" living within the United States were required to report with respect to any property subject to the jurisdiction of the United States in which they had an interest. The effect of this requirement, however, was greatly reduced by certain general licenses. No one was obliged to report if he had been domiciled in and a resident of the United States at all times on and since June 17, 1940, except nationals of certain invaded countries whose period of uninterrupted residence had to begin at an earlier date (the date of freezing as to them).

The property required to be reported included bullion, currency, and deposits; all types of securities, drafts, acceptances, letters of credit, promissory notes, debits and contracts; warehouse receipts and bills of lading; goods and merchandise; machinery and equipment; jewelry, precious stones and precious metals,

objects of art and furnishings; real property, mortgages and other rights in lands; patents, trademarks, and copyrights; estates and trusts, partnerships and profit sharing agreements; insurance policies and annuities; and other property not otherwise classified.

The reports on TFB-300 called for additional information intended to bring to light other foreign interest in the reported property and other property in which the reporting national might have an interest. Thus, each national reporting for himself was required to list the safe deposit boxes held in his name or to which he had access. Furthermore, each national was required to give a full statement of his business connections. Information was also called for that established the nationality of each person for whose property a report was filed.

To facilitate the reporting of foreign owned property and the study of these reports the Treasury provided a specialized form of TFR-300 in eight series:

Series A was used for reporting property of individuals not engaged in business;

Series B was used for reporting property of governments, business enterprises, non-profit associations and trusts;

Series C was used by organizations issuing securities to report holdings of securities issued by them;

Series D was used by banks and safe deposit companies to report safe deposit boxes;

Series E was used by banks to report deposit accounts, collection items, cashier's and certified checks, bank acceptances, and letters of credit.

Series F was used by banks to report securities in their custody or held by them as collateral;

Series G was used by brokers to report balances, securities, and commodities held by them;

Series H was used by insurers to report insurance policies, annuities, pensions, and claims and indebtedness arising under insurance policies.

The Treasury received approximately 565,000 reports of foreign owned property. These included 150,000 reports on securities issued to nationals of foreign countries; 135,000 reports on bank accounts of such nationals; 56,000 reports on securities held in custody by banks and brokers for such nationals, and 10,000 reports of safe deposit boxes in which such nationals had an interest. More than 65 percent of all reports were filed with the Federal Reserve Bank of New York. However, about 85 percent of the total assets were reported on forms filed with that bank reflecting the concentration of large accounts in New York banking institutions. The dominant position of New York in the financial activities of the United States was further reflected in the distribution of Series E, F, and G reports, the bank and broker reports. More than 75 percent of the first and approximately 90 percent of the last two were filed in that district. In 1945, the Treasury Department published a detailed report on the "Census of Foreign Owned Assets in the United States", based on an analysis of the reports on TFR-300.

Contrary to some misunderstanding at the time, this was not an "informer's report". The persons required to report were only those who themselves had some interest in or obligation with respect to property in which a national had an interest. No one was asked nor was it even desired that anyone

should give to the Treasury his suspicions or beliefs of property in which a national of a blocked country might have an interest. The specific information on these reports has been handled with the greatest secrecy and was available for examination only to a restricted few in the Government where the use of such information was proven as useful to the prosecution of the war. No one from the public was allowed to examine these reports except the person who filed the report or the person on whose behalf the report was filed.

During 1946 when financial conditions in Europe began to appear very severe and need for dollars became acute, the blocked countries requested this government to make available to them the information furnished on the TFR-300 reports to assist them in mobilizing their dollar assets in the United States. This question received considerable attention by the Treasury. It was brought to a head most directly by a specific request of Mr. Blum of France in the spring of 1946. The following were some of the considerations which the Treasury considered might favor disclosure of this information to the foreign governments:

- (1) The procedure for defrosting blocked assets would be brought to a successful conclusion much more rapidly;
- (2) such action would be consistent with this government's program for financial assistance to the European countries. For example, it would have permitted the French to mobilize their assets in this country to a practicable extent for rehabilitation and reconstruction; and
- (3) it would have improved our position in supporting any French demand that Switzerland and other neutrals reveal information concerning French assets held in or through such countries.

The chief argument against revealing this information was the fact that many persons in the United States, notably bankers and brokers, would undoubtedly raise strenuous protest. They would contend that: (a) the confidential nature of the

relationships between them and their foreign customers was being impaired; (2) their foreign customers were being placed in jeopardy with their own governments, particularly where substantial penalties were in effect for failure to declare foreign assets; and (3) the information was collected by the Treasury under the promise that it would be treated as extremely confidential.

Those in the Treasury who favored giving the information to the foreign governments countered the possible above objections as follows: (2) that although the information on the TFR-300's was collected by the Treasury Department under the promise that it would be treated extremely confidential, it was made clear that the information was to be used for official purposes of this government; (3) that the end of the war eliminated reasons advanced most often for keeping this information strictly confidential — namely, that any disclosure would jeopardize the lives of people in occupied countries who did not report their assets to the Germans; and (c) that although certain countries like France had made provision for severe penalties for persons who failed to declare their foreign assets, it was felt that these regulations could be modified as a condition to giving the information to France.

After considerable deliberation it was decided in the fall of 1946 not to give this information to the French government or to any other government who requested it with respect to its respective nationals. In this connection, the Treasury advised the French Government along the following lines: "After the most serious consideration we regret that we are unable to comply with the request of the French Government for the information obtained by us on our TFR-300 census concerning assets in the United States owned by persons of French nationality residing in France or in French over-seas territories. The primary reason for this conclusion is the fact that any over-all revelation of this information might be regarded

by an important segment of the American public as a violation of the statements made by the Treasury at the time the census was taken to the effect that the information would be treated in an extremely confidential manner."

The reports revealed that the value of the foreign property in the United States was about 13 billion dollars of which more than 7 billion dollars was the property of blocked countries.

3. 6. Proclaimed List of Enemy Nationals.

As the tempo of the European war increased, the Western Hemisphere realized more and more that its existence as a family of 21 friendly republics was in danger. At the Habana conference of the American republics held in July 1940, it was agreed that each of the governments should adopt all necessary measures to prevent and suppress any activities directed or inspired by foreign governments or foreign nationals which might subvert the democratic institutions of any of the republics or foment disorder in their internal political life.

It was realized that aggressor nations had worked for many years to weaken the military potential of the United States and the other American republics. Through patent controls and cartel agreements the Nazis had succeeded before Pearl Harbor in limiting the production in this hemisphere of many vital materials. They kept the price of these materials up and the output down. It was recognized that they had been waging economic warfare in this hemisphere for a long time and that they had done their work very well decoying American companies into agreements, the purpose of which such companies apparently did not sense. The businessmen in the Western Hemisphere were peaceful traders. Business enterprises controlled

directly or indirectly by the aggressor nations were already recognized as agents of aggression. The United States worked hard to break cartel arrangements under which certain of our products were cut out from the other American republics and from the other markets of the world.

This Government recognized that the democratic institutions of the American republics were gradually being undermined by the subversive activities of Axis agents. It was no secret that they at that time were well organized both here and in the other American republics and that they were fostering institutions opposed to the democratic way of life. The finances with which these subversive activities were carried out in the American republics did not emanate from the Axis government but from the Axis controlled enterprises disguised in many ways. Actually, the techniques which the Nazis used in hiding the identity of German enterprises made it difficult to uncover the machinations of their agents, who in the economic field are even better disguised than military spies.

The British Government on September 3, 1939, immediately after the outbreak of war in Europe, issued the first British Statutory List, while the Canadian Government followed suit on February 7, 1940 with its original "List of Specified Persons." The need for a corresponding United States list subsequently became very apparent as we engaged more fully in the preparation of our national defense. In 1940 and 1941, with the development of the freezing and export controls, it was found cumbersome and inadequate for each Governmental Agency administering these controls to accumulate and analyze the information necessary for a determination whether the parties participating in a proposed transaction or shipment should be allowed to do so. Moreover, there was lack of machinery for coordinating the views of the various agencies concerning persons outside this country, and American businessmen were greatly handicapped in the absence of a list of persons abroad

with whom they should not trade.

In the last months of 1940, the Office of the Coordinator of Commercial and Cultural Relations between the American Republics (later the Office of the Coordinator of Inter-American Affairs) and the Federal Bureau of Investigation made a survey of the nature and extent of the problem arising from the representation of American business by undesirable firms throughout the other American Republics. This survey furnished the factual basis for a cooperative program which was carried out by the Coordinator's Office in conjunction with the Department of State and the Department of Commerce during the first six months of 1941. The program was designed to enlist the voluntary cooperation of American foreign trade firms in replacing agencies or sales outlets which appeared to be undesirable under existing conditions. The Department of Commerce and the American foreign service officers in the field assisted such American firms in obtaining satisfactory replacements. In the course of this cooperative program the problem was taken up individually with more than a thousand American firms and some 17,000 American companies generally interested in export trade were formally informed of the program and requested to check any new accounts with the Department of Commerce or the Coordinator's Office in order to avoid establishing new relations with undesirable or questionable firms and particularly to prevent American firms from unwittingly taking on undesirable firms which had been dropped by other American companies cooperating with the Government's program. By the end of June 1941 upwards of 1,000 accounts had been terminated with undesirable firms.

The information concerning undesirable firms which was collected in connection with this program was made available throughout this period to the Administrator of Export Control which used such information in passing on license applications for products which were subject to control.

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On June 17, 1941 the extension of the freezing controls to include, among others, German and Italian nationals, brought the Treasury Department face to face with a similar licensing problem and rendered more acute the necessity to integrate and develop the handling of information and lists relating to undesirable trading connections. One effect of that extension and of the definition of national included in the Executive Order was to raise a doubt in the minds of the business world as to whether they might deal with persons in Latin America. They had never concerned themselves with whether the firm with which they were dealing was owned in Latin America or was financed from some country in Europe. They could not rely on the name test as the firms in Latin America and the persons there have Spanish, French, Italian and German names. If they had used that criterion they would probably have lost nine-tenths of their business with Latin America.

The administrative difficulties for the Treasury Department in the absence of a public list of enemies were illustrated by the 50 or 60 applications which had been received by June 1941 relative to export and import transactions with South American firms which were German or Italian and some of which were included in the British Statutory List. It was agreed at that time that the policy would be to deny such applications.

As a precautionary measure and in order to give us a little time to work out our ultimate course we issued General Authorization No. 57 to Federal Reserve Banks on June 28, 1941, 14 days after the issuance of the new license authorizing them to issue licenses for import and export transactions in cases involving importers or exporters in the countries of the Western Hemisphere "who are or may be nationals of a blocked country". We then stated that the authorization should not be deemed to authorize the issuance of licenses in the following

cases: "(a) involving a transaction in which a firm in the United States importing or exporting the goods is itself a 'national' of one of the blocked countries * * *", or "(b) Where the name of the importer, exporter or any other party interested in the transaction appears on the British Statutory List, as revised from time to time, or on lists to be furnished to you from time to time designated as Schedule 'A' of General Authorization No. 57."

Schedule A of General Authorization No. 57, which was furnished to the Federal Reserve Bank, included the names of persons who were on the British Black List and who were on our special list as derived from the list prepared by the Export Control and Commerce Department. We advised the banks that if any of the parties doing transactions appeared on these lists they were to hold up the application and refer it to Washington.

However, the business world desired a public list so that they could know where they stood in their dealings with persons in Latin America. The matter of preparing a public black list was the subject of many inter-departmental discussions with problems relating to the freezing control.

Apparently, the reference in General Authorization No. 57 to the British Statutory List was found objectionable. On June 30, 1941, the General Authorization was revised to eliminate such reference but the prohibition against issuance of any licenses involving an interest of any person appearing on Schedule A of General Authorization No. 57 was clearly stated and the Federal Reserve Banks were authorized to deny such applications, except where a denial would cause undue hardship. These hardship cases were to be sent to Foreign Funds Control in Washington for action.

About this time, the Treasury Department and the State Department were receiving various communications from businessmen and articles were being pub-

lished in trade publications requesting that a public list be issued with respect to those persons whom trade with the United States was not to be carried on. The complaint was made that these businessmen were considerably handicapped in the absence of such a list. Schedule A of General Authorization No. 57 appeared to be a poor substitute inasmuch as the list was highly confidential. With this background, the "Proclaimed List of Certain Blocked Nationals" (hereinafter referred to as the Proclaimed List) was issued by the order of the President on July 17, 1941, bringing the cooperative trade program largely to a close. The confidential list, however, continued in operation, although in modified form.

It is significant to indicate that in the first draft of the Proclaimed List proclamation there was no reference to the Treasury Department or to the freezing order. Its only sanction was that those on the List would be cut off from exports by Export Control. It was only some weeks later that the freezing control aspects were introduced into the drafts of the proclamation, making this instrument both a financial control as well as a commodity control.

It can be fairly said that during the early period Foreign Funds Control did not take an active part in the development of the Proclaimed List. Although we have made a few suggestions as to additions to the List it was not a program in which we actively participated in the early period and it was several weeks after the issuance of the Proclaimed List that Treasury was invited to pass on the names that were to be placed on the List. Below there will be a more detailed discussion of the extent to which Foreign Funds Control participated on Proclaimed List problems beginning with the period after Pearl Harbor.

The Proclaimed List as originally issued contained the names of 2,834 individuals and firms within the American Republics whose activities were deemed inimical to the defense of the hemisphere. The names chosen had all been checked

by the United States missions and had been approved for listing by the
Governmental Agencies charged with the determination of the List. By and
large, the British Statutory List served as the basis for the choice of names,

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Most of the British List for the Western Hemisphere being included in the Proclaimed List. Many additional names also appeared in the latter List, on recommendation of the Missions. It may be noted that the British List contained a number of names of United States firms. The United States list, however, was limited to Latin America inasmuch as there existed more suitable means for dealing with unsatisfactory domestic firms. The United States list, however, was limited to Latin America inasmuch as there existed more suitable means for dealing with unsatisfactory domestic firms.

Although the United States had not yet entered the European conflict, it was even then planned that the Proclaimed List would ultimately be expanded to include names in the Eastern Hemisphere as well as in Latin America.

At the time of issuance of the initial List it was recognized that despite the efforts of those engaged in its preparation to omit cases concerning which there appeared to be any doubt on the basis of information then available, there were bound to be cases which would be the subject of reconsideration shortly after publication. Accordingly, Supplement No. 1 to the Proclaimed List, dated July 28, 1941 was devoted solely to such deletions and corrections as were immediately possible. Several other supplements containing additions to and deletions from the List were made before Pearl Harbor.

All efforts were being made to cause the least possible interference with legitimate inter-American trade as a result of the Proclaimed List. Accordingly, Foreign Funds Control issued a general license (General License No. 53) simultaneously with the issuance of the Proclaimed List with respect to inter-American trade transactions involving persons in the other American Republics who might be nationals of a blocked country. This general license served the purpose

of permitting freedom of trade between this country and the other American Republics so long as such trade did not benefit persons on the Proclaimed List. Through this technique we aimed to promote healthy hemispheric trade. This program justified its purpose of insuring that trade with us would be beneficial and not harmful to the other American republics. It directed trade to persons loyal to the governments of the other American republics.

To implement the Proclaimed List instructions were issued to the Collectors of Customs (T.D. 50433, subsequently amended by T.D. 50530, December 17, 1941; T.D. 50548, January 14, 1942; and T.D. 50600, April 11, 1942) requiring that after July 27, 1941 the export declarations filed in connection with the export of goods show the name of the ultimate consignee. This was contrary to the usual practices of the export of goods from the United States. The customary practice was simply to show the name of the consignee as a freight forwarder in Latin America. Obviously, however, as a freight forwarder was listed as the consignee of the goods no one could see whether the ultimate consignee was a Proclaimed List national or not. To avoid that we required that the name of the ultimate consignee be shown on the export declaration so that the Collector of Customs could have it within his power to stop the shipment if the consignee was on the List. A similar procedure was set up with respect to goods coming into the United States. This new procedure precipitated considerable confusion at the outset, since, in effect, it was an interference with the way the import-export trade had been doing business. Gradually, however, the public accepted the new way of doing business.

Although one could not discuss this period in the history of the Control without referring to these developments with respect to the Proclaimed List, the Proclaimed List is not and should not be considered a freezing control document -- neither in its origin nor in its operation would that be a fair conclusion.

Actually it was not until after Pearl Harbor and our entrance into the war that we played a major role in the development of policy pertaining to the Proclaimed List.

4. Development of Enforcement Techniques

(a) Commencement of the Ad Hoc Blocking Program.

"Ad hoc" blocking is the designation Foreign Funds Control officials gave to a blocking which was effected in an individual case on the basis of a specific set of facts related to the individual being frozen. There were three salient factors in the new Order or incidental to its issuance which set the ground for "ad hoc" blocking.

The first was an amendment of General Ruling No. 4 in May, 1941. It will be recalled that one of the provisions in that document reserved to the Secretary of the Treasury the right to exclude any person or group of persons from any general license, which meant that we could, on an "ad hoc" basis deprive anyone of the privileges of a general license.

The second stepping stone in the development of the "ad hoc" blocking program was the amendment of the definition of national in the new Executive Order. As has already been pointed out above, the Executive Order issued in June, 1941, specifically gave to the Secretary of the Treasury the power to designate who was to be a national within the meaning of the Order.

The third factor, which was probably as important as the other two, was that we had changed the concept of national by June, 1941. Prior to June, 1941 persons were nationals of a blocked country, as applied to persons within the United States, only where they were not domiciled and resident in the United States on the date the Order was made applicable

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to the nationals of a specific country. For example, when we froze Norway on May 10, 1940, the Executive Order itself expressly excluded all Norwegian citizens who had been domiciled and resident in the United States on May 10, 1940. On the other hand, the new Order issued in June, 1941 provided in effect that one was a national of Norway if one were a citizen of Norway notwithstanding the fact that he might have been domiciled and resident in the United States for 20 years.

Coincidentally with the issuance of the new Order, General License No. 42 was issued which accorded to persons domiciled and resident in the United States on the date of the Order a generally licensed status. The existence of this general license coupled with General Ruling which permitted Foreign Funds Control to lift a person out of a general license, Foreign Funds Control had a technique for ad hoc blocking people by depriving such individuals of the privileges of General License No. 42.

Thus, the Secretary of the Treasury had extensive powers reposed in him as a result of the new Executive Order and the amendment to General Ruling No. 4. Not only could he on his own finding deprive a citizen of a foreign country of free use of his funds in the United States, but he could deprive an American citizen of a similar right. When the power is evaluated in the light of the latter set of facts, can it be appreciated how extensive this power was.

The officials of the Treasury recognized the extent of this so-called "ad hoc" blocking power. From June to December, 1941, Foreign Funds Control proceeded cautiously in the exercise of this power. In fact, the first set of so-called "ad hoc" freezing orders consisted of wires to various Federal Reserve Banks not ordering to block, but merely listing the names of

some 300 persons, asking them to check with the banks to see if the accounts of such persons were frozen. Only ten cases came back unblocked. Many were blocked who should not have been blocked.

A special unit (Special Unit A) was set up in the General Counsel's Office to administer this power. The blocking wires were treated with the greatest care. Each was signed by Mr. Edward Foley, then General Counsel of the Treasury, as Acting Secretary, so that each person blocked felt that his case had been cleared all the way to the top. Every precaution was exercised in experimenting with this new instrument. The unit handling these cases derived much of their information through liaison with the F.B.I., Military Intelligence and Naval Intelligence.

One of the early cases of ad hoc blocking involved the American law firm of Topken & Farley of New York. It was a substantial law firm which had specialized in German business and had handled many cases for the German Embassy and Consulate and many cases involving the estates in which Germans had an interest. We had definite proof that one of the accounts administered by Topken & Farley contained assets owned by German heirs in Germany which should have been blocked by the law firm. On the basis of their business it was felt that their other accounts might also have funds belonging to Germans. In general, it was the view of Foreign Funds Control that the financial operations of this law firm should be brought under control. As soon as it was blocked on an "ad hoc" basis the partners came down to meet with top officials in Foreign Funds Control and the General Counsel's Office. To the surprise of the Treasury officials the representatives of the firm seemed on the defensive. Instead of complaining about the exercise of this

power with respect to their accounts they merely questioned how they could withdraw their living expenses from an account from which they had customarily made such withdrawals. Accordingly, the discussion revolved about the mechanics for using the funds under Treasury control. Additional information was requested from the members of the firm, such as copies of all cancelled checks which had been issued for a year with a statement of the purpose of payment; copies of their books; and lists of all personnel employed or discharged for the preceding three years. In connection with this latter request they became very embarrassed and revealed that one of the women on their staff had just been picked up by the F.B.I. in connection with the first round-up of Nazi spies in this country. We were unaware of this fact but its revelation confirmed Foreign Funds Control officials of the correctness of their action in hitting at this law firm.

Our experience in this case supported us in the exercise of this ad hoc blocking power. We realized that in some cases we did not have to have all the evidence before we were required to act; that if we had enough evidence to warrant the action, such action should be taken, placing the burden of proof on the person affected to prove why the action was not correct. Subsequent experience, however, indicated that certain changes in the administration of the ad hoc blocking power were required — the finding of the middle of the road which would both protect the rights of the individual and the interests of this Government. These changes were not effected until some time after we had been in the war and will be described in the following chapter.

(b) Establishment of Investigative Staff.

It was during this defensive period, June to December, 1941, that Foreign Funds Control embarked upon a positive program of investigating possible violations of the control. By the spring of 1941, it had been recognized that there was need for some investigative work to be carried on by Foreign Funds Control. In April 1941, Erwin G. May, who had been a Treasury Attache in Berlin, an old Customs man with experience in investigative work, was detailed by Customs to start an investigative staff for Foreign Funds Control. Although he himself came to Foreign Funds Control in April, 1941, it was not until after June that a staff began to be organized so that by the summer of 1941 there were three or four investigators operating out of New York. At the same time we relied on Customs, Secret Service, Narcotics, and the Alcohol Tax Staff to assist in the investigative work required by Foreign Funds Control. The staff actually did not get very large until after Pearl Harbor.

At the same time a separate section was set up in Foreign Funds Control to examine reports furnished in connection with operations under general and individual licenses to determine whether the reports indicated any violation of the Order. When violations were spotted letters were written requesting explanations. This group was also assigned the job of examining the material obtained from the British censorship intercepts. It will be recalled that initially these intercepts were read by the top staff of the Control.

It is apparent from the above that the work in the investigative field was in an early developmental stage during the period from June to

December 1941. The ground work was laid, however, so that when December 7, 1941 came certain basic elements were already in existence which permitted, with a quick reorientation of the freezing control, to develop an extensive enforcement and investigative organization equipped to undertake the responsibilities which came with America's entrance into the war.

5. Creation of Economic Defense Board.

It will be recalled that during 1940 Treasury attempted to secure the organization of a Committee or Board which would coordinate the economic warfare operations of this Government. After June 14, 1941, the tempo on the economic war front was considerably enlivened and on July 30th the Economic Defense Board was established.

The Board had as members, the Vice President, Secretaries of State, Treasury, War, Navy, Agriculture and Commerce and the Attorney General. The Order establishing the Board provided essentially for a policy making agency with respect to the economic warfare operations of this Government. Even though it did not effectively bring all of the organizations in this field under one administration for carrying out that policy, it was a sound theory. Subsequently, the export control was transferred to the Economic Defense Board and it became an administrative group.

The significant points in the Executive Order establishing the Economic Defense Board were Paragraph 1 defining "economic defense". The definition included foreign owned and foreign controlled property, foreign exchange, international investments and extensions of credit, shipping and transportation of goods, and thus listed fully all the things that went into an economic defense program.

Paragraph 2 created a board to pass on the policies and Paragraph 3 laid down the functions and duties of the Board, indicating that they were all program and policy making and little of administration. In fact, Paragraph 4 of the Order expressly stated that "the administration of the various activities relating to economic defense shall remain with the several departments and agencies now charged with such duties but such administration shall conform to the policies formulated or approved by the Board." Paragraph 5 pointed out that it should be the duty of the Board to make studies and that other agencies were to cooperate with the Board. Paragraph 6 provided that in order to facilitate unity of action and the maximum use of existing services each of the named agencies of the Government should designate a responsible ^{person} /or officers to represent the department or agencies in its continued relationship with the Board. Initially, the administrative work of the Economic Defense Board was that of export control; thereafter, it went into the field of preclusive buying. The Board never carried out the policy of establishing economic policy in any real sense and although it may have formulated policy in some instances it had no effect on the freezing control. The name of the Board was later changed to the Board of Economic Warfare and became an administrative agency.

B. CONTRIBUTIONS TO ECONOMIC DEFENSE

During the period between June and December, 1941, Foreign Funds Control made definite contributions to our economic defense. Instances of these contributions are many and only a few examples will be given here to indicate the wide impact of the Control during this period.

1. Keeping Oil from the Japanese.

Foreign Funds Control, fully cognizant of the vital importance of oil to the Japanese war machine, was able through the freezing control to prevent the shipment of petroleum products to Japan during the six months period prior to Pearl Harbor despite the most energetic diplomatic efforts to secure oil from this country.

The Japanese began their crusade for oil on July 30, 1941, only four days after the freezing of Japanese funds in the United States. For nearly three months, two Japanese oil tankers drifted empty in the San Francisco Bay while the Japanese Financial Commissioner attempted in more than 22 conversations with officials of the Treasury and State Departments to obtain the license from Foreign Funds Control which would permit the sale of oil to Japan.

The hopeful Japanese presented six different proposed methods of payment to the American officials but Foreign Funds Control, acting in concert with the Department of State adroitly side-stepped each proposal and thus prolonged negotiations. At first, the Japanese requested that payment be effected from blocked Japanese funds within the United States. The Treasury refused. Just prior to the freezing of Japan, July 26, 1941, withdrawals of about \$1,000,000 had been made from Japanese accounts and the Treasury looked with disfavor upon further depletions of Japanese funds. A few days later the Japanese suggested that payment be effected from funds available to the Japanese in either Shanghai or the Dutch East Indies. Once again a polite "no" was the answer of Foreign Funds Control. On August 19, the Japanese proposed to make payments from South American credits and would the Treasury please rush the matter? The Treasury "was not disposed" to accept that kind of money nor, as it later developed,

was it disposed to accept any kind of Japanese credit in payment for shipments of oil to Japan. On September 20th, the Japanese proposed that payment be effected from proceeds of shipments of gold from Japan to the United States or by shipments of United States currency from either Japan or China to the United States. When, on October 10, a "no decision" had been reached on the latest proposed financial acrobatics intended by the Japanese to deceive the United States Treasury the Japanese Financial Commissioner became desperate. He suggested payment with free Japanese funds in South America, which had become available after the arrival of two Japanese cargo ships in South American ports. Toward the end of October oriental patience wore thin and the Japanese Financial Commissioner's pleas became veiled threats. He warned that the Japanese people were not pleased to think that their tankers were acquiring barnacles in San Francisco Bay, and suggested that the Treasury "step on it" to avoid Japanese anger. He even threatened to send his oil tankers home, but still the Treasury was "unable to reach a decision".

Foreign Funds Control was not intimidated by the Japanese Financial Commissioner and it refused to yield. Early in November the Japanese sailed their empty oil tankers out of San Francisco Bay headed toward Japan. At the same time the Japanese Financial Commissioner informed Foreign Funds Control he would recall the ships at any moment if they would agree to license oil shipments to Japan. Three weeks later, on November 17, the Japanese representatives indicated that even though the tankers now had left, they could quickly be brought back to this country if the proposed oil shipments should be permitted by the Treasury Department.

Finally, an American law firm acting for Japanese interests made representations to the Treasury and urged that it allow oil to go to Japan on the ground that this would be a desirable conciliatory gesture. They were informed

that the general problem of oil shipments to Japan would continue to receive the serious consideration of this Government.

During the course of these negotiations by the Treasury Department with the representatives of the Japanese Government, the Dutch Government, in full cooperation with our Government, adopted an identical policy. Thus from July 26, 1941, until the war began on December 7, Japan was unable to buy oil from either country as a result of this double-barrelled embargo through the device of the freezing control.

2. Activity in Directing Strategic Materials into Defense Uses.

Soon after the freezing control was put into effect, Foreign Funds Control found itself in a position to obtain and pass on to other interested governmental agencies valuable information concerning the location of large quantities of strategic materials. Accordingly, a procedure was initiated early in the summer of 1940 whereby information relating to strategic material was forwarded to a designated member of the Treasury in order that he might inform the appropriate defense agencies with respect to the location and ^{availability} ability of such materials. Applications involving such materials were not acted upon until the Foreign Funds Control was advised as to the recommendations of the defense agencies.

Subsequently, a special unit of Foreign Funds Control was created and charged with the responsibility of communicating directly with OPM, the Army, Navy, Lend Lease, Procurement Division and other interested agencies with respect to strategic materials and cooperated in their efforts to direct such materials into appropriate defense uses.

Several times during the period from April 1940 to December 1941, Foreign Funds Control required the principal banks to report on merchandise held by them for blocked accounts. The information thus obtained was furnished to the appro-

private agencies who acted on this information and requisitioned important amounts of such materials.

The following are examples of the effectiveness of Foreign Funds Control in directing strategic materials into defense uses:

(a) In late 1940 the Danish owner attempted to sell 2,500 tons of prefabricated steel ship building parts to a Greek. Foreign Funds Control brought the case to the attention of the Navy and withheld action on the application until the Navy obtained the steel ship building parts for use in critical repair work.

(b) Agents of owners of 7,000,000 pounds of ship building materials held for a Netherlands account arranged to sell this material to a broker who, in turn, arranged to sell it to a shipbuilding firm in Portugal. It was alleged that this transaction had the blessings of the British, which subsequently was proved incorrect. Instead, the British and the United States Navy agreed that Foreign Funds Control should withhold the license until the Navy had had an opportunity to requisition the material for its use.

(c) Foreign Funds Control learned that the French Line had been holding at a New Orleans dock since June, 1940, 30,000 feet of spruce wood suitable for airplane manufacture. When this information was brought to the attention of OPM, American airplane companies competed to obtain the materials and Foreign Funds Control licensed the sale of the material to the airplane companies on the basis of OPM's priority ratings.

(d) Foreign Funds Control procured cargo manifests of ships which were loaded with war materials which were to be sent to Finland. Foreign

Funds Control turned the information over to the defense agencies and holders of priority ratings were given first choice of these materials, the sale of which was licensed by Foreign Funds Control. In a similar manner the cargoes of Finnish ships moving from South American ports were marketed after such vessels took refuge in American ports.

(e) Foreign Funds Control learned that a Canadian firm was attempting to finance a shipment to Portugal of granular calcium cyanide needed in this country in the manufacture of explosives and plastics. When this information was given to OPM, that agency appealed to the Canadian priority officer who in turn requested the chemical controller at Ottawa not to allow this material to be shipped to Europe. As a result not only was the shipment to Portugal stopped but negotiations were begun to have the entire surplus Canadian supply of this material made available to firms in the United States holding defense contracts.

(f) In numerous instances Foreign Funds Control helped make machine tools available to the Army. A license to sell machine tools purchased for the Government of French Indochina was denied by Foreign Funds Control in order that the Army might requisition the material for the benefit of the holder of an Army contract.

(g) Foreign Funds Control brought to the attention of the Navy the existence of \$49,000 worth of copper which was on board the Rumanian S. S. "Mangalia". This copper was immediately requisitioned by the Navy. Ford trucks valued at \$870,000 also owned by the Rumanians were sold to the Russian Government under Foreign Funds Control license.

(h) Certain machine tools had been reported as being held in the warehouse of a freight forwarder in New York for a French account. The fact that these tools were available was brought to the knowledge of Pratt and Whitney Aircraft and a representative of the company came immediately to Washington to arrange to purchase them since the machinery was highly desirable in eliminating a bottleneck in the production line of Pratt and Whitney. After consultation with the requisitioning officers the representative of the company came to Foreign Funds Control to advise that the requisitioning would take some weeks and that in addition the acquisition of the tools might be subject to further delays and requested assistance. Immediately, telephone calls were made to the Army Ordnance Office in New York which office confirmed the fact that the sale of these tools to Pratt and Whitney was desirable in the Government's interest; the freight forwarder holding the machines was reached by telephone and a price agreed upon at which the machines could be sold to Pratt and Whitney. Thereupon, inquiry was made as to whether the forwarder desired a license to sell the machines to Pratt and Whitney and upon his affirmative response he was told that such license would be in his hands within the next half hour and to prepare the machines for immediate shipment. The Federal Reserve Bank of New York arranged to have an appropriate application filed and relative license issued and we were informed that within two days the machines had been shipped to the factory, set up and placed in operation.

3. General Aniline & Film was forestalled in having its German ownership further camouflaged.

General Aniline and Film Corporation was a Delaware corporation organized in the United States in 1929. It had two types of shares, A shares and B shares. Each class of stock had equal votes but the A shares drew ten times the amount of

dividends drawn by the B shares. It was a rather exotic corporate financial structure to find in the United States; it was much more clearly an European device.

The ownership of the A shares, so far as we knew, were in the hands of individuals. They were the investment shares. The B shares, the controlling shares, were in the hands of a group of foreign corporation, the principal one of which was a Swiss holding company called Internationale Gesellschaft fur Chemische Unternehmungen, A.G. (hereinafter referred to as I. G. Chemie). There were ancillary holdings in five other corporations: a Dutch corporation, the name of which was Chemo Maatschappij voor Chemische Ondernemingen; another one, Dutch also, was N. V. Maatschappij voor Industrie en Handelsbelangen. In addition, there were two Swiss holding companies, Osmon A. G. and Mithras, A.G., and a bank which goes under two styles -- Eidgenossische Bank, A.G., being the commonest name for it. The nominal ownership therefore appeared to be Swiss and Dutch. In addition, there was the rather unusual situation -- 36.3% of the outstanding shares of I. G. Chemie, the Swiss holding company, were owned by General Aniline & Film Corporation, so that there was a circular shareholding as between a Swiss parent and an American subsidiary, plus two Swiss corporations, plus two Dutch corporations.

Almost immediately after the Dutch freezing, an application was filed for the transfer of the shares registered in the name of the two Dutch Corporations to the Swiss company. It was alleged that the stock was held only nominally by the Dutch companies. At that time Switzerland was not blocked. Treasury officials took no action on this application. For almost a year, however, constant pressures were being exerted to approve the application. It was the view of Treasury officials that nothing should be done to change the picture. When the freezing was extended to Switzerland, General Aniline and Film was blocked as Swiss and Dutch.

During the summer of 1941, there were a series of attempts to sell General Aniline and Film Corporation, or at least the control. The first tentative nibble was made by IT&T which represented that the German Government was willing to transfer to IT&T, General Aniline and Film Corporation, which, of course, was not German owned on the record, in return for IT&T's Berlin properties. That never reached the point of a formal application.

One deal did reach the status of a formal application. General Dyestuffs Corporation applied to purchase General Aniline and Film Corporation, or, at least, the control of it. On the face of it this was a rather unusual situation — a corporation with a net worth of \$6,000,000 proposing to purchase a corporation with a net worth of a little over \$60,000,000. We worked on that application for months. We held conferences with the representatives of General Dyestuffs Corporation, and with representatives of General Aniline and Film Corporation and obtained a very confused picture. It immediately became obvious that General Dyestuffs Corporation, which was also blocked as German although it was owned by two American citizens, had been part of the I. G. Farben organization in the United States since its formation. It was organized in 1926 as a merger of three dyestuff sales organizations in the United States. Until it filed the application with Foreign Funds Control in the summer of 1941, General Dyestuffs Corporation had worked entirely as an outlet for I. G. Farben and later as an exclusive agent for General Aniline and Film Corporation in the dyestuffs field. Consequently, we were not too happy at the thought of permitting a transfer in this particular situation and we investigated it very thoroughly and had a number of conferences with the President of General Dyestuffs Corporation and with their counsel. We gave them pretty much the same treatment as was given the Japanese in their attempt to obtain oil; we continued to study the situation.

In September of 1941 another interest appeared -- a Dutch interest. At that time we learned that a consortium of Dutch banks, headed by the Amsterdamsche Bank N.V. had loaned to I. G. Farben \$16,000,000 prior to the outbreak of war, as to which they had not secured a formal pledge but they had some indeterminate form of a pledge of 15,900 shares of A stock of General Aniline and Film Corporation, which were registered in the name of I. G. Farben Industrie. Those shares were held by Brown Brothers Harriman. In addition, subsequent to the outbreak of war but prior to the invasion of the Netherlands, this same consortium had loaned to I. G. Farben an additional \$5,300,000 as to which they received not even an indeterminate form of pledge. This consortium of banks with some form of interest in the 15,900 shares was interested in General Aniline and Film.

There had been no election of directors for 20 months and the "Swiss" took the position that this board was not representing them because it was opposed to the General Dyestuffs application. There is a section in the Delaware Statutes, which permits a shareholder to bring a Bill in Chancery to obtain an election when there has not been an election because of failure to obtain a quorum. After due notice, whoever does appear will constitute a quorum and the Chancellor will hold an election. An action was brought late in September 1941 to compel such an election. At the suggestion of the Department of Justice, Anti-Trust Division, the action was postponed for 60 days. The Department of Justice and a number of Government agencies appeared informally.

The postponement of the proceeding in the Delaware Court ran until December 10, 1941. In the interim, we held further discussion with the Dutch. Early in December a new President was elected by General Aniline and Film Corporation, Mr. John Mack. It was announced in a press release that he and the other members of

of the board were going to Americanize this company. Another addition to the board was Mr. William Bullitt.

One of the things we were considering seriously on December 6 was conducting a field investigation of General Aniline and Film Corporation. It was getting close to the adjourned hearing date in the Court of Chancery in Delaware. In the interim, two reports had been prepared on General Aniline and Film, one by the Anti-Trust Division of the Justice Department, and one by the Treasury Department. Both of these reports indicated rather clearly that this enterprise was vitally important to the defense effort. Roughly, 60 percent of the production was going into the defense effort, a large part being dyestuffs. This enterprise was one of the two big producers of dyestuffs in this country, accounting for roughly 40 percent. In addition, General Aniline and Film Corporation controlled Agfa Ansco and the photographic materials the latter was producing were very important to our defense efforts. Other important products and processes were also controlled. All of these items were extremely important to us and in view of the ownership, management and control of that enterprise something had to be done. On the 11th of December, 1941, a Treasury investigative group was sent into General Aniline and Film to investigate the firm and supervise its operation since the firm was vital to our war effort.

Thus, between May 1940 and December 1941, action on applications with respect to General Aniline and Film were held in abeyance. If we had approved those applications, General Aniline and Film stock would have been in the name of I. G. Chemie and in the light of other negotiations and maneuvers that went on it seems fairly clear that the American company itself would have retired that stock by paying a substantial sum of money to I. G. Chemie. It would have been more

difficult to vest control of General Aniline and Film which was effected in February 1942. Two months after our entrance into the war, our investigation disclosed that the German I. G. Farben actually owned and controlled General Aniline and Film.

4. Supplementing the F.B.I. in its control of sabotage, espionage, and propaganda.

Espionage, sabotage and propaganda are notoriously expensive. For example, during 1917 and 1918 it is reported that the Imperial German Government spent \$27,000,000 in the United States for such activities and that these funds were made available from foreign owned assets in the United States.

Under the Foreign Funds Control program no funds were available here for Axis use after the freezing was extended in June 1941. This extension not only had the effect of tying up all direct German interests in this country, but prevented agents operating in the United States, regardless of nationality, from acting for or on behalf of the Germans.

The Treasury officials were cognizant of the foresighted German practices of sending spies and agents to become naturalized citizens of countries against which they were to machinate and using pressure against Americans or others by threats of reprisal against relatives abroad. Moreover, the Treasury officials were aware that many United States concerns wholly owned by American citizens or by neutral citizens were indirectly controlled by the Axis. Accordingly, it will be recalled that the definition of "national" in the new Executive Order of June 1941, as applied to individuals and to corporations, was made as broad as possible so that anyone entangled in the web of Nazi influence could be subjected to the Control. Under the power given the Secretary of the Treasury to define as a national any person determined by him to have been acting directly or indirectly for the benefit

of, or under the direction of, a blocked country, many United States citizens were declared to be nationals of Germany, Italy or Japan. In this way Foreign Funds Control was enabled to strike at the very roots of the source which otherwise would have supplied the funds for espionage and sabotage in the United States.

The following are some instances where United States citizens were blocked subject to control by Foreign Funds Control during the period from June 1940 to Pearl Harbor:

(a) A number of law offices were blocked and subjected to intensive investigation. It was indicated above that the law firm of Topken and Farley was blocked in June 1941 and that they admitted to having had a spy on their payroll who that very day had been picked up by the Federal Bureau of Investigation.

(b) The Treasury Department took custody of almost all files and records of German-American Bund organizations and blocked accounts of most of their officers and many of their prominent members, almost all of whom, as required by the rules of these organizations, were American citizens.

(c) Blocking measures were taken against many American citizens who were representatives of German companies or resident managers of American companies owned in whole or in part by German interests; against American citizens who purchased German interests in those countries or organized new companies to carry on business formerly done by the Germans. Among this group was included Werner von Clemm, an American citizen who was participating with his brother, an official of the German government, in a scheme to import into the United States precious stones believed to have been looted by the German army in Belgium.

5. Prevent U. S. from becoming market for looted securities through neutral countries.

Subsequent to the extension of the freezing control in June 1941, there was presented a need for adopting a new perspective in dealing with securities being brought into the United States. It will be recalled that in the discussion of the securities program it was indicated that under General Ruling No. 5 any bank could file application and obtain securities imported under that Ruling and place them in a special blocked account under General Ruling No. 6. The securities could be released from that General Ruling No. 6 account upon the occurrence of either of two contingencies: (1) if it were decided that no blocked interest was present in such securities, or (2) if a blocked interest were ascertained in such securities the securities might be transferred from this General Ruling No. 6 account into an ordinary blocked account in the name of the individual.

That procedure was satisfactory up until June 14, 1941 because as of that date there were no general licenses outstanding which conferred privileges upon a whole blocked country. For example, if a person came in and acknowledged that there was a Dutch interest in the securities they were blocked as Dutch and there was no general license outstanding which would in effect permit the freeing of such securities from the Dutch account. However, as soon as certain of the neutral countries were blocked that situation was changed. Securities might come into the United States, be picked up under General Ruling No. 5 and placed in a General Ruling No. 6 account. The person who sent such securities into the United States might allege that they were Swiss. Under the provisions of General Ruling No. 6 those securities would be transferred into a Swiss blocked account and thereafter they could be freed under the Swiss general license and would have escaped our freezing control. Clearly, this would have run contrary to our

objective to prevent the transfer of these securities out of a General Ruling No. 6 account until the true interest in the securities was known. They might very well have been securities looted from the Netherlands or Belgium and, if permitted, would be transferred to a Swiss blocked account. For example, they could thereafter be freed under the Swiss general license.

Accordingly, on June 27, 1941, General Ruling No. 6 was amended. Under the new approach the problem was divided into three categories, essentially. If it were determined that there was no blocked interest in the securities they could be freed. On the other hand, if it was discovered that there was a blocked interest in the securities other than that of one of the neutral countries, we could again release them into a blocked account. If, however, it was claimed that the only interest in the securities was one of the countries that had a general license outstanding, the release of those securities was not permitted into a blocked account unless the claimant could furnish satisfactory evidence that no other blocked country had an interest in the securities. Thus, the mere admission that the securities were Swiss would not have been enough unless it was demonstrated that there was no other blocked interest in the securities.

Other drafting improvements were incorporated into General Ruling No. 6, as amended. The term "domestic bank" was first used instead of spelling out the various institutions in which securities might be placed. A definition of "General Ruling No. 6 account" was written into the amendment. In addition, the amended General Ruling No. 6 provided that if securities in a General Ruling No. 6 account were sold the proceeds had to be put back in a General Ruling No. 6 account in the same banking institution.

C. ADMINISTRATIVE ORGANIZATION

During the period from June to December 1941 the administrative organization of Foreign Funds Control was not changed to any large degree from that which existed in the earlier period. In addition to having the geographical units, more and more sections were established to handle the individual problems, such as the group to examine reports filed under licenses, the investigative unit to assist in the development of cases for ad hoc blocking, and the field investigative staff which was organized and directly responsible to the administrative head of Foreign Funds Control. No attempt was made to reorganize the administrative set-up of the Control to meet the growing needs as were presented by the new problems. New groups were set up, without relationship to the existing units, to handle special problems as they arose without reference to the balance of the organization.

For the first year and a half of the existence of Foreign Funds Control, from April 1940 through until October 1941, Foreign Funds Control "just grew". The job with which it was faced was an unprecedented one in this country. No one knew how large a staff would be needed or what kind of specialists would be necessary or what kind of problems would be presented. The difficulties involved in the handling of the ever increasing volume of operations were such that there was little or no opportunity for focusing upon the problems of administrative management.

During this period Foreign Funds Control was nominally part of the Office of the Secretary. It had grown to such proportions and had been so far physically removed from that office that adequate administrative supervision from that office was clearly out of the question. At the same time, Foreign Funds Control had

neither the tools nor the staff to manage the administrative affairs effectively. All payrolls and appropriation accounting were handled elsewhere. There was no technically-equipped staff to handle employment, Civil Service, and compensation matters. No operating budget was in existence and the only clue to either current or anticipated expenditures lay in past financial records which were so incomplete and so nearly inaccessible that they were almost useless by the time they could be obtained. Salary inequities, procedural snarls, duplication of effort, and ineffective use of personnel and equipment followed only logically from a situation in which the technical specialists of the organization was so over-burdened with the subject matter of their jobs that they had neither the time nor the energy necessary to review and remedy administrative and organizational defects.

In November 1941, the first significant step was taken in organizing Foreign Funds Control along functional lines. An Executive Officer was appointed for Foreign Funds Control. He began to lay the ground work for an administrative reorganization along lines to meet some of the above-described deficiencies. The results of his work, however, did not manifest itself dramatically until after Pearl Harbor when there was the complete reorganization of Foreign Funds Control. However, the following outline relating to the establishment and organization of the Executive Office will give some ideas of the objectives of this new office.

1. Powers, Functions, and Duties of Executive Officer

(a) There is hereby established in the Division of Foreign Funds Control an Executive Office, to be under the administrative direction and control of the Executive Officer.

(b) The Executive Officer shall report directly to the Assistant to the Secretary and shall be responsible for the work of the Personnel Office, the Budget and Planning Office and the Office Service Section.

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Subject to the supervision and control of the Executive Officer, the Personnel Office shall be under the direction of a Personnel Officer, the Budget and Planning Office shall be under the direction of a Budget and Planning Officer, and the Office Service Section shall be under the direction of a Chief of Office Service.

(c) It shall be the general responsibility of the Executive Officer, with the aid of the staff under his direction and in cooperation with appropriate divisional staff members:

(i) To analyze the organizational structure of the Division of Foreign Funds Control and make recommendations to the Assistant to the Secretary concerning the solution of organizational problems arising therefrom;

(ii) To analyze the personnel requirements of the Division of Foreign Funds Control and make recommendations to the Assistant to the Secretary concerning personnel policy and the establishment of an effective system of personnel management;

(iii) To analyze the expenditures and estimates of expenditures of the various sections of the Division of Foreign Funds Control and on this basis to plan and prepare the annual budget of the Division for recommendation to the Assistant to the Secretary;

(iv) To establish and operate a system for providing all of the office services necessary to enable employees of the Division of Foreign Funds Control to perform their authorized functions effectively;

(v) To prepare for submission to the Assistant to the Secretary all necessary administrative orders, administrative memoranda,

procedural bulletins, and other releases pertaining to the administrative management of the Division;

(vi) To perform such other functions relating to organization, administrative planning and procedures, personnel, budget, and office services as the Assistant to the Secretary may from time to time assign.

9. Powers, Functions and Duties of Personnel Officer

(a) Subject to such supervision and control as the Executive Officer may exercise, it shall be the responsibility of the Personnel Officer:

(i) To develop and establish policies and procedures for the classification and compensation of all positions on the basis of their duties, responsibilities, and organizational relationships and in accordance with the principle of equal pay for equal work;

(ii) To assure that all appointments, promotions, demotions, transfers, and retentions in or terminations of service are made on the basis of relative competence and qualifications and in accordance with all applicable federal statutes, rules and regulations;

(iii) To render staff assistance and counseling service to supervisors and employees in matters of working relationships, and generally to see that established policies concerning employee-management relations are put into effect;

(iv) To interpret and assure observance of employee regulations, such as those covering annual, sick, and military leave, hours of work, overtime and holidays;

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(v) To render staff assistance and counseling service to supervisors and employees with respect to programs of employee training directed toward increasing the effectiveness of employees and developing a true career service system;

(vi) To maintain liaison relationships between the Division of Foreign Funds Control, the Personnel Division of the Treasury Department, and the Civil Service Commission; and

(vii) To perform such other functions with respect to personnel management as may be assigned from time to time.

8. Powers, Functions, and Duties of Budget & Planning Officer

(a) Subject to such supervision and control as the Executive Officer may exercise, it shall be the responsibility of the Budget and Planning Officer:

(i) To plan, develop, and administer a complete system of budgetary planning and control with respect to the allocation and expenditure of administrative funds;

(ii) To prepare regular and special estimates, reports, and justifications of expenditure for submission to the Budget Office of the Treasury Department, the Bureau of the Budget, and Congressional Committees;

(iii) To develop instructions and procedures for the assistance of the operating sections and units in the preparation of their preliminary budget estimates;

(iv) To review budgetary requests and recommend approval or disapproval of such requests;

(v) To review operating data and cost analyses to determine where economies may best be effected;

(vi) To analyze the organizational structure of the Division of Foreign Funds Control, including all proposed organizational changes, and submit appropriate recommendations to the Executive Officer and the Assistant to the Secretary;

(vii) To review proposed administrative orders, administrative memoranda, and other procedural material for practicability and conformance to organizational policy and prepare such material in final form for submission to the Executive Officer and the Assistant to the Secretary;

(viii) To provide staff assistance to the operating sections and units in formulating and establishing appropriate procedures for their internal operations; and

(ix) To perform such other functions with respect to budgeting and administrative planning and procedures as may be assigned from time to time.

✦ Powers, Functions, and Duties of the Chief of Office Service

(a) Subject to such supervision and control as the Executive Officer may exercise, it shall be the responsibility of the Chief of Office Service;

(i) To direct and supervise the mail and messenger service, the general files, and the stenographic pool;

(ii) To plan and supervise the allocation of office space;

(iii) To approve and issue travel orders in accordance with the standardized Government Travel Regulations;

(iv) To supervise the printing and duplicating work equipment, and services carried on in the Division of Foreign Funds Control;

(v) To requisition and maintain custody of all materials, supplies, and equipment necessary to the work of the Division;

(vi) To supervise the automotive service which supplies transportation and carrier service to the Division;

(vii) To carry out constant study, investigation, and research directed toward improving the office methods, practices, and facilities of the Division; and

(viii) To perform such other functions with respect to the provision of office services as may be assigned from time to time.

This period of the administrative history of Foreign Funds Control was, however, characterized by two significant factors: (1) a deliberate effort to educate the public with respect to the freezing control and (2) an experiment in interdepartmental treatment of major problems confronting the Control.

1. Public Education of Freezing Control

It is obvious that with the extension of the freezing control in June 1941 thousands of persons were affected and multitudinous transactions were covered by its restrictions. It was immediately recognized that the wide spread impact of the freezing control regulations was not fully appreciated by the public. Various devices were employed by Foreign Funds Control to adequately educate the world and particularly persons in the United States of the implications of this control.

As indicated above, the press releases issued during this period in connection with the promulgation of general licenses, general rulings, etc. were more explicit. They described with deliberate exactitude the purposes of the particular regulation, the transactions which could or could not be effected, and the general objectives sought to be accomplished by the regulations.

In addition, the Federal Reserve Banks who were in effect the field agents of Foreign Funds Control required specialized education on the scope and implications of the expanded freezing control regulations. Top members of the staff embarked on an educational tour of each of the Federal Reserve Banks and discussed in detail with them the regulations being issued by Foreign Funds Control and in general expanded upon the program which was being administered by the Control. The officials of the Federal Reserve Banks were invited to Washington for round table discussions not only with officials of the Treasury Department but with officials of other departments of the government who were vitally interested in the defensive measures being taken by this Government through the medium of economic warfare measures. In addition, an official of Foreign Funds Control was specifically assigned the responsibility of maintaining liaison with each of the Federal Reserve Banks so that they could be kept informed currently of all developments, and programs being adopted or considered. It was recognized that the Federal Reserve Banks, who in turn had contacts with all the banks in their districts, were pivotal points and their support and understanding of the program was essential to an adequate operation of the program.

Officials of Foreign Funds Control took every opportunity to address public groups interested in the effects and implications of the freezing control. They addressed the American Law Institute; the Bankers Association; the National Trade Council of Foreign Trade, they accepted every opportunity to publicize the

freezing control in order that the public with whom the chief enforcement power resided could understand the effects and implications of these control measures. Members of the staff published articles on the freezing control.

During this period the Loree Committee, a sub-committee of the Foreign Exchange Committee, composed of the leading banks of the country, was organized. This group worked closely with the officials of Foreign Funds Control in developing regulations which made sense in terms of banking operations while, at the same time, met the objectives of the Control. It was important to work with this committee which, in effect, was a specialized group of people catering to the public needs.

In addition, every effort was made by officials of Foreign Funds Control to explain where circumstances permitted the reason for action on certain applications. Originally, a member of the staff was designated to consult with the public on questions relevant to the freezing control. Experience subsequently showed, however, that it was inadvisable to assign this responsibility to one person who may not have had intimate knowledge with each of the applications. This often resulted in unsatisfactory information being given to the public. Cognizant of this fact, the group charged with responsibility of liaison with the public was dispensed with and an applicant, with or without counsel, could consult with any member of the staff on the disposition made of his application and to obtain whatever facts were necessary to a proper understanding of the purposes of the control and the rationale of actions taken. It was found preferable as time progressed to furnish such information to applicants instead of the flat denial. With a proper understanding for the reasons of the denial, where facts

and circumstances permitted, the applicant became more sympathetic to the operations of the Control and more cooperative in the assisting of the enforcement of the control.

2. Relation of Foreign Funds Control to other Departments of the Government.

With the extension of the freezing control in June 1941 to cover practically all countries of the world and the commencement of the use of the freezing control as a defensive economic warfare measure of this country, the enforcement of the control assumed a more dynamic role.

The Treasury staff which worked on the freezing control matters recognized that some of the problems presented had wide spread implications which might affect the operations of other departments of the government during this critical pre-war period. A close coordination was established between the Treasury officials and the officials of the Departments of State and Justice. A small interdepartmental committee was established, made up of top officials of these departments to discuss the basic programs and problems presented by the administration of the freezing control. Weekly meetings of this interdepartmental committee were held at which more difficult applications were considered; where policy was developed and where economic warfare programs being administered by the different departments were coordinated. The Japanese oil applications as well as the applications involving General Aniline and Film are examples of the cases considered by this Inter-Departmental Committee.

It was at these inter-departmental discussions that coordination was also effected between the investigative work of Foreign Funds Control and the investigative work being carried on by the F.B.I. Initially, Justice argued for all the investigative work required by Foreign Funds Control to be carried out by the F.B.I. However, it was felt after much consideration that it would be preferable for Foreign Funds Control to have its own investigative staff supplemented by the

other investigative units of the Treasury who would all act in close cooperation with the other investigative organizations in the government. In fact, close cooperation was always maintained with the F.B.I. for the exchange of information and for assistance to the F.B.I. in applying sanctions to persons who had been found guilty of subversive activities.

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PERIOD OF AGGRESSIVE BLOCKING -- DECEMBER, 1941 to AUGUST, 1945

A. Basic Legal Tools

1. Amendment to Trading with the enemy Act.
2. Executive Order No. 8998
3. Executive Order 9193 - Establishment of a Custodian of Alien Property
4. Section 3(a) of the Trading with the enemy Act.

B. Basic Regulations

1. General Licenses

- (a) Treatment of Foreign nationals (other than Japanese) in the U. S. - General License 42.
- (b) Treatment of Japanese - General License 65A.

2. General Rulings

- (a) Trading with the enemy - General Ruling 11.
- (b) Control of securities, currency, checks and drafts
 - (i) Currency control - General Ruling 5A.
 - (ii) Scorched Earth Policy and the Philippines- General Ruling 10.
 - (iii) Scorched Earth Policy and Hawaii
 - (iv) Control of checks and drafts - General Ruling 5A.
- (c) Hearings for unblocking - General Ruling No. 13.
- (d) Regulations with respect to unlicensed transfers- General Ruling 1
- (e) Disclosure of beneficial interest in security accounts - General Ruling No. 17.
- (f) Census of American Property Abroad - TFR-500.
- (g) Directive Licenses
- (h) Import Controls over Art Objects - T. D. 51072
- (i) Limitation on acquisition of securities for blocked accounts - Public Circular No. 14.
- (j) Blocking of German and Japanese Assets - General Ruling 11A.

C. Enforcement in United States.

1. Ad Hoc Blocking Program

- (a) American citizens
- (b) Internees

2. Investigative Program

- (a) Investigative Organization
- (b) Sample Investigations

3. Treatment of Business Enterprises.

- (a) Liquidation - Forced Sale of Assets.
- (b) Vesting Action
- (c) Supervision
- (d) Restrictive Licensing
- (e) Reorganization without Blocking
- (f) Contingent Vesting Account

4. Collation and Use of Financial Intelligence

- (a) Relation to Office of Censorship
 - (i) Background
 - (ii) Function of Censorship Relations Section
- (b) Handling Censorship Intercepts, etc. - The Flexoline
- (c) Diplomatic Pouch

5. Licensing Operations

- (a) Development of Licensing Policy
 - (i) Technique of Blanket Licenses
 - (ii) Other Techniques
- (b) Examples of Licensing Policy
 - (i) American corporations in neutrals.
 - (ii) Relief Program

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(iii) Business Enterprises

(iv) Trusts and Estates

(v) Creditors Claims

(vi) Official Funds

(vii) Remittances from Swiss Omnibus Accounts

(c) Publicity to Licensing Policy

(1) Before Administrative Procedures Act.

(ii) After Administrative Procedures Act.

D. Enforcement Program in Latin America

1. Inter-American Conference on Economic and Financial Controls (July, 1942)

2. Implementation of Inter-American Conference Resolutions

3. Proclaimed List Program

4. Argentine Program

5. Special Blocked National Program

6. Foreign Payment Plan

E. Enforcement Program in Europe

1. Activity in connection with Liberated Areas.

2. Participation in the financial investigations and establishing the financial controls in Germany.

3. Participation in Program re Looted Property and German External Assets.

(a) Swiss Negotiations

(b) Swedish Negotiations

F. Enforcement Program in U.S. Territories, etc.

1. Establishment of Puerto Rico Office.

2. Re-establishment of Philippine Office

G. Conclusion - Administrative Management

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