National Advisory Council
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MEMORANDUM To: National Advisory Council

From: Secretary of the Council

Subject: Release on United States Assistance in Tracing the Private Dollar Assets in the United States of Nationals of Countries Receiving Aid Under the European Recovery Program

The attached release on the above subject is transmitted for the information of Council members.

CAUTION: HOLD FOR RELEASE

(The following correspondence is for release at 12 O'clock, NOON, MONDAY, FEBRUARY 2, 1948.)

My dear Senator:

You will recall that when I appeared before the Senate Foreign Relations Committee to discuss the financial aspects of the European Recovery Program I indicated that I would soon be ready to report the results of the National Advisory Council's consideration of the extent to which this Government should assist countries likely to receive financial assistance under the European Recovery Program in locating the assets of their nationals concealed in the United States.

On that occasion I discussed the extent to which the dollar and gold holdings of the participating countries could be integrated with the European Recovery Program. In that connection I stated:

"Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States, and by liquidating the American investments of their own citizens. I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952. It should be kept in mind that the European Recovery Program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate through ordinary commercial and financial channels. By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

"When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the Program, and which will be used in the future to meet part of the cost of imports after the Program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to force European countries as a general

rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

. . . . . .

"Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States . . . . . ."

I emphasize again that, in the judgment of the National Advisory Council, it would not be wise to force countries likely to receive financial aid from the United States (referred to hereafter as "recipient countries") to liquidate the private holdings of their nationals as a condition to receiving such aid. But the problem of assisting these countries in locating the private assets of their nationals is separate and distinct. It is this problem which the National Advisory Council and the Executive Departments concerned have been studying for some time.

The problem stems from the fact that nationals of some recipient countries have for many years followed the practice of concealing their assets in the United States. Some hold property directly in their own names; others hold indirectly through intermediaries in third countries, notably Switzerland. These assets are concealed in this country despite the fact that the foreign exchange laws of the recipient countries typically require that foreign exchange assets be declared; some also require the turning over of liquid dollar holdings in exchange for local currency; practically all require that licenses be obtained for the expenditure of foreign exchange assets.

It is important to distinguish between two categories of assets: blocked assets and free assets. By blocked assets we mean those which are frozen in the United States under the Foreign Funds Control of the Treasury Department. It will be recalled that as a wartime measure the President, pursuant to Section 5(b) of the Trading with the enemy Act, blocked, under control of the Treasury, the private and public holdings in the United States of all of the European countries except the United Kingdom, Eire, and Turkey. Beginning in October 1945, machinery has been put in effect which provides for the unblocking of assets of persons in most of the formerly enemy-occupied and neutral countries if the government of the country where the beneficial owner of funds resides certifies to the private American custodian holding the assets that there is no enemy interest in such assets. The primary purpose of this procedure is to find concealed enemy property. The procedure is now applicable to all the recipient

countries whose assets were blocked. However, not all the nationals of these countries have availed themselves of this procedure, which has the incidental effect of disclosing to their respective governments the ownership of assets in the United States. As a result the Treasury through Foreign Funds Control is still controlling a fairly substantial amount of blocked assets.

Free assets include all the dollar assets owned by nationals of Britain, Turkey, and Eire, for these assets, to repeat, were never blocked. In addition, free assets have accrued in the United States on behalf of residents of the other recipient countries since December 1945 when controls were lifted from all current transactions between the United States and nationals of these countries.

It is obviously impossible to ascertain accurately the amount of private dollar assets owned by resident citizens of recipient countries which are unknown to their governments despite the reporting requirements of such governments. Moreover, we have no controls which require complete and continuous reporting of foreign-owned assets. However, we have made certain estimates based on an analysis of the best facts and figures available to this Government.

As far as the free assets are concerned, we have concluded, as a result of investigations and consultation with the various governments, that they are for the most part known to the governments of the recipient countries. We have estimated that as of June 30, 1947, private persons, including non-citizens, residing in the recipient countries, had free assets in the United States approximating $4.3 billion. Of this amount $2.3 billion represents holdings of nationals of the United Kingdom, which has adequate information respecting these assets. In addition, from Foreign Funds Control operations we know that about $1.3 billion represents assets of residents of recipient countries which have been certified for unblocking and hence are known to those governments. The balance includes proceeds from the liquidation of securities which has taken place in the United States with the knowledge of the appropriate governments; accruals from current transactions which are subject to control by the governments of the recipient countries; and assets of non-citizens resident in these countries. Some free assets may have accumulated here unknown to the respective governments, but we consider that the amounts are probably insignificant.

We come now to the question of the blocked assets held directly in the names of citizens of recipient countries and indirectly for their benefit through Swiss intermediaries. These assets are for the most part unknown to the respective governments; otherwise the appropriate unblocking certifications would have by now been obtained and the identity of the respective owners disclosed. Precise figures on the amount of these blocked assets are not available. Under the

existing certification procedure, as has already been indicated, the certification is made directly by the foreign government to the private American custodian holding the assets and no report is made to the Treasury other than general summaries which have been obtained from the countries concerned. To have maintained current records on changes in blocked accounts would have subjected American financial institutions and the Government to unjustifiable costs and difficulties.

According to our best estimates resident citizens of recipient countries hold in the United States approximately $700 million of blocked assets which are in a form readily available for meeting the balance-of-payment problems of the recipient countries. Of this amount, about $400 million are held here directly in the names of the resident citizens; the balance of about $300 million is held indirectly through Switzerland. In addition, resident citizens of recipient countries hold blocked investments in controlled enterprises, in estates and trusts, etc., which cannot readily be liquidated, although most of them are valuable sources of current dollar income. We estimate that they hold directly in this non-liquid form of investment about $400 million and an additional small but unascertainable amount indirectly through Switzerland.

It appears that so far as the recipient countries are concerned the resident citizens of France have in the United States the largest amount of concealed private blocked assets in a form which could be used in meeting balance-of-payment problems or to supplement official reserves. We estimate that the amount of the directly-held assets in this form of investment would run between $100 million to $150 million. The French Ministry of Finance has estimated that these assets amount to about $150 million. In addition, French resident citizens hold indirectly through Switzerland liquid assets of probably between $200 and $250 million.

The policy we should adopt with respect to assisting the recipient countries in obtaining control of the private dollar assets which are hidden in this country by their citizens has been a subject of much discussion in recent months. Representatives of financial institutions have urged that it is fundamental to our free private enterprise system and, in particular to our capital market, to respect private property whether or not it is held by foreign nationals. Some felt that the United States Government should not adopt the policy of cooperating with foreign countries in the enforcement of their exchange control laws. Finally, it was argued that to adopt measures having the effect of forcing the disclosure to foreign governments of private property held by their citizens in the United States would put this Government in the position of supporting partial confiscation of private property. This last point relates to those cases where foreign countries require the surrender of dollar assets, against reimbursement in local currency at unrealistic rates of exchange.

The National Advisory Council gave serious consideration to these views. The Council doubted that under ordinary conditions this Government should assist foreign governments in enforcing their foreign exchange laws. However, these are not ordinary times. Some European countries are in dire need of dollars to permit their survival as free nations. American taxpayers are being called upon to make substantial contributions to European recovery. Moreover, most of the foreign governments have repeatedly asked our assistance in obtaining control of the holdings of their citizens, who have concealed them contrary to the laws and national interest of their countries. It is these circumstances, I am sure, which have inspired marked public interest in the problem and have produced various legislative proposals for action, such as the Kunkel Bill (H.R. 4576) and the Norblad Resolution (H.J. Res. 268).

The Council studied in detail many alternative proposals for dealing with this problem in an effort to arrive at a solution which would assist recipient countries to obtain the use of concealed private assets in the United States without doing violence to the traditional status of private property. None of these alternatives promised at the same time actually to protect the private interests of foreign nationals, to assist the recipient countries to mobilize the concealed dollar assets of their resident citizens, and to prevent the escape of concealed enemy assets.

The Council concluded that no action should be taken regarding free assets because the amounts which are unknown to the governments of recipient countries are probably insignificant, and in any event serious practical difficulties would be involved. Effectively to search out and take control of these free assets would require exchange controls and other measures which would do maximum violence to our position as a world financial center and to our policy of keeping the dollar substantially free of restrictions.

The Council also concluded, however, that this Government should assist the recipient countries to obtain control of the blocked assets in the United States of their resident citizens. Accordingly, it was agreed that the program described below, which has been developed by the Justice and Treasury Departments, should be put into operation promptly. In the opinion of the Council this program is the most effective way to accomplish the above objective and to prevent the escape of enemy assets.

The program provides that public notice will shortly be given that at the end of three months assets remaining blocked, including assets not certified by the appropriate foreign government as free

of enemy taint, will be transferred to the jurisdiction of the Office of Alien Property in the Department of Justice. To permit this Government and the foreign governments concerned to concentrate on the areas where important results are likely to be obtained, accounts containing small amounts of property, say up to $5,000, will be unblocked in the near future without requiring certification or other formalities except where a known German, Japanese, Hungarian, Rumanian or Bulgarian interest exists. The Office of Alien Property will take a new census of the assets which remain blocked as of the deadline date. In order effectively to help the recipient countries obtain control of the blocked assets of their resident citizens, the Office of Alien Property will then promptly carry out the following policies:

(a) To deal with the directly-held assets by making available to governments of recipient countries the information from the new census of blocked assets of their citizens, including juridical persons, residing in their territories which remain uncertified as of the public deadline date referred to above. Each country receiving such information will be required to investigate the beneficial ownership of property held in the names of its citizens for the purpose of discovering any enemy interest. Pending a reasonable period for such investigations, such property will not be vested but will remain blocked under the jurisdiction of the Office of Alien Property. If these investigations show that the assets are owned by residents of the country receiving the information the assets will be released.

(b) To deal with indirectly-held assets by a vesting program with respect to accounts which remain uncertified after the deadline rate. Processing of uncertified assets in Swiss and Liechtenstein accounts for vesting under applicable law as enemy property will be started immediately after the receipt of the census information by the Office of Alien Property. The vesting program will also be applied to uncertified assets held indirectly through recipient countries where the program described in (a) above does not result in disclosure to the beneficial owner's government (e.g., French assets held through the Netherlands). In the absence of definite evidence of non-enemy ownership, full weight will be given to the presumption of enemy ownership arising from the failure to obtain certification. Evidence of non-enemy ownership or interest offered either before or after vesting will be checked in accordance with the usual investigative procedures of the Office of Alien Property. These procedures involve disclosure to the governments of the countries of which persons claiming legal or beneficial interests are residents. Of course, any vested assets which are proved to be non-enemy may be returned under existing law applicable to the return of vested property.

The Attorney General has informed the Council that there is adequate authority under the Trading with the enemy Act, as amended, to carry out all aspects of the above program.

The vesting aspect of this program appears under the circumstances to be the most effective means of rendering help to countries with regard to indirectly-held assets. There is no satisfactory alternative to a procedure which will compel foreign nationals either to disclose their concealed dollar assets to their respective governments or to forfeit them to the United States. To date the certification procedure, which applies to Swiss and Liechtenstein accounts, as well as to accounts of recipient country nationals, has not been utilized by many citizens of recipient countries to obtain the unblocking of accounts in the United States. This is so with regard to assets held through Switzerland for resident citizens of recipient countries because the owners of these assets know that Switzerland cannot, under the existing procedure, certify their assets without securing a cross-certification from the government of the country where they reside thus disclosing their identity to their government. Actually, however, there is no effective way to ascertain whether property held in Swiss accounts is Swiss-owned, enemy-owned, or owned by resident citizens of recipient countries, except to rely on the Swiss and other interested governments.

It must be recognized that resident citizens of recipient countries who hold their assets through third countries and who have not revealed such assets to their own government may choose not to declare their assets to their own governments for certification, notwithstanding the announced program to vest these assets and even notwithstanding any amnesty which countries may offer. These persons would, in effect, choose to forfeit their indirectly-held assets to the United States rather than to disclose them to their governments. If this proves to be the case, consideration could be given at a later date to the allocation by appropriate Congressional action of the vested assets among the recipient countries.

In conclusion, I want to call your attention to the fact that this program also provides for the orderly termination of Treasury's blocking operations. This follows from the fact that, in addition to specifying the treatment to be accorded the uncertified assets in recipient country accounts and Swiss and Liechtenstein accounts, the program calls for the transfer to the jurisdiction of the Office of Alien Property of all other assets remaining blocked as of the public deadline date. Thus German and Japanese assets will be transferred and vested. Hungarian, Rumanian and Bulgarian assets will be transferred and will remain blocked until a settlement of war claims with these countries is made. Finnish, Polish, and Czechoslovakian blocked assets, which do not exceed $5 million, will be transferred and remain

blocked for the time being. Yugoslavian, Estonian, Latvian, and Lithuanian blocked assets will also be transferred to the Office of Alien Property and remain blocked until various current problems have been resolved. Spanish and Portuguese assets are still blocked pending the completion of the current negotiations with Spain and Portugal covering looted gold and German assets. If these negotiations are successfully completed before the public deadline date, arrangements can promptly be made for the unblocking of these assets; on the other hand, if the negotiations are not completed by that date, these assets would likewise be covered in the transfer to the Office of Alien Property and would remain blocked pending the conclusion of the negotiations.

It is the intention of the Treasury and Justice Departments to proceed promptly to carry out the above program.

Sincerely yours,

/s/ JOHN W. SNYDER
Chairman
National Advisory Council on
International Monetary and Financial Problems

Honorable Arthur H. Vandenberg
Chairman, Senate Foreign Relations Committee
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Washington, D. C.

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