

FOREIGN TRADE CONTROL DURING MOBILIZATION FOR WORLD WAR II
25 April 1946.

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FOREIGN TRADE CONTROL DURING MOBILIZATION FOR WORLD WAR II
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GENERAL ARMSTRONG:

Ladies and Gentlemen: It is not necessary for me to refer to any biography of the distinguished speaker here this morning. He is one of my oldest friends in the Army; and although he has asked me to omit flowers, I do not propose to do it. This is one chance that I have for disobeying orders from a two star General, so here I am going right ahead with it.

General Maxwell, incidentally, is paying the Army Industrial College--or, gentlemen, I can announce to you today that the College is to be called The Industrial College of the Armed Forces from now on--the compliment of giving his valedictory on probably the last day of his active military service. He is going to go out to Walter Reed Hospital tomorrow morning, preparatory to retirement.

General Maxwell graduated from the Military Academy in 1912. He is one of the world's best educated Army officers. He attended the Coast Artillery School, and graduated from the Command General Staff School, Army Industrial College, and the Army War College. I do not think there is anything beyond that.

He and I were just talking over the old days, in my office. I do not know why he did not appear in that popular book with the Navy, "The Case Against the Admirals", because he was at Langley Field in the days when the four-engine bomber was being developed. I remember very well an inspection trip I made there just about ten years ago and General Maxwell, at that time, I believe, Major Maxwell, was the Ordnance Officer of that force. He was very much impressed and impressed everybody who knew him with the future importance, as a weapon of war, of the four-engine bomber. Well, you know that was a very unpopular theory in those days, and General Knerr and Andrews and all the rest of them finally found themselves transferred from Langley Field--most of them to undesirable stations. I think General Maxwell was blown upstairs, back to Washington, for that is where he landed.

General Maxwell was Administrator of Export Control in 1940. He was in charge of the U. S. Military Commission in Cairo in 1941; I think the most extraordinary period of his career, particularly as an Ordnance Officer, must have been when he was the Commander of the U. S. Forces in the Middle East in 1942. He has been the Assistant Chief of Staff, G-4, since September 1943.

Ladies and gentlemen, it is a privilege to present my old friend, on positively his last appearance, to the members of the class of the Industrial College who will hear his talk on "Foreign Trade Control During Mobilization for World War II". Ladies and gentlemen, General Maxwell.

GENERAL MAXWELL:

General Armstrong and members of the College: I have always tried, throughout my service, to stick to rules that I pass on to some of the younger members of my staff who do me the honor of consulting me, and the three most important rules are: Never to promise, never threaten, and never explain. So when I say what I do about this Walter Reed expedition, I am not explaining except to this extent--somebody looking over the records found that I had been neither in a hospital nor on sick report for twenty years and this is an investigation that is being made.

It is, of course a pleasure to come back and be associated, on this final full day of active duty with this College, because I have had the pleasure of association with it almost from its beginning. I was a member of one of the very earliest classes, and I am going to refer to a little incident that took place during that tour which in those days was of five months' duration.

It was in the spring of 1925 when I was here as a student that we were given a lecture by General Walter Krueger who has gained great fame during the current war as the Commander of the Sixth Army in the Pacific. At that time, General Krueger was on duty with the War Plans Division of the War Department General Staff, and his lecture before the College was devoted to the broader aspects of the War Department's mobilization plans.

In the discussion which followed the lecture I had the temerity to ask who is going to say when M-day, on which the entire plan hinged, has arrived. I regret to report that the General's rather wordy but unconvincing answer prompted me to ask a second question in an effort to clarify the point I had in mind. My second question was to the effect since there seems to be doubt about the announcement of M-day for a future war, just what day in the World War I period do you consider as having met the specifications for M-day for that war. The General's reply was even more wordy than his previous answer so the faculty member in charge of the session called a halt to our little debate and later admonished me not to heckle visiting dignitaries by such questions, and being a good soldier I obeyed and therefore graduated from the college with an honest doubt as to whether or not I would recognize the next M-day when it came along.

In attempting to find an answer in the years that followed I made up my mind that it is up to each individual to decide the question for himself and fix to his own satisfaction his own date for M-day.

I have related this trivial incident to focus attention on the importance of reaching a decision that M-day has arrived and that mobilization is under way and then announcing the decision to those concerned with the implementation of a mobilization plan. Applying my M-day rule to myself and my own experience in World War II I have chosen 31 October 1938 as my personal M-day for World War II, as that is the date on which I reported to General Marshall who was then the Deputy Chief of Staff of the Army to assist him in his task of serving as a member of an informal group of officers under the leadership of Assistant Secretary of War Louis Johnson.

The group included Secretary Johnson's Executive Assistant, Major General J. H. Burns, General Arnold, then Assistant to the Chief of the Air Corps, and Brigadier General MacSherry from the G-4 Division of the War Department General Staff.

On 25 October 1938 the President had charged this group with the task of preparing and submitting to him a specific program for the early expansion of our Air Force and initiating such related activities as might be considered essential to strengthen our military position in a world which was obviously headed for a major war. After some ten weeks of rather hectic activity on the part of the group, including many conferences at the White House, the President asked the Congress to appropriate approximately one half billion dollars in his message of 12 January 1939. This specific action should have made it clear to us at that time that M-day was behind us and mobilization had actually begun.

If we think back to that period and examine what was going on in the field of foreign trade that merited our attention from the mobilization viewpoint, there are several outstanding factors. I believe every one here today will recall the heavy buying programs of Japan, especially in the machine tool industry. You will remember too that the exports of petroleum products and scrap metals were matters of great concern to a number of our citizens and responsible government officials who were inclined to regard with considerable suspicion many of Japan's moves in the field of foreign affairs and trade. Less well known were her heavy orders in the United States for Manila fiber, rubber, steel, copper wire, and other items which she was obviously stockpiling for war use.

The U.S.S.R. through its now famous Amtorg was buying many of the same items, especially machine tools and special industrial equipment in very considerable quantities and pressing for early deliveries of her purchases. Italy, France, England and Sweden were also in the U. S. market, not only for these items but were showing a growing interest in many items classed as "arms, ammunition, and implements of war" over which the Department of State exercised the control provided in the first of the series of neutrality acts which began in 1935. The increase in the volume of this class of business resulted in the Department of State's creation of its Division of Controls in January 1939. In December of the same year the Department of State undertook its moral embargo through the medium of a press release reading as follows:

"The Department, after consultation with the War and Navy Departments, has decided that the national interest suggests that for the time being there should be no further delivery to certain countries of plans, plants, manufacturing rights and technical information required for the production of high quality aviation gasoline. This decision has been reached with a view to conserving in this country certain technical information of strategic importance and as an extension of the announced policy of this government in regard to the sale of airplanes, aeronautical equipment, and materials essential to airplane manufacture to countries the armed forces :

of which are engaged in unprovoked bombing or machine gunning of civilian populations from the air."

While that paper deserves a place in history as a clear statement of national policy, it did not provide any effective means of controlling our foreign trade. And I may say at this point that in my humble opinion one of the great weaknesses in our form of government, as we practise it, is the lack of machinery to implement policy, especially foreign policy, promptly after its determination and announcement.

By the early summer of 1940 our mobilization had progressed to a point that it was clear to our leaders that something must be done to control exports and the Congress gave the President the authority needed in Section 6 of the Act of 2 July 1940, reading as follows:

"Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material or supplies necessary for the manufacture, servicing, or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe..."

As a prelude to the actual exercise of control the President had said as early as 4 January 1939 in a message to Congress "All about us rage undeclared wars--military and economic" and made it clear that the United States must choose her friends and recognize her enemies.

And just seventeen days after he signed the Export Control Act which touched off the economic combat, the President said in accepting his third nomination "The government of the United States for the past seven years has had the courage openly to oppose by every peaceful means the spread of the dictator form of government".

Again on 3 September 1940 the President gave to Great Britain in exchange for temporary rights at points in the Western Hemisphere fifty U. S. destroyers.

By 29 November 1940 the state of economic war was further recognized by the radio address in which the President first used the term "Arsenal of Democracy" and said:

"Democracy's fight against world conquest is being greatly aided, and must be more greatly aided, by the rearmament of the United States and by sending every ounce and every ton of munitions and supplies that we can possibly spare to help the defenders who are in the front lines..... There will be no bottle-necks in our determination to aid Great Britain."

Meanwhile the Administrator of Export Control had begun to function and under the authority of proclamations, regulations and orders issued on 2 July 1940 had begun the licensing of exports under a policy of "conservation" as the guide and the explanation when licenses were denied.

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However with the "Arsenal of Democracy" announcement it was obvious that a policy of "transfusion" could be applied to Great Britain and to a close observer it should have been apparent that a corollary policy of "Strangulation" was being applied to our known and potential enemies without any announcement being made by any official source.

The outstanding example of a nation being subjected first to "strangulation" and then "transfusion" was the U.S.S.R. The change took place on 22 June 1941, the date of the attack on Russia by Hitler.

In setting up the office of the Administrator of Export Control it was decided to keep the new office as small as practicable by the device of calling upon the existing executive departments and emergency agencies to perform as much of the actual work connected with the operation of a licensing system as they could undertake. In other words we tried to centralize Export Control Policy and decentralize operations.

As a first step toward carrying out that plan the Administrator entered into a series of agreements with the several Cabinet members and agency heads which attempted to set forth the interests, functions and duties of both parties to the agreements.

From the outset the Administrator utilized a committee of advisers which finally was given the name of "Policy Committee" as a formal means of getting the views of interested agencies as well as their concurrence in proposed actions in the field of proclamations and regulations.

It soon became apparent that the organization must take a sort of three-rank formation consisting of a rank of commodity experts, a rank of geographical or regional experts, and then a rank of functional staff to see that the two ranks kept in step and worked harmoniously together.

Both Army and Navy officers as well as civilians were included in the personnel in about the proportion one Navy, two Army, and three civilian. However, since the great majority of the Army and Navy officers were either recently commissioned or reserve officers on active duty for the first time, the civilian influence was much greater than the proportion of civilians indicated.

Several types of licenses were devised as time went on and experience was gained but at all times we kept in mind the fundamental principle that the flow of trade should not be interfered with any more than necessary for the Administrator to accomplish the objectives of the program.

The number of items placed under control was small initially and increased gradually as the necessity for such control developed.

The greatest care was exercised to keep all actions in step with the conduct of foreign affairs in the political field as well as to meet the expanding demands of our industrial mobilization and the civil economy.

After a short period of operation it was clear that controls must be extended to the Philippine Islands and additional legislation was required to permit that extension.

It was found, too, that many items denied export were going underground and not being made available for domestic use, so it was necessary to obtain authority to requisition such items and compensate the owners for them. Authority was granted in the Act of 10 October 1940 and a board was set up to determine the compensation to be made to the owners of items requisitioned.

Another development growing out of our licensing activity was the establishment of a list of unsatisfactory consignor and consignee firms and individuals for whom licenses were not issued. This list was compiled with assistance from several departments and agencies in whose files the necessary information was available or whose field agents were in a position to obtain the needed data for such action.

In order to maintain cordial relations with exporters as well as the governments of friendly countries we required prospective exporters to submit data on the extent of their business in the particular commodity in question with the countries to which it was proposed to export. From these data "quotas" by countries and by firms were established, although every effort was made to avoid the use of the word "quota" which was an unpopular word at that time.

While the Administrator received the aid and cooperation of the agencies with which it was associated there were occasions when individual representatives did not fail to give expression to their reluctance to support the program. In this respect the Treasury Department was the outstanding example, and there was one period when that department presented the view that the only control needed was that being exercised through its own control of frozen funds.

It was also proposed at one time that as a friendly gesture licenses be issued for Western Hemisphere nations but that the actual control be exercised through a system of priorities to be administered by the War Production Board or whatever its title was at that particular time.

In order to remove all doubt as to the validity of export licenses as the instrument of actually controlling an export, the Clearance Committee was organized and on this committee were representatives of all agencies that could possibly influence an export project. This device was warmly welcomed by exporters and the foreign purchasing and diplomatic representatives, but the functioning of the Clearance Committee called attention to the great power being exercised by the Administrator and also stimulated the activity of individuals and agencies whose lust for power was so obviously coloring their actions that they might be considered as having lost sight of the fact that we had a war on our hands.

Foreseeing that the time would come when the Office of the Administrator of Export Control must be consolidated with several allied agencies, a plan was prepared and presented in some detail in

a hearing before the Faddis Subcommittee of the Military Affairs Committee of the House of Representatives.

The plan required additional legislation and contemplated the appointment of a single Administrator to control all aspects of our foreign trade and to conduct economic warfare openly and effectively to aid our allies and defeat our enemies.

It is suggested that the record of the hearings before the Faddis Subcommittee are a source of information for any one engaged in the preparation for a plan for Foreign Trade Control in the event of a future mobilization.

As an expediency without further legislation, plans were made to have the functions and duties visualized for the Administrator assigned as an additional duty for the Vice-President. This plan met with considerable favor but instead of being given the duties as an administrator, the Vice-President was set up as the Chairman of the Economic Defense Board and on 15 September 1941 the Administrator of Export Control ceased to exist and his functions and duties were assigned to the Economic Defense Board.

As the President had directed the War Department on 13 September 1941 to send a military mission to aid the British Forces whose situation in the Middle East was rather desperate at that time, some kind friend seeing me unemployed arranged my assignment as Chief of that Mission and put me on the receiving end of Economic Transfusion to the British Navy, Army and Air Force operating in the Middle East.

The story of the United States Army Forces in the Middle East is well told by Dr. T. H. Vail Motter of the Historical Division of the War Department General Staff and if your studies guide you in that direction I suggest you confer with Dr. Motter.

In conclusion let me urge you to never lose sight of the fact that in our struggle for existence we are spasmodically engaged in the conflict of armed forces, which we usually call war, we are also from time to time engaged in political or psychological encounters which assume varying degrees of intensity, but the basic underlying Economic conflict calls for constant attention as I for one am firmly convinced that upon the success of its management depends the peace of the world.

GENERAL ARMSTRONG:

General Maxwell, to ask you the first question, do you consider that the War Department organization, as planned, contemplates a sufficient degree of attention to the problems that you have just been discussing?

GENERAL MAXWELL:

No, I do not. I am sorry. I do not think enough emphasis is given to this problem in the War Department for the simple reason that we probably have to have two or three more wars to make us realize the importance of

this problem. I see no place in the organization, as I have studied it, for emphasis to be given to these problems, and I have so stated in a number of memoranda and documents during my time as G-4.

GENERAL ARMSTRONG:

Do the Joint Chiefs of Staff have any organization to study it?

GENERAL MAXWELL:

Well, I have never seen any evidence of it. Perhaps they have, but if so, it has been a top secret paper that I have not had the opportunity to study.

QUESTION:

General Maxwell, I wonder if you would comment on any ideas that you might have, as G-4, on how--in the field of supply--the logistical people and the procurement people could effect closer coordination and cover your position all around in peace and war.

GENERAL MAXWELL:

Well, I believe that the new organization of the War Department makes proper provision for that, in that procurement as well as distribution is placed under the Director of Services, Supply and Procurement. However, I am a member of that unpopular school that believes that the real work of supply and logistics is done by the Technical Services of the Armed Forces and that the real union exists there, and instead of depreciating the importance of the Technical Services, they should be built as strong as it is possible to build them, making the chief of a technical service responsible for the activities of his specialty throughout the whole world wherever any matter pertaining to this specialty is being handled or mishandled. He is the one to apply the remedy, and I think that no amount of general staff or any number of directors or people who are functioning on the supervisory level of the War Department or any other command can possibly accomplish the result that is necessary for efficient and successful operation.

GENERAL ARMSTRONG:

General Maxwell, to get back to your basic subject this morning, does your knowledge of the British organization of their Ministry of War indicate that they have a greater awareness of their problem, and if so, how do they take care of it--economic warfare?

GENERAL MAXWELL:

Well, I think the fundamental difference is--you will notice if you come in contact with British forces, whether they are armed forces or diplomatic forces or industrial forces or anything else--that the leadership is in the hands of the British foreign office. The British, being a world-wide organization, have to have a central guiding head, and, in my

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experience, that is, unquestionably, the foreign office; and the foreign office, therefore, in order to function, must see to it that all aspects of foreign affairs are thoroughly covered by their field organization as well as the organization in London; so I think you will find in the history of our last two wars and particularly in this war, that very early in the game the British set up their Ministry of Economic Warfare and it was ably manned and supported by the foreign office as well as the armed forces; I might give a specific example, when I arrived in Cairo, almost the first person that I met, after the ceremonies of welcome were out of the way, was a member of the Maxwell Clan, Mr. Terrence Maxwell, a civilian in the Ministry of State, who was in charge of economic warfare.

GENERAL ARMSTRONG:

Are there any other questions?

QUESTION:

Just what do you believe should be the line of demarcation between the study of this problem and the taking of action thereon between the State Department and the War Department or War and Navy Departments?

GENERAL MAXWELL:

Well, I think the line should not be too clearly drawn, so that the relationship should be so close that anybody in the War Department working on this problem would automatically think of his colleague in the State Department and vice versa. I think it is one of those cases where we could even permit the unpardonable sin of duplication and cover the field quite thoroughly in not only the State Department and the War Department but also in the Navy Department and the Department of Air, if there is one, and the Commerce Department and every other department of the Government, because it is so vital, as I have tried to say here, to the future peace of the world to have an effective management of our economic conflict; so I am all for duplication or triplication, or whatever you have to have, to make sure the field is covered. You can never be too sure. Just because you put down on an organizational chart or issue an order that something is going to happen, that does not produce results; and, you know, if you are not quite sure at this stage of the game--and I do not see how anybody could be--just who is going to pop up as a really effective leader in this field? I think one of the finest things that I have seen happen in the whole period here, since 1938, is the appointment of Mr. Will Clayton to the position that he is in, in the State Department; and he has had my prayers and support and will have as long as he is there, to make a success of his job in the State Department, which is a very difficult position to be in.

QUESTION:

Does that mean you still hold then that the primary responsibility is that of the State Department and that the War and Navy Departments

should simply study the question in order to be conversant with it because they could take no action until such time as a condition of war actually was imminent or existed.

GENERAL MAXWELL:

I think that is right. They should never take any action in that field without the full knowledge and agreement of the State Department. But, I think they should be studying the problem. When I was Administrator of Export Control, I was not functioning as a part of the War Department in any sense of the word. I was just borrowed from the War Department by this independent agency; it was purely a civilian office.

GENERAL ARMSTRONG:

Ladies and gentlemen, in view of what I have already told you that we do not want the ordeal of this question and answer period to be reflected in General Maxwell's physical condition tomorrow (laughter), I think that I shall give him the thanks of the Industrial College and congratulate him on the very constructive contribution that he has made on his last day of active duty.

(9 May 1946--200.)s