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RESTRICTION OF MOVEMENT OF GOODS FROM FOREIGN NATIONS TO THE ENEMY

17 March 1947

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GENERAL MCKINLEY: It seems that we are getting as much help from the State Department as the National War College. We have another speaker from there this morning, Mr. Nathan M. Becker. He is the Economic Adviser on Relief and Rehabilitation, Department of State.

In World War II Mr. Becker served first in the Office of the Coordinator of Information as the Economist of the Far Eastern Branch. He later became Chief, Iberian Section, Board of Economic Warfare, in which capacity he dealt with economic warfare matters in Spain and Portugal. Before entering the government service Mr. Becker taught economics at the Universities of Toledo and Cincinnati, specializing in war economics and other economic problems.

Mr. Becker's subject this morning is "Restriction of Movement of Goods from Foreign Nations to the Enemy." I take great pleasure in introducing Mr. Becker.

MR. BECKER: Thank you, General.

Gentlemen, all of us, after all, who are students of economics and industrial organization recognize, or we would not be here at all, the fundamental importance of foreign trade, whether it be in time of peace or in time of war. Even the United States, which is rich in raw materials and in industrial materials, must depend upon foreign trade in war as in peace. I hope you will not think I am introducing a commercial angle if I point out an obvious thing, which some of you may have noticed before—that raw materials spelled backward are war materials.

Every country, as I say, depends upon imports. Exports, even in time of war, are equally important. An export is in effect something which deprives the national economy of necessary materials. Therefore it is sometimes argued that exports are not essential in wartime. But we found it true in the last war that they were essential, and that has always been true in the past.

In the first place, exports provide foreign exchange, which can be used for a variety of purposes. England faced that problem all through World War II—the necessity for getting foreign exchange to maintain her war effort and to continue the inward flow of certain supplies. In the second place, exports in time of war have a kind of propaganda or moral effect, if you will. Much was made of the fact that the German crowd promised, but never delivered, exports to Latin American countries in order to maintain their friendship.

We tried to maintain the flow of our supplies and British supplies in order to be certain that our economic relations with these various countries would be maintained.

Perhaps as important as any of these reasons is the fact that, to speak bluntly, exports very often furnish a cover for other necessary wartime activities, whether they be straight intelligence or related activities.

When we come to the problem of neutral countries—and we must remember that even in World War II there were six such neutral countries—we face a very peculiar problem. There were in this case, in World War II, six relatively small countries that elected to remain out of the war.

The problem of dealing with neutral countries is not new. In fact, it was much more important in a physical or over-all sense in previous wars than in this war, because there were fewer neutrals this time. We had neutrals relatively centered geographically, but in only a few instances located directly next to the enemy, although with the fall of France the whole Iberian Peninsula was really in a sense moved up to the German border because of easy access by the Germans.

Up until World War I at least, the blockade as a weapon in wartime was a relatively simple one. You either had the stuff to do it or you did not. You declared a blockade. There was a lot of legal talk and a great many discussions at international conferences between wars as well as during wars about the nature of an effective blockade, and a ruling had been more or less laid down in international legal circles that a blockade to be declared must be effective. In other words, you could not announce, as any attorney knows, a blockade of a given country and thereby enforce or expect legal sanctions for keeping neutral vessels away from that country. If you wanted to blockade a country, you had to make it effective, that is, put ships around the coast.

In the days of sailing vessels, and even in the early days of motor vessels of various types, that was not quite such a difficult job. But you can see that with the coming of air power and modern naval vessels, submarines, and so forth, a blockade in the old sense of an effective blockade became more difficult. In other words, you could no longer blockade an enemy country effectively without devoting to that blockade such a tremendous mass of military and naval power that it was hardly likely that the effect would be worth the price that had to be paid for it.

Now, early in the game the British saw that and they really led in all this movement of economic blockade procedures. They introduced

a system of controls in World War I, which reached its height in World War II. I do not have time to go into its history; so let me just describe somewhat briefly how it operated in World War II, remembering that its beginning was in the earlier war.

I might say parenthetically that there is always this kind of problem in war, in the life and death military struggle between countries. Some small countries, by deciding to be neutral, directly or indirectly feed goods into the enemy camp. It might occur to you, as it occurred to a great many other members of the Armed Forces during the war—I will come back to that point later—"Why do we not just cut them off? Why all this palaver? Why not just cut off enemy trade, just knife them off completely?"

Well, that is not necessarily the best thing to do; and it may not work. In the first place, it may push them into the enemy camp, where they were not before. Without going into all the other aspects of the problem, we can recognize that there is some argument as to whether or not Spain should have been put into the Nazi camp at the time when our troops landed in North Africa. It might at least be argued that there was some advantage in not pushing them into the enemy camp, because we would not have to deploy troops in North Africa to take care of the Spanish-Moroccan situation when we were trying to maintain a life line to Algiers.

Second, a country may be neutral in a benevolent sense. Such neutrality may have certain advantages for us. There have been cases of neutrals that maintained their neutrality but which were still active in a favorable sense to us in some sections. Portugal had to strain that sense considerably in order to give us the Azores bases during the war, but she remained neutral at the same time that she provided air bases for the American forces.

Third, there is one obvious advantage in having the country neutral. It is a point of intelligence. It is a place where all sides mix and mingle, where a great deal of information comes out. In fact, it was in one of these neutral countries that one of the first steps toward taking Italy out of the war took place. At that time I happened to be on duty in Lisbon. I did not know about the Italian discussions, of course. I knew some of my friends were peculiarly occupied that week end. It was not until the story was released that I knew what was going on.

Fourth, of course, is the fact that one more country on the enemy's side means one more border to watch and means the deployment of additional troops and naval forces to neutralize the situation.

So we developed this technique: First of all, an instrument known as the War Trade Agreement was devised. The War Trade Agreement,

which I will talk about in somewhat theoretical terms at first, was not quite as pure as all that. But briefly stated, the War Trade Agreement was an agreement reached between one set of belligerents and a neutral country in which the neutral country made certain concessions and the belligerents made certain concessions in defining the terms of foreign trade. You can see at once that if you reach such an agreement, you have thereby lessened considerably the kind of military control that is required to watch the foreign trade of that country.

In the first place, the neutral country generally undertook in such an agreement that its imports would be restricted to those things and those quantities—that is the important point—which she normally imported. Quotas were established. If a particular country had over a period of ten or fifteen years shown that she needed twenty thousand tons of wheat per month, then that might be established as the quota, the theory being that she was entitled to that legally and she would have a right to bring that much in; but the presumption is that anything more than that would furnish a surplus which might directly or indirectly go to the enemy. So that is the first step in the War Trade Agreement—the control of the type and quantity of goods that could come in. More important than that, however, is the fact that the whole blockade principle is accepted by the neutral country. In other words, we no longer have the difficulty of arguing whether it would be a legal relationship. By the nature of the war trade relationship the neutral accepts the belligerent's right to control her trade. The only argument from then on is how much of this and how much of that. At least there is a basis for discussion and an acceptance of the basic principles. A considerable amount of military effort is thereby saved.

Third, it provides a basis for controlling goods at the source. Once there is a war trade agreement, we do not have to wait until the goods approach the neutral country. We can go directly to the exporting country and say, "Look, our agreement with this neutral country provides that it is to get only twenty thousand tons of wheat. We want to set up machinery within your country to control that quota and to see to it that whatever leaves your country is within that quota." So we have moved the whole stage one step further back with the permission of and without violating the sovereignty of the neutral country.

The War Trade Agreement also gives us the right to establish various other controls, such as the ship's warrant. It gives us tremendous power over the neutral country's vessels. It gives us control of the kind of crews that can serve on neutral vessels. The navicert system itself, about which I want to say something in a moment, provides the actual technique for doing so.

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But first let me talk about the ship's warrant. By virtue of the War Trade Agreement every vessel that sails must have a ship's warrant, that is, a clean bill of health. The master of that vessel has certain responsibilities and is held directly accountable. He must guarantee that he will not carry in his cargo any contraband—this comes more properly under the navicert—and that he will carry no individual, either as a member of his crew or as a passenger, who is not approved by the blockade authorities. In other words, we have complete control. The course of the ship is itself prescribed.

The neutral countries did not agree to all of this just because they wanted to help us. We had two powerful weapons to use in compelling the masters and the vessel owners to comply with our demands. Every vessel that sails has to have bunkers and ship's supplies and insurance. Fortunately during this war, as in the past, between the UK and the United States, we controlled most of these facilities without which neutral vessels could not operate. These facilities could be cut off immediately if any vessel or any master refused to sign the ship's warrant. In other words, by the use of that warrant and by the exercise of the sanctions of supplies and insurance, every neutral vessel was brought into line; and when any vessel or individual veered from that line, immediate steps could be taken to bring about a reversion, or the vessel and master would be "black-listed".

As I said, every commodity carried on that vessel had to have a navicert, a British term which we have all adopted. The navicert covers the voyage of goods across a body of water to a neutral country. The navicert is a certificate which testifies to the fact that the particular goods in question have been approved by the joint or allied blockade authorities in the particular quantity and for that particular destination and in some cases for a particular purpose. Spot inspections were made but the system worked so well that few naval vessels were required for enforcement. In some instances the blockade authorities would have to quarrel with the naval authorities of both the British and American forces, which had become so unaccustomed to the deploy of naval forces to enforce the blockade as between countries that, whenever we wanted a destroyer or another vessel to do a little scouting and pick up a few vessels just without notice and pull them into a control point such as Gibraltar, where the crew and the cargo were carefully examined, we sometimes had to use persuasive arguments in order to get naval vessels assigned to that task.

After all, there was the problem of contraband. It did appear. There were attempts made to smuggle various things such as industrial diamonds, platinum and other items. Mostly they were detected. To avoid censorship controls, passengers traveling on neutral vessels were constantly trying to smuggle letters in and out of countries for various purposes. Some of that was stopped effectively, but obviously we could not stop it all. Some of the methods used were indeed ingenious.

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For the control of this mechanism we established, just as we did for military and other purposes, a Joint or Combined—to use the parallel military term—Blockade Committee. At one time the French were members of the Blockade Committee. Later, after the liberation of France, they again became full-fledged members.

The Blockade Committee met in London. Actually the Blockade Committee was not a committee at all. It was an over-all principle. Under the Blockade Committee were a series of committees dealing with particular tasks. On those committees various British services were represented—such as the Ministry of Economic Warfare, corresponding to the Board of Economic Warfare in this country. To that committee the U.S. Embassy, which had a War Trade Department, sent its representatives, those representatives acting under orders from Washington.

In Washington we had various committees operating as well. For a good part of the war we had what was known as the Iberian Peninsula Operating Committee, which was composed of British and American interested agencies, the British Embassy, the State Department, the Board of Economic Warfare, and sometimes the U.S. Commercial Company which acted as our agent. There were a good many other operating committees as well. There were similar committees covering other neutral countries. Eventually all of these committees were consolidated in what was called the European Neutrals Committee.

In London, meeting under the Blockade Committee, were special committees, such as the Permits Committee. The Permits Committee had one of the most important jobs of all, because this was the committee that determined quotas. It was to this committee that a government would apply if it wanted to increase its quota. It was in this committee, (incidentally, in which the neutral government was not represented at all), that the blockade authorities would debate the issue and decide whether the facts warranted that particular increase. It was there that it was debated as to whether a particular quota should be decreased, or whether there should be what is known as a nil quota, that is, a prohibition against any imports. All intelligence filtered to that committee. When the facts called for the removal of certain commodities from a particular list, these facts were presented at these committee meetings, and, if found to be true, the commodity was struck off. In other words, it was the crucial point for determining how much foreign trade, how much in the way of imports, should come into each of the various neutral countries.

That action involved reports from our people within the neutral countries on the status of re-export control. Was the particular government in question either by conniving or by indifference allowing goods to be re-exported to France or some other satellite power at that time? Should normal commercial exports be maintained?

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What importance, if any, should be given to such exports relative to economic warfare objectives? Or if we should send commodity A to a country, could that country in turn export another commodity to the enemy? These were the problems discussed and solved.

Over all, too, we tried to inform our representatives—and the same of the Washington committee, from which the instructions were sent—and keep them in touch with industrial changes and new techniques that might affect the flow of commodities. We might, for instance, have allowed a quota of fifty thousand tons of some nonessential material, only to find out later that some new technique, some new discovery, had made that nonessential material into something quite important. That, incidentally, is one of the really difficult problems in economic warfare. I want to come to that in a moment.

In addition to all this a proclaimed or black list was maintained all through the war. There were really two lists. We did not use the term "black list." We called it a proclaimed list of certain blocked nationals.

The proclaimed list consisted of those individuals who by some overt act or in some other way had done something unfriendly to our national interest or to our war effort. They were denied all facilities. They could get no navicerts. They could not travel on vessels controlled by the allied powers. In addition there were other lists not "proclaimed" for a number of reasons.

The proclaimed list was in a sense control of the individuals themselves whether on the ocean or in the actual neutral country. We could punish the merchant who handled German goods in Spain by depriving him of the right to receive any goods through the blockade from outside Spain. Sometimes by publishing the name of an individual who was close to the government we were able to make the government a good deal more cooperative in dealing with us on other matters of trade with the enemy, as in the cases of Switzerland and Sweden.

The control of indigenous products was one of the most critical of all problems, because an indigenous product, unless it was very close to the kind of product being imported, so that we could use the similar products argument, was not subject to any rule of economic warfare so far as export to the enemy was concerned. In other words, Spain and Portugal produced a good many materials which were of direct use to the enemy. How could we stop those materials from going to the enemy, whether they were sheepskins that the Germans wanted to take care of their men on the freezing Russian front or a highly strategic mineral?

Actually you could do it in two ways. We used both of these ways. We could bargain with the government in question in order to stop the

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flow of goods. Or we could try to buy the exportable surpluses. For instance, preemption, or preclusive operations, whichever term you prefer, is just an over-all method by which we deprived the enemy of goods that would be available to him. You can preempt them by buying them. You can preempt them by getting the neutral country to refuse to issue export licenses.

The most important mineral involved was of course wolfram or tungsten, used in the hardening of steel and for a variety of direct and indirect military purposes. We had a great deal of difficulty with wolfram, so we used all methods of control and preemption. In some cases we bought the mines, simply took title to them. In other cases we bargained with the government. This is where we developed the type of agreement with neutral countries which we used in the Peninsula known as the Supply Purchase Agreement. It was an agreement which simply said, "We will supply you with the following goods if you will agree to make available to us the following goods" or in some cases "if you will just agree not to make them available to the enemy."

We could and did get the Portuguese to limit the number of licenses that would be given for the export of wolfram from Portugal to the enemy. In Spain we could not get such a limitation until very late in the war. We had to step in and spend millions of dollars to buy wolfram. Wolfram, which before the war had sold for from eight to twelve hundred dollars a ton, reached the fantastic price during the height of activities in Spain of twenty-five thousand dollars a ton, with the Germans and the Anglo-Americans competing to buy this very necessary mineral. One thing we learned about economic warfare is that it costs an awful lot of money.

In some cases we were able to bargain because we had supplies that the neutrals wanted. You may have wondered yourself at times, or you may have heard other people wonder, why in time of war we sacrificed supplies and sent iron and steel to Portugal or even raw rubber and manganese and synthetic rubber to these neutral countries which were obviously helping the enemy to some extent. The answer is a very simple one. For every pound of rubber or iron or steel we sent them we extracted our pound of flesh. Our pound of flesh was either a limitation on their exports to the enemy or in some cases a direct contribution to our war effort in return for what we sent.

All these activities had to be tied into the blockade. Theoretically we could not legally use the fact that we were masters of the blockade to gain our own preemptive objectives. You can readily understand that sometimes these two roles that we played became somewhat confused in the enemy's mind, the neutral's mind, and even our own.

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The machinery we set up for our own participation in some instances indicates the way in which one has to operate to achieve a particular purpose. While our machinery was complex, it was relatively simple in its structure. The Board of Economic Warfare was specifically charged with export control. One had to get an export license to export to any destination during the war.

In the case of neutral countries it was simply a matter of imposing one other control on top of that general control. We had a small staff which was in constant communication with London. This small staff would receive every day the export licenses for neutral countries which had been passed by the regular supply authorities. They were then screened by a small staff working on the neutrals themselves. In other words, the export licenses for goods destined to these countries did not get the normal processing. They got a double screening by people who were experts in war economy, who screened each application to see what effect it would have on the economy of a neutral country or possibly indirectly on the war economy of the enemy.

It might be such a simple thing as cedar flats, the small pieces of cedar wood from which pencils are made. We used to get many applications for export of these flats. We refused to permit them to go through the blockade, because intelligence reported to us that the Germans needed them for submarine batteries. (I am not sure just how they were used in submarine batteries. Perhaps you can tell me.) The coordination of military and industrial intelligence was always a chief concern of our staff. The combined screening worked in such a way that each application was reviewed to see what effect there would be on the war effort of the enemy if the goods were allowed to go through.

What were the controls within the neutral country to make certain that this material, if it were allowed, would be used for a legitimate purpose? Once, for example, we had to send some fertilizer to one of the neutral countries. We had to send that fertilizer because the country needed it desperately, and it was the one thing they wanted in return for a major concession to us. The difficulty was that the only fertilizer available was one that came from the munitions stock pile, technical grade contained ammonium nitrate and could be used for other than fertilizer purposes.

We had a long series of discussions about this situation with the War Department, the military authorities, and the Army and Navy Munitions Board. Eventually there was evolved a system whereby some substance—I have forgotten what it was—was inserted into the ammonium nitrate to make it practically impossible to use it for explosives. In the United States this degraded ammonium nitrate could have been restored to explosive ammonium nitrate, but in the neutral country in question they simply did not have the facilities. We satisfied

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ourselves that they did not have the facilities to take this junk out and make the stuff useful for explosives. That was the kind of problem that came up constantly. That was the kind of cooperation between various interests that had to take place at all times.

For any goods which had a direct military bearing we had a small committee which met in conjunction with the representatives of the Army and Navy Munitions Board. General York (then Colonel York) served on that committee with us. All applications for direct military goods or anything which might have military use were reviewed by this committee and received the concurrence of the Army and Navy authorities as well, so that all were sure of what we were doing.

Then, if the application went through all of this processing and was not rejected—in other words, we had rejected ninety-nine out of a hundred already—(that was about the proportion at times)—the application was then sent to what we called the Blockade Clearing Staff, which I mentioned earlier. Full details were cabled to the representatives at London and discussed by the Permits Committee or one of its subcommittees called the Navicert Sub-section. If the commodity was on the quota and if the quota was not already used up by that time, after all this time had been "wasted" in studying the matter backward and forward, it would then be approved. The approved license would carry with it not only the American license number, but the navicert number, which was its permission to go through the blockade.

There were various methods used to beat this system, even to the extent of having counterfeit navicerts and forged export licenses. Most of them did not prove to be very effective. In general the type of control was so close and the pressure on the master of the vessel such that he was not likely to carry contraband goods.

I recall only one humorous instance where the American laws were a little different from the British laws, so that there were certain things we could not do. But an enterprising Spaniard got on board a boat at New Orleans to go back to Spain with what was supposed to be originally a fur coat for his wife. Incidentally, we knew the Germans were trying in every possible way to get furs to send to their troops. They wanted everything possible to keep their soldiers warm.

This fellow had managed to get on board with at least six unnavicerted expensive fur coats. We got word of it, but he was already on the high seas. There was not much we could do about it. So we tipped off our British colleagues. The boat had to stop at Trinidad, which was one of our control points. At Trinidad the commodities were picked up. The inspectors found a lot of mail as well that had not been cleared through censorship. Those fur coats

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are still in storage at Trinidad. They were simply forfeited, taken by a British prize court.

The fellow from whom they were seized claimed they were personal property and therefore did not require a navicert. There was a technical point involved, although we were certain what the facts were. He could bring a suit to recover his fur coats. In fact, I understand that he was thinking of doing so a year ago, because I got several calls from the British authorities about it. But the fur coats had been stored in Trinidad all of this time, and I do not think the facilities in Trinidad are very good for the storage of fur coats. If he gets them back, I do not think he will get very much.

I want to digress at this point briefly to show how closely related these various activities were. Remember that in all of this process there was constant clearing between intelligence and other branches of the military and civilian departments. One of the most important of those clearances is one that we developed with the Navy. During the course of the war the Germans and Italians tried to use a considerable number of blockade runners, in the legitimate sense of blockade runner. That is, they were running between the enemy in Europe and the enemy in the Far East, trying to run through the blockade, the actual naval blockade, bringing such things as tin, tungsten, quinine and rubber from the Far East and carrying out high-priority goods which the Japanese needed. Very few of those vessels actually got through. There was one period when four of such blockade runners were sunk within a period of six weeks by our good friends in the Navy.

We worked very closely with the Navy Department on such matters. The thing we were most anxious to get from the Navy at the time of these sinkings—at considerable risk to Navy personnel—was more important to us, probably even more important than the actual sinking of the vessel itself—was the manifest of the vessel. We wanted to know what blockade runners coming to Germany from Japan would carry, because that blockade runner had the option of carrying this or that commodity. If they carried tungsten and not tin, that would shed considerable light on what our activities ought to be in preempting tin from Portugal. If the Germans had enough tin so they were not willing to risk going through the blockade with it, perhaps we were wasting our time working on tin in the neutral countries. We also got from the Navy considerable information and intelligence from survivors picked up from blockade runners. This was used to check against our own intelligence.

A very careful check was made at all times on the location of every blockade runner. We had a regular shipping schedule. This was mimeographed every week at the highest intelligence source and sent around to all those interested, giving the location and degree of

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operating ability of each of the so-called blockade runners. The British and American Air Forces would help us out from time to time by making little runs of their own over the harbors where ships were located.

Another important point, of course, was the timing of our operations. There I think we learned a great deal. We have something more to learn. The particular time at which an impact is made in economic warfare has to be related to what is going on elsewhere. I mentioned briefly, at an earlier point, one special problem in connection with North Africa. I will not belabor the point, because I am sure it is obvious that whatever one is doing in a military sense has to be correlated directly with what one is doing in an economic warfare sense and in a diplomatic sense. If these things are not coordinated, there is likely to be trouble.

Just one small incident will serve to illustrate that point. I was going from Algiers to one of the neutral countries and I stopped at a small post where there was a small American liaison staff. This was not American-controlled territory. The officer in charge obviously was not telling me what he was doing there. At least officially he did not try to pry from me what I was doing there. We looked at each other's papers and that was all. But I could see he was very much interested in something. He knew where I was going, because he had arranged the transportation for me. Finally on the eve of my departure he said bluntly to me, "Look, I have something that is quite close to me that I am doing here. I would not want anything you do to upset it."

Well, it developed that the story was a very simple one. He was one of those men who were arranging for the escape, if you like, or the release, of American aviators who came down in neutral territory. It was quite an underground, by which hundreds of American and other allied fliers got out.

His point of view was perfectly proper. That was his interest; that was his job. Anything that interfered with that would spoil his job there. But there again you see the importance of coordination. If we had done something which would interfere with his job, it might have been wrong. The problem is simply one of timing and of integrating the activities so that one does not detract from the other.

So far as evaluating our successes in the program is concerned, unfortunately, we cannot tell the whole story yet. We do know that we hurt the enemy. The exact degree of our hurting the enemy we do not know. We know there came a time when the German antitank shells no longer had a tungsten core. There is a technical argument as to whether the tungsten core is the best kind of antitank shell. We do know that with a tungsten core one can get considerably greater strength and armor-piercing qualities with a smaller shell than otherwise. Whether the Germans did better by using a larger shell

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without a tungsten core or whether our activities forced them to give up the tungsten core we are not certain.

But we do know this in addition: In all the hard tool steels which the Germans needed desperately the percentage of tungsten diminished point by point all through the war. In other words, the effect of a tungsten shortage was felt. Had it gone on further, the Germans would have been forced to operate with tool steels that could not perform satisfactorily.

In the case of other commodities we again know that we had some effect. I can think of only one case where we had a complete success and only one case where we had a complete failure. The success was the case of celestite. We were able to preempt the whole supply and force the Germans to use substitutes. The substitutes that the Germans used were better than nothing, but it cost them more time, more labor, and more material to produce the substitutes.

The one instance in which we missed completely was rabbit skins. Someone got the peculiar notion that in preempting wool, fur, or anything that might keep the German soldiers warm, rabbit skins should be included. After all, rabbit skins can keep you warm. They were available in great quantity in Spain. We began to buy them preclusively. We learned after a few weeks that that was one thing we just could not keep up with. We gave it up.

But even the rabbits illustrate the other important point that I was trying to bring out, and that is that in economic warfare we must be prepared to spend money; and we must be prepared to spend it in some cases without even knowing that our spending is having an effect, because we do not dare take a chance. We cannot argue, "If we buy this, it will cost a million dollars. I am not sure we can justify that. Perhaps it will not have that effect." If we do not buy it and it turns out to be useful to the enemy, we would have been guilty of a great error. If any action—or lack of action—delayed the conclusion of hostilities by one day, it would cost far more than the million dollars which would have been gambled. Each expenditure must be measured in terms of lives and military operations as well as the direct financial cost. Naturally we had some very difficult decisions to make at times. We had a few good, solid, substantial business men and lawyers working on this program who groaned inwardly and outwardly when it came to spending tremendous sums of money to buy a pig in a poke. We had to do it, and they all came around eventually to seeing it that way; but some of us may have to spend the next twenty years in explaining to congressional committees why we did it.

There were some other lessons we learned that I might enumerate briefly. One is that it is much better to purchase facilities than to try to purchase the output. If you try to buy up the output of a

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particular commodity, the stimulus may result in increased production. I pointed out before that under the impact of preclusive buying the price of wolfram climbed to \$25,000 a ton. In Spain the output of wolfram climbed to such a point that in the second year we were buying more than had been produced in the first year, and the enemy was still getting some. We had to buy progressively more and more at higher and higher prices. Eventually in the case of one of the larger properties we did make a deal with the owner to buy the entire output. It is often cheaper not to produce than to produce. Purchasing the facilities, even though it means spending a good many more million dollars at the outset, is in many cases a cheaper and more efficient method.

Furthermore, if you can buy up facilities and guard them properly—and that is not the easiest thing to do in neutral countries—it is easier to control the output. I remember one place in northern Spain where there was a little fence separating our property from another. I was there with a mining engineer and he said, "That is German stuff on the other side of that fence." That was all that separated those two stock piles of material being bought energetically by both sides.

In the case of fluorspar we were not certain what effect we were having. According to all our economic information the Germans did not need fluorspar. But they kept buying it. They kept buying it at a time when they were so broke that the loss of the funds they used for buying it deprived the Germans of other needed supplies and other needed activities. Therefore we could not take the chance. We just kept right up with them trying to buy it up. Perhaps the Germans were trying to preempt us!

We learned also—and I say this with some delicacy—that in some cases it was better to take those steps which would keep a particular mine or other facility out of production than to do any buying at all. There was one particular mine in Spain which somehow or other always had water in it. It never produced anything.

We argued and debated with several neutral countries on the control of their foreign trade with the enemy, such as getting a limitation on how much wolfram would be sent each month. We learned very quickly that outright prohibition is much to be desired over limitation, not only because of the quantities involved, but because when we are trying to police an outright prohibition, we know that any movement is an illegal one. When we are dealing with a limitation of twenty thousand tons a month or thirty thousand tons a month, it is always difficult to prove that any particular movement is illegal.

I might say that the assistance with other agencies that operated in the neutral countries during the war was very helpful in policing that control. We got a lot of screwy reports. Some of them could not

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possibly be believed. But we also got samples from trains that left Portugal and Spain bound for the enemy, so that we could check on them. We had a chance that way to prohibit the shipment of certain materials to the enemy. A sample out of the last car that was going to the enemy was delivered to me within forty-eight hours of its departure with the official permit for the movement. So our people were not too badly informed on the enemy's operations.

One of the other things that we learned was the importance of coordination among all agencies concerned. We still have a great deal to learn in this respect. We did not have an over-all type of coordination between the Army, Navy, Economic Warfare, diplomacy and all the other ramifications of war that are necessary if we are to be fully effective, to bring maximum effectiveness to bear on any problem. I realize that one cannot be perfect in these things. Nevertheless we have a great deal to learn and to practice in that respect.

One other thing which I regret very much is this: I will put in this plug, General McKinley, if I may, in the event you can ever find your way clear to do it. We turned up a great deal of intelligence in Berlin and in captured enemy documents. A great deal of that intelligence is being used to check up on various estimates made by the allied powers. But, unfortunately, because of civilian as well as military demobilization of personnel and the lack of interest, I am afraid that a complete checkup is never going to be made to determine to what extent the economic warfare decisions of World War II, as made by the Allies on the basis of knowledge and information in their hands, were correct; to determine to what extent we judged the situation correctly, and to what extent we had the desired effect.

We will not really be able to judge the effectiveness of our operations and to plan properly for future operations of a similar kind until we have had the benefit of such a study. We have the opportunity now. We can look at the hand after it has been played and see the best way it could have been played had we had the full information. We can check the methods and the techniques that were used.

One last minor point is that we all realize that we have learned something about the technique of economic warfare; and that if we study properly the results, we will learn a little more about it.

One of the things I read in your catalogue, and which to my mind is equally important in terms of economic warfare, is the old saying that you cannot fight the next war with the methods or tools or equipment of World War II.

We hope there will never be another war; but if there is, one of the things we must be prepared to do on the basis of our studies is

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the application of the principles of economic warfare to the new situation and their improvement to meet the changed conditions. The coming of the airplane made tremendous changes in economic warfare, changes which we would not have made normally. The coming of the atom bomb and newer methods of military activities and coordination will have an equally profound effect on economic warfare activities. It may very well be that it will do away with economic warfare, or perhaps it will raise it to such a high level that it will be coincident with direct military operations. We must study the factors that bear upon that relationship and changed circumstances. Some program will have to be laid down which will keep us as abreast in that field as we are planning to keep abreast or ahead in the other fields relating to the defense of our country.

A STUDENT: You mentioned a surplus of wolfram and, I believe, indicated that there was quite a good deal more than we needed. I was just wondering why that was, in consideration of the fact that we had to do the same thing that Germany did--make our armor-piercing projectiles out of chrome ore rather than tungsten steel. Was that a lack of coordination between the WPB and the ANMB?

MR. BECKER: No. Very little of the wolfram that we purchased came to this country. It was allocated to Great Britain, because that was an easier shipping haul, in the first place. But we never had a supply need. We were told by the supply authorities that we could have fought the whole war without Spanish or Portuguese wolfram. But at the same time that we were told this we knew they were flying the stuff over the Hump.

It is possible that there might have been some lack of coordination. But I would say a large percentage of the wolfram that we purchased in the Peninsula never left the neutral country. We put it in sealed warehouses and guarded it carefully and it never left the country.

A STUDENT: Do you by chance have any idea of the cost of the wolfram overseas, this Chinese wolfram, by air transport?

MR. BECKER: Our wolfram cost a great deal more.

A STUDENT: We had to buy it through commercial companies?

MR. BECKER: Yes. I should say that the actual purchasing was done in both cases by the central purchasing agency, the U.S. Commercial Company and the United Kingdom Commercial Company. The way they operated, if they made a sale of stuff that was purchased exclusively, the loss was taken by the corporation as an economic warfare loss. The commercial resale, if any, was made at commercial prices.

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A STUDENT: Somebody's requirements were just mixed up somewhere?

MR. BECKER: It could be.

A STUDENT: You spoke of documents uncovered in Berlin relative to the steps taken. Are you aware of any publication that outlines the steps that were taken by the Germans or any American publication which gives an indication as to the effectiveness of the steps they took?

MR. BECKER: No, I am not. I imagine that such a document does exist. We got partial reports during the war. I am just trying to think out loud. I have seen several lists outlining the intelligence materials available. I do not recall anything which exactly answers your question.

A STUDENT: What efforts were made to manipulate or control the exchange rates and the currency between the Allies and the Iberian Peninsula?

MR. BECKER: None at all. There were two different situations. In the case of Portugal there was a free currency. The Portuguese maintained a free currency and all during the war the rate was approximately 25 to the dollar or one hundred to the pound sterling. There was no effort made to control that.

In the case of Spain the peseta was pegged and controlled at a very artificial rate. For instance, the official rate of exchange valued the peseta at 9 to the dollar. I suppose I can say here that our operations and our staff living in Spain made conversions at the rate of 18 and 20 to the dollar. We had various transactions by which we were able to take advantage of the fact that everybody knew that that was all the peseta was worth and were willing to sell pesetas at that rate. We had special exchange transactions and we raised money for purposes that we would not want to declare to the Bank of Spain. But we did not try to affect the rate in the sense of influencing it by purchases and sales of foreign exchange for that purpose.

The other financial aspect that comes out of this question is the fact that you know we did not allow anyone to bring back more than fifty dollars in currency to the United States during the war. One of the reasons was that there was a good deal of what we called tainted U.S. money overseas. It was assumed that all this money had been gobbled up by the Germans, and that anyone who had it got it from the Germans directly or indirectly. Consequently one could buy American dollar bills in Lisbon at a considerably depreciated price, because the dollar bills could not come home.

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I am not suggesting this as an operation, but it is a perfectly legal one. One could take a travelers check, which was good foreign exchange, and convert it one dollar for 25 escudos, and then go down the street in Lisbon and buy dollar bills for 16 escudos. In other words, you would have a dollar bill plus 9 escudos instead of a dollar in travelers checks. You could then come back to America and bring that dollar bill back in and it would be accepted here as valid currency. During the war no one could, however, bring back more than fifty dollars in such bills.

A STUDENT: You have explained economic warfare in wartime. Would you care to say anything about economic warfare in peacetime in certain areas where there is still a struggle going on?

MR. BECKER: That is a little wider issue and I do not think I could say much pertaining to it except this: You should, I think, draw a distinction between normal commercial warfare, as it is sometimes referred to, and economic warfare. The term "economic warfare" ought to be restricted, it seems to me, and not used as a description for commercial competition for markets. Economic warfare even in peacetime ought to mean any program of economic activity relating to the national interest and defense and carried out by the Government.

Now, I suppose one could say that we have no economic warfare program at the present time, unless it is argued that the denial of certain loans to Poland because of its failure to carry out certain election promises is economic warfare, in the sense that it is using an economic weapon to achieve a political objective. In that sense economic warfare goes on most of the time. But in the larger sense of taking concrete steps to use our governmental machinery and our financial resources to deprive a particular country of certain items in trade or to deprive those items of markets or to deprive them of access to other countries which might be of value to their potential in wartime, I would say that we have at present no concerted objectives. There are individual problems that come up, and they are dealt with as they come up rather than as an integrated basic program or operation.

COLONEL CLABAUGH: To what extent did the USSR, if at all, negotiate trade agreements with neutrals or take other measures to deny resources to the enemy?

MR. BECKER: None at all. The USSR took the political view that all the neutrals were no better than they should be, and at the same time they took no part whatsoever in any activities that were going on.

We think there were some reasons for that. In the first place, the USSR was not near the neutrals in a physical sense. It was not

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a naval power, so that it could not greatly affect blockade operations. The control of the blockade was in our hands. The Russians sometimes criticized us for allowing anything to go to the enemy. They never formally requested any information from us, to my knowledge, of what we were doing and why we were doing it. When we at times put out feelers in the direction of asking the Russians about what they knew of neutral trade with the enemy, they professed to know a great deal, but we got nothing. The Russians were of some assistance, however, in certain negotiations with Sweden.

A STUDENT: Do the Dutch have a blockade in the Dutch East Indies?

MR. BECKER: I presume that is what they have. I am not certain. I do not pretend to be any kind of international lawyer. I have heard it argued on both sides. It would really take an admiralty lawyer to determine whether or not the Dutch acted illegally in seizing cargoes of vessels. The American firm claims that they did act illegally. I do not know. But at the same time it is certainly true that the Dutch have in effect blockaded all the insurgent part of the territory, just as we blockaded Europe during the war. As I recall it, the blockade was one of the chief weapons the North used against the South in the War between the States. It is one of the first weapons that the British use, though they insisted on their right to trade freely with the South during the War between the States. Whether or not the British take the same attitude in the case of Batavia I do not know.

CAPTAIN ROWLEY: Does the American economic warfare consideration apply where we are proposing to use this four hundred million dollars for Greece and Turkey? If so, what will it probably be used for to the best advantage?

MR. BECKER: I assume that those funds will be used for rehabilitation and military operations rather than in any direct economic warfare. You can, I suppose, call it economic warfare in the larger sense. To the extent that we furnish not only direct military assistance to a country, but provide the economic tools whereby the country can defend itself better, or at least provide the kind of life in which it can better maintain its independence and liberty, and do these things to prevent less desirable results, it is economic warfare, if you like. I see no reason to quibble about terminology. I would say that in the broad sense it is economic warfare.

A STUDENT: In the exportation of supplies and materials from this country to the Iberian Peninsula were they exported on the basis of OPA prices?

MR. BECKER: Yes. With the usual provisions in the OPA ceilings, which provided an export premium on most commodities, sometimes a flat

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ten percent, sometimes higher or lower. We had to provide that there would be price control on exported goods as well as domestic goods, because, if we did not, everybody would want to export to avoid price ceilings.

A STUDENT: What method of inspection did you develop to be sure that these commodities you bought would meet the requirements? I have in mind tin ingots.

MR. BECKER: That was a very embarrassing situation. There was one case where we really got stung. We operated through foreign agents in Portugal in buying some first-class tin. We followed all the usual precautions, having independent assayers to check the stuff. Some of it was eventually delivered after we had paid for it, but most of it out of this particular batch was found to be some of the best lead produced in Portugal.

You know how the stuff comes, in little blocks. Instead of making their tests on the diagonal—this is why we believe the people who had done the independent testing must have been in cahoots with the suppliers—all the tests were made straight up and down. They showed 99 percent tin of the finest quality and we paid the price. It was only after a few of our own sample tests had been run the other way that it was discovered that the rest of the block consisted of Portuguese lead.

This brings up the question of who was at fault on the financial aspect of it. This was not an attempt to defraud us by the enemy. This was just an unscrupulous operator in the country itself taking advantage of us.

CAPTAIN WORTHINGTON: I appreciate very much your being with us, Mr. Becker.

MR. BECKER: It was a pleasure to be here.

CAPTAIN WORTHINGTON: Thank you very much.

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