

FINANCIAL CONTROL MEASURES  
8 April 1946.

246-65  
CONTENTS

	<u>Page</u>
Introduction -- Colonel Robert W. Brown, USA., Assistant Commandant, The Industrial College of the Armed Forces . . . . .	1
Guest Speaker -- Mr. Isadore G. Alk, Chief Counsel, Foreign Funds Control, Treasury Department . . . . .	1
General Discussion . . . . .	13
Colonel Brown	
Students	
Mr. Alk	

FINANCIAL CONTROL MEASURES.

8 April 1946.

COLONEL BROWN:

Gentlemen, as you might expect, this is another one of those surprise introductions wherein I have to feel my way as I go along. I can say this, however, that usually heretofore when one has spoken about financial controls or finances or the Federal Reserve System, we have been treated to a considerable amount of statistics. The subject has usually seemed quite dry.

Now I, personally, have had the good fortune of hearing our speaker this morning speak before. My recollection is that this speaker makes his facts and figures live and move and have some being. I think that is one of the greatest things that can be said about a man who deals in dry facts and figures and statistics, that he has the power to breathe the breath of life into them so that they have some significance to those who hear them.

Our speaker this morning is Mr. Isadore G. Alk. He is an attorney. He has been an attorney since 1927. He entered Government service in 1942. At the present time he is General Counsel of Foreign Funds Control in the Treasury Department. During the last year he has served in the Philippine Isles and Japan as a U. S. Treasury representative. While in Japan he acted as the financial adviser for General MacArthur's staff.

Gentlemen, without further ado I will introduce to you Mr. Alk, who will speak to you this morning on financial control measures. Gentlemen, Mr. Alk.

MR. ALK:

All that I am going to try to do this morning is to sketch for you some of the principal financial and property control measures which were adopted by our Government during World War II. We will not be able to spend too much time on any particular control measure, in view of the amount of time which has been allotted me, but we will try to go over the subject generally. Then if any of you have any questions I would be glad to try to answer them. I might say I do not have any factual material or statistics with me, so we will have to speak in the most general of terms.

The financial and property controls exercised by this Government during World War II might be divided into two (2) categories: First, the regulatory or freezing controls, which were exercised by the Treasury Department; and, secondly, the vesting controls which were administered by the Alien Property Custodian.

In discussing the freezing controls we must remember that these controls were initiated about 20 months before the United States formally

entered the war. They came into being on April 8, 1940, when Germany invaded Denmark and Norway, and were intended primarily to prevent Germany from seizing title to, and control of the assets in the United States belonging to the Danes and to the Norwegians. Although it was felt in those early days that we could not deny to Germany the use of its own American assets, we however felt that we were in a position to prevent Germany from using the American assets of its victims to finance its acts of aggression.

Consequently, on April 8, 1940, President Roosevelt inaugurated the program of governmental control over the use and disposition of foreign-owned funds and other assets by issuing Executive Order No. 8389. This Executive Order prohibited, except pursuant to Treasury license, any transfers or other dealings in Norwegian and Danish assets and had the effect of freezing or blocking such assets.

As other countries fell under the domination of Germany, their assets and also those of their nationals likewise were frozen by the issuance of an amendment to Executive Order No. 8389. By March 1941 over five billion dollars of assets of the occupied countries were subjected to the Treasury's freezing controls.

During this initial stage the function of the control, primarily, was protective. But as the international situation became more and more critical the freezing controls avowedly became an instrument for our national defense by the issuance of Executive Order No. 8785. This Executive Order was issued on June 14, 1941, and it amended Executive Order No. 8389, by including within its scope Germany and its satellites and the adjoining neutral countries, so that it covered all of Continental Europe, with the exception of Turkey. Not only were all the assets of these countries and their nationals frozen, but in addition financial transactions by, on behalf of, or pursuant to the direction of any of the blocked countries and their nationals, were also subjected to Treasury scrutiny.

At the time of the issuance of this Executive Order it was definitely understood that the Order was going to operate as an instrument of national defense, for the President stated, at that time, as follows:

"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."

There is one further step which was taken in the system of foreign funds control prior to the outbreak of war. When Japan overran Indo-China and thus indicated that it intended to continue on the path of aggression, its assets likewise were frozen. On the same day, July 26, 1941, the freezing control was extended to China as a protective measure. By means of the freezing orders, by July 26, 1941, the

59

Government subjected to freezing controls approximately nine billion dollars of assets. Our controls during the entire war period extended over those same assets.

There are certain measures which were taken even before the outbreak of war to implement these controls which we might possibly discuss for just a moment. In order to make the freezing order a more effective instrument of national defense, it was necessary to bring within its orbit other persons who, although they were not subjects or citizens of the Axis countries and were not in any occupied country, nevertheless were carrying on activities for their benefit. This was done first through the definition of "national" under the freezing order and through the issuance of the Proclaimed List.

Under the freezing order any organization which was owned or controlled by nationals of a foreign country was treated as a national of that country, regardless of the country in which it was incorporated. For example, General Aniline & Film, organized under the laws of the United States, was owned and controlled by nationals of Germany through the medium of Dutch and Swiss holding companies. Consequently, for the purposes of the freezing order General Aniline & Film was treated as a national of Germany, Holland, and Switzerland. It was subjected to regulation under the freezing controls on the same basis as any other national of those three countries.

In this connection I might say that during the course of the war there were approximately 3 thousand business enterprises in the United States which, although created under the laws of the United States, were nevertheless treated as nationals of foreign countries for the purpose of freezing controls.

The Executive Order also provided that the term "national" should include any person who is determined by the Secretary of the Treasury to be or to have been acting since June 14, 1941, or purporting to act, directly or indirectly, for the benefit of or under the direction of a blocked country or its nationals. By reason of this definition the Treasury subjected to its controls during the war period the activities of over 1500 American citizens, principally Bundists and representatives of I. G. Farben and other German interests. Their financial activities during the entire period of the war were closely screened and regulated.

Controls over unsatisfactory persons in the United States were exercised through this concept of "national". In the foreign field the Proclaimed List was utilized. The Proclamation authorizing the issuance of a list of persons to be known as "The Proclaimed List of Certain Blocked Nationals" was promulgated on July 17, 1941, shortly after the freezing of Germany. The list consists of persons who are deemed to be acting for the benefit of the Axis powers. In addition to making it unlawful to export American goods to persons on the list, the Proclamation provided that all persons on the list should be treated as nationals of Germany for the purpose of the freezing controls.

The list did not contain the names of any persons who were in the United States; nor did the list contain the names of any persons who were in any of the enemy-occupied areas. The list operated as a means of regulating, through the Treasury freezing controls and through other governmental controls of this country, the financial and commercial activities of individuals and firms in the neutral and other countries who had been acting or were acting for the benefit of the Axis powers.

At some later time you will have, or possibly you already have had, a lecture dealing with the Proclaimed List, so I merely desire to emphasize at this time that if a man's name, or a firm's name, was included on the Proclaimed List, that person was treated as a national of Germany for the purpose of the freezing controls. All of his assets in the United States were frozen. Financial transactions involving his property, or which were for his benefit or on his behalf, required Treasury license.

This system of governmental controls over the property of blocked countries and their nationals and over financial transactions involving blocked nationals was in full operation at the time of the formal entry of the United States into the war and was readily converted into a major instrument of economic and financial warfare. During the entire war period these freezing controls remained the spearhead in this Government's program of financial and economic warfare.

The outbreak of war, of course, immediately made effective the restrictions against trade with the enemy, which are contained in Section 3(a) of the Trading with the Enemy Act. The responsibility of administering the licensing controls under this section was assigned to the Secretary of the Treasury and thereafter the Treasury integrated the freezing controls with the restrictions against trade and communication with the enemy by issuing General Ruling No. 11. General Ruling No. 11 prescribed the basic regulations relating to trade or communication with enemy nationals.

This document created for the first time the concept of enemy nationals. I realize we had many concepts during the war. Some of them were rather confusing. For example, the Trading with the Enemy Act talks in terms of enemy. The freezing orders talk in terms of nationals of blocked countries. General Ruling No. 11 talks in terms of enemy nationals.

The term "enemy national", in certain respects, is broader than the definition of "enemy" contained in Section 2 of the Trading with the Enemy Act; but in other respects it is more limited. It was intended to integrate the freezing controls with the Trading with the Enemy Act so that we might have one system of control throughout the war.

Under the regulations, it was unlawful, in the absence of a Treasury license, to carry on any trade or communication with an enemy national, or to effect any transaction which involved, directly or indirectly, any trade or communication with an enemy national. Not only persons in

592

enemy territory were treated as enemy nationals, but all persons on the Proclaimed List were designated as enemy nationals and any financial, commercial, or business intercourse with them was strictly forbidden. Through the entire period of the war it not only was unlawful to communicate in any way with a person in enemy territory, but the prohibition applied also to persons whose names appeared on the Proclaimed List. It was unlawful to send them any kind of a communication of a business, financial, or commercial character.

To summarize the controls: The financial and property controls exercised by the Treasury, commonly known as the freezing controls, included not only regulatory controls over the property and financial activities of foreign nationals. It included similar controls over persons acting for or on behalf of foreign nationals. It also included the examination and regulation of all trade and communication with the enemy.

We might discuss for a moment the basic statutes under which the Treasury Department and the Alien Property Custodian are operating.

The original Executive Order was issued under the authority of Section 5(b) of the Trading with the Enemy Act, and constituted the adaption of a peacetime emergency provision to a wartime purpose. There was some doubt as to whether Section 5(b) of the Trading with the Enemy Act permitted the type of restrictive action which was taken against foreign nationals, and in order to make certain that no question as to the legality of the order could be raised, it was expressly ratified by Congress shortly after its issuance.

However the statute, by its terms, permitted only the prevention of transactions. It was a statute which said that the President had the authority to prohibit, and it was not suited to the various exigencies of economic warfare. Consequently, after the outbreak of war, Section 5(b) was amended by the First War Powers Act of 1941, under which the President was granted comprehensive authority to deal with the many problems that surround the ownership and control of foreign property.

Section 5(b), as amended by Title III of the First War Powers Act of 1941, is couched in the broadest of language. It has become the keystone of all financial and property control measures during World War II.

So that you might see the breadth of the statute under which we operate, and the necessity for exercising executive restraint in our operations, I will read to you the first paragraph of the Act. It is very short.

"During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise--

"investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest, by any person, or with respect to any property, subject to the jurisdiction of the United States; and any property or interest of any foreign country or national thereof shall vest, when, as, and upon the terms, directed by the President, in such agency or person as may be designated from time to time by the President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold, or otherwise dealt with in the interest of and for the benefit of the United States."

Under that statute we could do practically anything that had to be done with respect to foreign property during the period of the war.

The Executive Order under which the Treasury operated provided, in effect, that the decisions of the Secretary of the Treasury, within the scope of his activities, would be final. They could not be reviewed by any court. The order provided that "the decision of the Secretary with respect to the granting, denial or other disposition of an application or license shall be final."

In this connection I would like to say that we tried to be very careful. We tried not to deprive any American citizen or any American corporation of his constitutional rights. However, we considered at all times that the national interest was the interest that was required to be served, and we acted accordingly.

Test cases were started in the courts dealing with the construction of the freezing controls. All of these cases ended favorably on behalf of the Government. One of the most famous cases which arose was that dealing with the purging of General Aniline & Film, when we directed that the entire former German management should be discharged. The management was composed of American citizens, but we considered their ties with the I. G. Farben group were so close that it would not be in the national interest for their employment to continue. As a safeguard, to make sure that the productive capacity of that enterprise would be utilized for the best interests of the United States, we required General Aniline & Film to discharge all of its top personnel. Suits were started by some of this personnel to recover back salary and wages, but the courts held that the action which was taken was justified under the Trading with the Enemy Act.

I might discuss a few of the major freezing control measures which were adopted and which were carried on during the war. First and foremost, of course, was the severance of all financial and commercial intercourse between the United States and the enemy countries and persons on the Proclaimed List.

533

One of the major objectives of freezing controls has been to prevent all trade and communication between persons subject to the jurisdiction of the United States and persons in the enemy countries. In carrying out this objective, the Treasury has refused to grant any licenses authorizing transactions which directly or indirectly involve any commercial, financial, or business communication with the enemy. In addition, in cooperation with the State Department, the Treasury imposed standards of conduct upon American-controlled concerns in Latin America and the neutral countries, prohibiting them from having any financial, business, trade, or other dealings with persons or firms in enemy territory, or with persons or firms on the Proclaimed List.

The Treasury controls were closely integrated with the controls of the Office of Censorship. Thousands of censorship dispatches each month were studied and analyzed. Reports from the commercial attachés to the State Department were also considered. In carrying out this objective the underlying principle was that no contact with the enemy should be permitted, except in those few isolated instances where it could be affirmatively shown that the transaction aided the war effort of the United Nations.

Under the provisions of the Trading with the Enemy Act the occupied countries, of course, were treated as enemy countries. All persons within the occupied countries were treated as enemy nationals. As long as these countries were occupied by Germany, the same tests were imposed. There could be no communication with any area which was occupied by the enemy unless it could affirmatively be shown that the communication was in furtherance of the war effort of the United States.

As these areas were liberated the trading with the enemy controls were dropped, in so far as the areas were treated as enemy territory. Communication with the area was permitted, but the assets of these countries continued to be frozen under the freezing order. However, as soon as the liberated countries were able progressively to establish their own controls, we progressively lifted our controls.

So far as the liberated areas are concerned, at the present time current transactions with those countries can freely be effected. The assets of these countries which were in the United States prior to liberation continue to be blocked, but we have put into effect a certification procedure under which any particular asset may be "unblocked" just as soon as the government of the liberated country certifies that it has locked into the ownership of the assets and that it is satisfied that the particular asset is not owned or controlled by persons within Germany or Japan or the satellite enemy countries. Although, theoretically, the assets of the liberated countries still continue to be frozen, it is within the power of the governments of these countries, such as France, Holland or Belgium, to free their assets by certifying there is no real enemy interest in those assets.

The second thing we were interested in, of course, during the war was to make sure that no enemy assets disappeared from our control.

During the course of the war--and the situation remains at the present time--the real enemy assets were strictly immobilized or sterilized. No transactions were permitted in those assets except such transactions as would merely change the form of the asset. For example, if the asset consisted of stock, we permitted the stock to be sold and we held the proceeds of the stock in lieu of the original asset. As far as the Treasury was concerned, we would not permit any transfers of these assets. We have held them and will continue to keep them immobilized until the Alien Property Custodian is ready to vest those assets in the name of the United States.

The third thing that we were interested in was to prevent the use of foreign-owned assets for the benefit of the enemy and to regulate the use of these assets so as to benefit our own war effort. The primary objective of the freezing control was the financial strangulation of the enemy. Financial operations are basically necessary to the conduct of a war. We all know that espionage, propaganda, and other subversive activities notoriously are expensive and they can continue only as long as funds are available. The purchase of critical war materials outside enemy territory always requires foreign exchange, not only to pay for the merchandise but also to pay the commissions and the salaries of the enemy purchasing agents.

We know that during 1917 and 1918 the Germans spent in excess of 27 million dollars for subversive activities. All such sums were made available from foreign-owned assets in the United States. During this war, however, evidences of Axis sabotage and subversive activities in the United States virtually have been nonexistent. In great measure this has been due to the fact that we did have freezing controls both prior to the war and all during the entire period of the war. The fact that the saboteurs who landed on our coast from an enemy submarine brought with them substantial sums of U. S. currency is indicative of the effective work that had been done in drying up Axis sources of financing in this country.

The Treasury accomplished this not by a mere passive immobilization of funds. It must be remembered that during the entire wartime period the only property in the United States which currently was being immobilized or sterilized, or which was being vested, was that known to be enemy owned or controlled. The funds of the European neutrals were blocked but they were permitted to be utilized for legitimate commercial transactions.

In order to make certain, therefore, that the resources of the neutral countries were not made available to the Axis, it was necessary that transactions involving the transfer or the use of these assets be closely scrutinized. Although the Treasury avoided undue interference with innocent financial and commercial transactions by the issuance of board general and blanket licenses covering transactions which we considered to be safe, nevertheless thousands of transactions involving the use of blocked funds were examined every month. The tests applied in transactions involving foreign nationals or involving foreign funds

were always the same: Would the transaction in any way benefit the enemy? Are the funds involved enemy or looted funds? Are the parties satisfactory? Finally, will the transaction aid our own war effort? If, after we applied those tests, we found that the transaction was not detrimental to our interests, it was permitted. If we found that the transaction was detrimental to the interest of the United States, the application to effect the transaction was denied.

In examining applications we had the benefit of the hundreds of thousands of censorship intercepts, the benefit of the Intelligence services of the entire Government, and we used this information to the utmost. By reason of the fact that we always were using confidential material it was impossible in many cases to tell a person who applied for a license and who had the application denied why we denied the application. All we could possibly tell him was that the transaction was contrary to the policy of the United States. Now that the war is over, when applications for licenses are applied for, we are able to give a more explicit statement of our reasons when we do deny an application. During the entire period of the war I would say we denied approximately 20 percent of all applications for licenses which were filed with the Treasury.

The controls which were exercised by this Government were rendered more important by reason of the fact that the United States by the time of the war had become the financial center of the world. Because the dollar was generally considered the strongest currency, it was the medium of exchange most widely used in international transactions. By denying to the enemy the use of the financial facilities of the United States, a crippling blow could, and was dealt to them. Foreign exchange transactions were scrutinized, first, to determine in which of many ways a private transaction, initiated for private gain, might be turned to fruitful use in fighting the war; and, second, to make sure that the enemy would not benefit.

In this connection, when I was in Japan I ran into a document which was prepared by the Japanese government which disclosed the impact of the freezing controls upon the operations of the Japanese government prior to the war. The document went into considerable detail in disclosing that when we froze Japanese assets on July 26, 1941, not only did we shut off the American markets from Japan but, as the result of our freezing controls, we virtually stopped transactions from South America. We also demoralized the situation as far as Indo-China and Thailand were concerned. South America refused to ship any goods to Japan unless they were paid for in dollars. Japan was unable to get any dollars because of the freezing controls. Agreements with Indo-China and Thailand provided that there should be a monthly accounting in dollars. As soon as the freezing controls were initiated the Japanese government was unable to make monthly settlements in dollars and there was a period of about two and a half months during which no goods were being shipped from Indo-China or Thailand to Japan until they finally made other financial arrangements.

The countries involved, of course, all refused to take yen for their merchandise and it was necessary for Japan to start using up its extremely small supply of gold and other foreign exchange. I examined the records of the Yokohama Specie Bank when I was in Japan and was amazed to find that the Yokohama Specie Bank, which was the foreign exchange control agency in Japan, had in its possession less than \$25,000 of U. S. currency. That is how close the barrel had been scraped for foreign exchange by the time that the war was over.

Of course, the vast majority of the transactions sought to be effected through the use of the financial facilities of this country were not inconsistent with our national interest. Indeed, many of these transactions were turned to affirmative advantage through the use of the freezing controls. One of the great needs of this country, for example, in the conduct of the war was foreign exchange, particularly in the currency of the European neutrals. It has been possible, through the effective application of the freezing regulations, to make normal financial transactions between the United States and the four neutrals produce a fair portion of the foreign exchange that this Government needed, and to keep the market value of such currencies, in relation to the dollar, at fair levels.

The restrictions imposed by the freezing regulations drastically impeded the enemy in its efforts to secure much-needed foreign exchange. Transactions involving hundreds of millions of dollars for the benefit of the Axis in Latin America and the European neutral countries had been prevented. The success of the measures undertaken by this Government is indicated by the fact that in Spain, Switzerland, and Portugal the Axis countries had accumulated huge debit balances, and they were having increasing difficulty in exporting supplies from these countries. The Axis was unable to compete with the U. S. representatives in bidding for critical war materials in the neutral countries. They were forced to sell vital materials of their own in order to acquire foreign exchange.

Of course, we also were interested in preventing the use of looted assets for the benefit of our enemies. We had imposed import controls even before the war to make sure that the American markets would not be utilized for the sale of looted securities. We imposed currency controls for the purpose of driving down the value of the U. S. dollar in the occupied, liberated and neutral countries during the period of the war. It was the one case in the history of the United States where we deliberately attempted to drive down the value of the U. S. dollar outside the United States. We know that prior to the war there were literally hundreds of millions of U. S. dollars circulating in foreign areas. We had good reason to believe that a large amount of these dollars had come into the possession of the Germans when they invaded France, Belgium, and Holland particularly. We knew that the Germans were going to use these dollars for foreign exchange purposes and our interest in driving down the value of the dollar was to reduce the value of those dollars as foreign exchange, as far as the enemy was concerned.

At one time it was prohibited to bring in any dollars from foreign areas into the United States. Any dollars which were brought in, except

533

by members of the Armed Forces, had to be delivered to a Federal Reserve Bank. They were held there until the possession and ownership of the dollars was disclosed. We have now been able to relax our control in that respect. It is now possible to bring in, or take out from the country, U. S. currency in denominations of \$20.00 or less. But we have not been able to lift our restrictions on the big bills. It still is unlawful for any person to bring in with him any \$50.00 bills, or bills of higher denomination, unless he delivers those bills to a Federal Reserve Bank for examination. I might also add here that the examination is very strict and detailed. We do not permit the release of the bills or securities unless we are extremely well satisfied that the chain of ownership has been established and that the chain of ownership does not disclose a looted interest or an enemy interest.

With respect to the treatment of enemy property in the United States, in July, 1942, the President issued Executive Order No. 9193, allocating functions under the Trading with the Enemy Act to the Alien Property Custodian and the residue of the functions to the Secretary of the Treasury. The functions of the Alien Property Custodian primarily are to vest and control the German and Japanese assets in the United States. It is the announced policy of the United States-- a policy announced by the President of the United States--that we are going to eliminate completely German and Japanese economic resources in the United States.

It is the intention of this Government to vest, on behalf of the United States, all German and Japanese property in this country. The Executive branch of the Government has announced that in so far as it is concerned it will not propose to Congress the return of any of that property to its former owners. You will all recall that following World War I the majority of German and enemy property was returned to its former owners. At one time the property was held here simply as a pledge for the purpose of making sure that American claims were paid; but eventually, by the War Settlements Act of 1929, I believe, 80 per cent of all German property was returned to its former owners.

It is the intention of the Executive branch of the Government, I repeat, that at the conclusion of this war none of that property will be returned to its former owners, and that the United States Government will not pay any compensation to its former owners for their property. These owners will have to look to the German and Japanese governments for compensation; they will not receive any compensation from us.

Of course, the question as to what is eventually going to happen to enemy property in the United States is not up to the Executive branch of the Government. That is up to Congress. But the Alien Property Custodian, the State Department and the Treasury Department are all in agreement that at the appropriate time they will recommend to the Congress that the property be not returned and that no compensation be paid.

As far as enemy property is concerned, the Treasury Department still continues to exercise the freezing controls. We keep the property immobilized through the freezing controls. When the Alien Property

Custodian has completed his investigation and determines that a particular piece of property is German- or Japanese-owned, he vests the property and then the Treasury Department releases its control in so far as that property is concerned. So that you can see there is no overlapping between the functions of the Alien Property Custodian and the Treasury Department. They are closely integrated and part of an overall program which is being imposed by the United States Government.

At the present time the Treasury, now that the shooting war is over, is engaged in relaxing the great majority of its controls. However, in so far as Germany and Japan are concerned, these areas are still regarded as enemy territory under the freezing controls. Communication with those areas continues to be prohibited, except communications with members of the Armed Forces.

The purpose of maintaining controls at this time is in order to assist the theater commanders in whatever programs they desire to impose on Germany and Japan. When the Allied Control Council in Germany is ready to take over certain controls and feels it is ready to have communications with the United States or certain types of transactions with the United States, the Treasury will then relax its controls. The same situation exists with respect to Japan.

In effect, what we are doing at the present time, as far as the enemy areas are concerned, is merely holding the line. We are holding the line until the theater commanders are in shape to take over the entire job. We simply use our controls so as to make it easier for him to operate. The entire purpose of maintaining freezing controls in the enemy countries at the present time is for the purpose of implementing the controls in the theater. As far as the neutral countries are concerned, we are maintaining our controls at the present time primarily to insure that enemy assets will not be released.

The freezing controls are one of the biggest "chips" the United States has in connection with its negotiations with Sweden, Spain, and the other neutral countries. What we are primarily interested in is making sure that the neutral governments disclose to us exactly what German property there is in the United States that is being held through neutral nations. We also are very much interested in making sure that the neutral countries also disclose to the occupying authorities in Germany and in Japan exactly what German and Japanese assets there are in those countries.

I think that covers the subject very generally. If you have any questions that I can answer, I will be glad to try.

COLONEL BROWN:

I think possibly you can clear up something for me. In April 1940 we froze assets of Denmark and Norway in this country. We did not freeze the German and Italian assets in this country until over a year later. Just what were the considerations involved there?

MR. ALK:

You know, Colonel, what the situation was back in April 1940. You know what the public sentiment was at that time. The freezing of German and Italian assets in 1940 would have been treated by a large segment of the American population as being an act of undeclared war against Germany. I do not feel the country was prepared for any such action at that time.

At the time we froze Danish and Norwegian assets the Treasury had prepared an Executive Order under which the assets of all the European countries were frozen. It was decided, as a matter of national policy, we could not go ahead with that program. It was, however, felt that it was the traditional policy of the United States to insure a safe haven for the assets of satisfactory people; that we could go ahead on a program to insure that the Norwegian and Danish assets which were located in this country would not fall into the hands of the enemy.

Colonel, it was purely a question of timing and it was felt we were not ready for it.

A STUDENT:

Sir, I was interested in this General Aniline & Film matter. Just how did the Alien Property Custodian fit into the picture?

MR. ALK:

Well, there are two ways the Alien Property Custodian can operate: he can either seize the assets themselves on the ground they are enemy-owned or controlled or else, in the case of a corporation, he can seize the stock of the corporation and thus exercise control through the corporate structure.

What the Alien Property Custodian did with respect to General Aniline & Film, was seize the stock interest. He required General Aniline & Film to cancel the old certificates and to issue new certificates to him. The Alien Property Custodian selected the board of directors at General Aniline & Film. Ever since the early part of 1942, the board of directors of General Aniline & Film has been designated by the Alien Property Custodian. The plant is really owned by the United States.

A STUDENT:

You will recall under the provisions of Section 9 of the Selective Service Order a --

MR. ALK (interposing):

Oh, no. It was done under the provisions of the Trading with the Enemy Act. It was under the provisions of Section 5(b) of the Trading with the Enemy Act.

A STUDENT:

How are the assets of internees, men who were interned in the enemy countries, handled in this country? For instance, if a family is interned in Germany and they had considerable holdings in this country, were those assets frozen or seized?

MR. ALK:

If a man was in a country which was blocked under the freezing order, his assets automatically were blocked. However, in the case of persons who were interned or in concentration camps, if they had friends or relatives in the United States who had a Power of Attorney or other authority to manage or operate their property, we issued broad licenses which permitted almost unrestricted operations in the United States. The only safeguards we imposed were designed to make sure they would not succumb to any ransom threat, or anything of that kind.

As the war was over and as the persons were released from internment, if they were American citizens their property was automatically unblocked; if they were not, on the basis of specific applications, we would examine the facts. If we were satisfied that the person actually had not been assisting the German government, we then were prepared to issue liberal licenses covering their property.

COLONEL BROWN:

Any further questions?

A STUDENT:

Would you tell me a little bit more about the frozen funds of individuals and firms on the Proclaimed List in neutral countries, particularly South America, who were not nationals of Germany but who were classed as such because they were occupying Germany. What percentage have been turned back? What is the status of those funds now?

MR. ALK:

The Proclaimed List is still in existence.

During the course of the war we had to act on suspicion in a great many cases. That is, if it was a question of putting a concern on or leaving them off, the concern was put on the List. The doubtful cases were always resolved in favor of putting the concern on the Proclaimed List. As soon as Germany capitulated an effort was made by this Government, together with the British government (they have the Statutory List), to weed out the names with respect to which the evidence was not conclusive.

We hope the Proclaimed List will continue for some time. The Treasury, of course, is not the only agency which is interested in the

matter. As to what is the future of the List, that is problematical. The Proclaimed List has been reduced considerably; it will be reduced considerably in the future.

COLONEL BROWN:

Any questions by our visitors? (No response)

Any questions by our Faculty?

COLONEL FAIRCHILD:

For people who went into Mexico it was necessary to change all their currency over, as I recall, into \$2.00 bills. What was the effectiveness of that scheme in preventing money coming in through Mexico?

MR. ALK:

It was extremely effective. The controls which were imposed on the Mexican Border were exercised very carefully. The reason why we permitted \$2.00 bills to circulate was because of the fact that there were extremely few \$2.00 bills in Europe. We knew that that was the one denomination which had not fallen into the possession of the enemy. In view of the fact that the Mexican government at that time had very little control over the importation of currency in Mexico, we imposed the controls at the Border. While it was operating, I think we could say it operated very effectively. Just as soon as Germany was defeated, and inasmuch as Mexico had by that time imposed certain controls of its own, we lifted our controls at the Border. There are no controls at the present time.

COLONEL BROWN:

Mr. Alk--we will quit calling you "Mister" and refer to you as "Doctor Alk"--that was certainly an illuminating discourse on the control of foreign funds, as far as I, personally, am concerned. I have an idea, even as far as the Class is concerned, it was quite illuminating. I know the Class will join with me in thanking you for this excellent lecture.

I am sure that while we have asked all the general questions you will still find there are many questions in the back of our minds. Now we have a committee here, particularly, on economic warfare. I am sure some of the members of that committee will be wanting to get in contact with you, or some of your assistants, to find out some further details. I hope you will be kind enough, for our sakes, to furnish that information to them when they call for it.

On behalf of the Commandant, I wish to thank you for coming here this morning.

oOo

(1 August 1946---200.) P.