

BOARD OF ECONOMIC WARFARE
OFFICE OF EXECUTIVE DIRECTOR
WASHINGTON, D. C.

June 16, 1943

Mr. Marriner Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

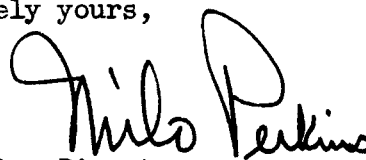
Dear Marriner:

I know how very busy you are but I hope you can find time to go over this statement. It will be deeply appreciated.

We have what is probably the smallest Information Staff of any government agency of our size. I think this has been a wise policy, but one of its disadvantages is that not enough is known about our work.

You are one of a few people whom I should like to have know a little more about the job we are trying to do to help shorten this war.

Sincerely yours,

A handwritten signature in cursive script that reads "Milo Perkins". The signature is written in dark ink and is positioned above the typed name of the Executive Director.

Executive Director

Enclosure

BOARD OF ECONOMIC WARFARE
Washington, D. C.

Introductory statement by Milo Perkins, Executive Director of the Board of Economic Warfare, before the House Appropriations Committee on June 1, 1943

With your permission, I want to review the general background of our operations on the economic warfare front as we take stock some seventeen months after Pearl Harbor.

The plain fact is that Germany and Japan got a long jump on us in the world-wide economic battle that preceded the war itself. For years before they launched their military attacks, these countries had been conducting a shrewd and ruthless war of economic aggression through such measures as the building of ersatz industries and the heavy stockpiling of strategic materials. They were building ahead for the economic as well as the military showdown that they knew was coming. We on the other hand, not having planned a war of aggression, were caught relatively flat-footed.

We are catching up now, however. There is a long way to go, but the United Nations are definitely not losing the economic war. Our economic strength is still rising while both Germany and Japan are beginning to show the first signs of economic strain.

As the war is intensified--particularly as it swings further into definite offensives--the economic side will become a bigger and a tougher job. Steadily increasing production of weapons calls for steadily increasing raw material supplies, including those from foreign

sources to offset the drain on our own stockpiles and resources. Tightening supply and shipping situations throughout the United Nations call for greater selectivity in meeting the essential export minimums to the countries with whom we are doing business. Offensive strategy, replacing the defensive phases of the war, calls for more exact information about enemy economic strengths and weaknesses--to guide blockade policy and help determine strategic objectives which will be high on the priority list for destruction.

The Board of Economic Warfare works on the general economic warfare front through three administrative Offices--Imports, Exports and Economic Warfare Analysis. Each drives toward objectives in its own particular field of operations.

IMPORTS

The Office of Imports is responsible primarily for the job of scouring the four corners of the world to locate strategic commodities needed in the war effort, and then programming the necessary development and procurement operations to get them for the United States.

We in the United States have rather proudly referred to our country as the richest raw materials nation in the world. This was perfectly true, and it therefore came as a shock to many of us to realize that we were far from self-sufficient in many of the basic raw materials needed to meet our war commitments. The rubber shortage was quickly understood by the public because we all use tires. Shortages in quartz crystals, various insecticides, mahogany, balsa wood and certain strategic grades of mica were equally critical, however. Dozens

of other foreign commodities that few people ever heard of were needed in quantity and needed quickly.

Not many weeks after Pearl Harbor, we lost the vast raw materials resources of the Far East. Japanese invasion cut off more than 60 percent of our normal tin supplies, 95 percent of our quinine, 60 percent of our hard fibre, and practically all of our rubber. We lost valuable sources of various fats and oils. Soon the Burma Road was closed, stopping not only the flow of supplies into China but also stopping the flow "in reverse" of tungsten, hog bristles, tin, silk and other vital supplies that had been coming to us out over the Road. All this happened at exactly the time when the speed-up in our war industries demanded more raw materials--not less.

Many of the lost supplies could not be produced at all in the United States; others could not be turned out in sufficient quantity. We were face to face with the tremendous problem of finding substitute resources in those foreign areas of the world still open to us. This was a year ago. Today we can report that what had to be done has been done. Utilizing the services of existing Government agencies, such as the Commodity Credit Corporation and various subsidiaries of the Reconstruction Finance Corporation, and in close cooperation with the Department of State, we have been able to bring in adequate supplies of the commodities which the War Production Board designated as strategic, and directed us to go after.

There were maddening delays, and reserves were dangerously low at times, but the really vital needs have been met. In some cases, commodities have been flown in from half around the world to meet supply deadlines. The Army Air Transport Command and the Navy Air Transport

Service have used their returning transport planes to bring in tungsten from China, mica from India, quartz crystals from Brazil, and dozens of other highly strategic materials from supply points which would have been beyond immediate reach without air service to bring them to our war plants on time. The goods have come in; war industry wheels have kept turning.

The Office of Imports is directing more than 200 purchase programs in 40 different countries or areas. Nearly 600 individual items are included in this list of programs. They are grouped roughly into: minerals and metals, foodstuffs, textiles and fibres, miscellaneous commodities. The volume of development and procurement operations for imports will run to about a billion and a half dollars during the present fiscal year. For next year the total will be above two billion.

As the search for raw materials grows more intense, a far greater degree of development work will be necessary to produce the things we must buy and bring out of other countries. It is becoming more and more necessary to program the preliminary steps thoroughly so as to be sure of the increased production we need. In very few cases is our import operation a simple matter of buying what we want. Today we must go out and fight just as hard to develop the goods we want to buy as we used to fight for the chance to sell goods back in the days when over-production made selling the most aggressive challenge to every business firm.

This part of the job gets tougher as we need more materials and must reach farther out into new and undeveloped fields to find them. Circumstances have forced our men to become economic commandos, --literally penetrating new territory in the jungles of the world, to find new

sources of balsa wood for gliders, cinchona bark for quinine, fibre substitutes to replace lost hemp and a long list of vital minerals and metals without which technological warfare would be impossible.

A lot of side factors must be kept constantly in mind as these import operations are carried out. Transportation problems must be met; special area programs must be developed, with full consideration for related economies within the areas; price levels must be planned to induce maximum production, and yet not disrupt the domestic economy of the country involved; new producing units must be found and developed as older sources reach maximum capacity; often special equipment must be exported to make possible these increases in imports. The job can be done, and it will be done, but it will take a lot more ingenuity and drive in the year ahead of us than it took in the one behind us.

In all import operations, the interests of United States commercial importers must always be considered. If coffee is to be brought in, coffee importers handle the job, as agents of the responsible Government corporation. If fats and oils are needed, all United States oil importers are invited to join a special association to handle import operations. And so it goes through the long list of imported commodities. It's good business to use the skill and experience of these men now, and it's good business to help them weather the storms of this war economy so they'll still be in business when the war is over.

EXPORTS

The original duties of the Office of Exports centered largely around the job of export licensing to see that scarce strategic materials

did not leave the United States, and that no shipments went to Axis powers through sympathetic "blacklist" concerns in neutral countries. The whole function has now grown to include the more positive job of directing available exports to keep up the domestic and war economies of friendly countries, and to make possible the development and transportation of the materials we must import for our own war effort.

The United States finds itself today not only the military arsenal for the United Nations but also pretty nearly the only remaining supply house for commercial goods needed vitally by many of our Allies. Latin America, which used to get a lot of its imports from Europe, must now look to us almost entirely. The same thing is true for other areas, to a greater or less extent.

We have got to keep the basic economies of these countries going. They are with us in the war effort, and they are turning out tremendous quantities of strategic materials we must have which we formerly got elsewhere. It is obvious that we must try to meet their most essential needs.

In the face of this demand, we are more and more up against the fact that we are forced to ration scarcities for export. We can't spare enough from our own stockpiles to meet the full wants, and there aren't ships enough to haul all the exports other nations would like to buy even if we could spare the goods.

The answer is obvious: available goods and available shipping space must be carefully rationed. This adds tremendously to the export control job. It means more careful screening all down the line, to give a very high degree of selectivity. The job of dividing a deficit of goods is no easier on the foreign front than it is at home.

Briefly, the export job must be handled so as to get the greatest possible strength and solidarity on the Allied economic front. Exports must be kept from going to the wrong places; they must go to the right places at the right time and they must go within available supply and shipping limitations. First things must come first. If country A needs some rolling stock to keep her basic industries in operation, she must get that rolling stock. If mining equipment is needed in country B, to get out tin or mica or tungsten needed by our war industries, country B must get that mining equipment.

Realistic steps have been taken by our Office of Exports in recent weeks to see that the limited exports we can spare hit the nail on the head in the country to which they are sent. At the capital of each Latin American country, representatives of our Department of State and BEW sit down around a table with an agency representing the government of that country. With supply and shipping cards face up, this group makes a preliminary determination of the most vital import needs of the country in question. This determination becomes the first blueprint for our export shipments, subject to later changes made necessary by the availability of supplies and of shipping space.

For countries which are represented by purchasing commissions in the United States, a quarterly program plan was recently put into effect which will serve the same general purpose. Most essential needs of each country for both lend-lease and commercial imports will be determined definitely in advance, and shipments will be directed within these quotas.

Export control is an increasingly tough and exacting job as supplies become tighter. Every time a new commodity is rationed in the United States, tighter controls are necessary in export operations. Additional moves must be made by BEW to adjust export operations to the domestic picture. In 1942, we examined about a million and a quarter export license applications, of which something over half were granted. With the more exact study of transactions now required, we expect to have to handle about two million export documents in 1943. That's between 6,000 and 7,000 every working day and the work to be done on each application is becoming more exacting.

The scope of the export job is staggering. A total of 2,500 commodities and commodity groups are subject to export control. These commodities flow from approximately 16,000 United States export concerns to more than 140 different country destinations, and there are thousands of individual consignees. The control machinery must operate to see that no shipments fall into the hands of an importer who is known to be re-exporting to the enemy, stockpiling in warehouses, speculating at the expense of the good name of United States private enterprise, or who is in any other way unfriendly to the cause of the United Nations. We must also be sure that none of the materials in short supply here at home are used for any nonessential activity in the country of destination.

The whole job is complicated by the need to protect United States commercial exporters, just as far as it is physically possible to do so in a war economy. This is especially true of the smaller exporters. Just as in the case of importers, we need the trained services of commercial exporters now; we shall undoubtedly need them much more to spearhead United States commercial activities abroad when the war is over. This

means that the Government export control machinery must perform a lot of service functions in addition to merely licensing exports. It must help get the goods produced, moved to the seaboard, and actually shipped. BEW, as a claimant agency for commercial exports, goes before the War Production Board to present the case for the minimum of strategic exports considered essential in our joint Allied economy. It has working arrangements with the Office of Defense Transportation and War Shipping Administration, to assist exporters in getting the goods moved. The exporters themselves have organized several committees to help us with our work.

One special job carried out by the BEW Export Office is the use of requisitioning authority to break loose goods which have been frozen at ports or in warehouses as a result of war developments. More than \$73,000,000 worth of such material, ranging all the way from rubber to trucks and airplanes, has been located through this machinery and channeled into constructive use by the United Nations. Much of it was originally held by business firms located in countries now dominated by the Axis.

ECONOMIC WARFARE ANALYSIS

The Office of Economic Warfare Analysis must gather all possible information about the industrial economy of each of our enemies. It must gather complete information on the economies of European neutrals in connection with its blockade work. It needs similar information regarding other nations in the world for the use of our other two Offices as well as for that of the Armed Services. With these facts in hand,

its business analysts, its engineers and other technicians must then map out the most effective economic warfare program which it is possible to carry out.

As the United Nations go all-out on the offensive, and start pinching in on the Axis, more comprehensive and exact information is needed about the enemy economy. Weak spots must be found, strengths must be offset, economic strategy must be accurately anticipated.

The success of economic warfare analysis is obviously measured primarily in proportion to the excellence of our information about the enemy. Information--a piece here, a scrap there--comes from many sources. Often the action based on such information is thrilling and dramatic, but the job of collecting and piecing together these scraps into a useful whole means tedious, painstaking effort. Among the sources available to us are various intercepts, the files of American offices of foreign firms like Mitsubishi of Japan, records and experience of American engineers who have worked in foreign lands, refugees and foreign travelers, captured enemy equipment, and even the secret sources of the Underground. There is a close and continuing interchange of information with the British Ministry of Economic Warfare.

Sticking to the economic side--the business and industrial aspects --BEW gathers this material as a great backlog from which to reach the answers for many vital war operations. Working very largely under the orders of the appropriate branches of the Army and Navy, BEW analysts prepare literally hundreds of detailed reports on all phases of the world economic picture. The information is of no value unless it is kept current and up-to-the minute.

At the request of the Army, our men keep a running balance sheet of enemy production. It is always necessary to know how well or how poorly the enemy is doing in order to measure our own production requirements. To some extent, the enemy's economic picture reveals his hand so far as strategy is concerned. Will lack of oil compel the Nazis to launch another desperate offensive in the Caucasus? Will the shortage of locomotives force curtailment of tank production? Will Germany's need for rubber and Japan's need for critical machine tools lead to large scale blockade running? What are the limiting factors on submarine production? These and countless other answers must be known for successful prosecution of the war, and BEW fills in the picture on the industrial and economic side.

Blockade measures stem from basic economic warfare analysis. The job here is to stop the leaks through neutral countries adjacent to the Axis, but in order to stop the leaks we must have accurate information. When we know the enemy shortages, and the bottlenecks in his economy, we are forewarned on what he may try to do to get supplies. Examination of the cargo of a blockade runner, for example, is quite revealing. For what materials is Germany willing to run the risk of blockade running? BEW has joint representation with the British on the Blockade Committee in London. Decisions are reached by mutual agreement.

An effective "blacklist" system is an essential part of blockade work. Information gained from many sources makes it possible for the Department of State to keep the blacklist current. When a drug house in Latin America orders a large shipment of steel I-beams, we make an immediate investigation. When we learn that RAF bombs have destroyed the plant of the only German manufacturer of a certain type of needle,

we watch the liscensing of needles to neutral countries. And so it goes through an almost endless list of checks.

Preclusive buying, that interesting and necessarily secret operation, which locks up materials in neutral countries to keep them from reaching the enemy, is also dependent on reliable information. We can't afford to waste time or money buying up supplies which are not really vital to the Axis, or which couldn't reach it anyway. Much of what we buy preclusively is of great value to our own war effort, of course.

It is quite obvious that even such military action as determining bombing objectives depends partly upon sound economic intelligence and analysis. Working with the British Ministry of Economic Warfare and our own military intelligence men, we are able to supply information which is of value to the military in making final decisions. BEW does not select the targets, and, of course, it does not make any of the military decisions, but it is able to point out vulnerable spots from an economic and industrial point of view. Where are the bottlenecks in enemy production? Is it the assembly plant, the machine shop, the railway terminal, the power plant, or the steel mill?

Much of this activity on the economic warfare analysis front is, of course, very secret. By agreement with the Armed Services we have the most stringent regulations to protect the security of information available to us. You might as well tip off the location of your fleet as to give hints about your economic strategy or knowledge of the enemy position. This Economic Warfare Analysis job is vital, it is directed one hundred percent toward helping to win the war, and it becomes more complicated and demanding as the war develops along positive

offensive lines. When the full story can be told, it will be one of the most fascinating chapters of the war record.

Sketchily and briefly, this is the broad front on which BEW is trying to carry out its part in the winning of this war. It is not a static or frozen program. Constant adjustments and changes must be made to meet a constantly shifting war situation.

We have operated from the beginning on the theory that we should work with and through other agencies wherever that is the most efficient course to follow; several of them receive direct allocations from our appropriation for strictly wartime functions they are performing for us.

We are going ahead on the conviction that any economic program which will help to shorten this war by a month, a week or even a day is worth any reasonable price. Measured in lives, and remembering the men who died that last morning before the Armistice was signed in 1918, all of us would agree that it is worth any price to shorten this war by a single hour.

As you proceed with your consideration of our budget, I shall be very happy to try to answer any questions you might have--on the record whenever possible; off the record if I may, when military secrecy is involved.

June 18, 1943.

Honorable Milo Perkins,
Executive Director,
Board of Economic Warfare,
Washington, D. C.

Dear Mr. Perkins:

As Mr. Eccles is on a brief visit to the West, I wish to acknowledge your letter to him of June 16 enclosing the copy of your extraordinarily interesting statement before the House Appropriations Committee on June 1.

I will see that he has it upon his return next week, and in the meantime, let me thank you on his behalf for sending it.

Sincerely yours,

Elliott Thurston,
Special Assistant
to the Chairman.

ET:b