

TREASURY DEPARTMENT  
Washington

(The following address by William McChesney Martin, Assistant Secretary of the Treasury, before the 60th Annual Meeting of the Virginia State Bar Association at the Greenbrier Hotel, White Sulphur Springs, West Va., is scheduled for delivery at 9:00 P.M. EST Saturday, August 5, 1950, and is for release at that time.)

People sometimes think of the Treasury as concerned almost entirely with the planning, collection and enforcement of taxes, the printing and coinage of money, and the running of Savings Bond Campaigns. But the work of the Treasury is by no means limited to matters of domestic finance. In addition the Treasury plays a major role in the sphere of international finance. The international financial policies of our country must, as a rule, be shaped in the light of broader policy considerations. Consequently, decisions on international financial questions, usually require close collaboration between the Treasury and various other Government agencies, including obviously the Department of State.

I thought it might be of interest at this time to talk briefly about a few of the wartime and post-war operations in international finance in which the Treasury has played an important part. The matters I have in mind represent only a part of Treasury's broad activities in this field. A comprehensive survey could not possibly be given in a single talk, and it would certainly be unwise to make the attempt in an after-dinner speech. That would be a poor return for your hospitality and the honor you have done me in inviting me to address you.

One of the problems which confronted the United States during the two World Wars and which indeed continues to confront us is that of assisting friendly powers through financial and material aid in the conduct of the mutual defense effort. In World War I, as you know, we provided this aid largely in the form of loans. Our post-war experience, however, taught us a lesson, that the British had learned over a century before in the struggle against Napoleon, that loans between allies in a major war for survival are unlikely to work out satisfactorily. After making a few loans to their allies the British realized that only a fraction of them could be repaid. They then ceased making loans altogether and provided aid to their allies in the form of outright subsidies. We, in our turn, found that the war debts engendered a considerable amount of ill will toward us among the borrowing countries. The financial and exchange difficulties of the borrowing countries made it difficult for them to service the loans. Accrimonious debates arose as to

whether or not the payment of war debts ought to be contingent on the receipt of reparations from Germany. Repayment difficulties were greatly intensified by the depression of the 1930's and after attempts were made to scale down the debt charges to make them manageable practically the whole of the war debts went into default.

We learned the lesson of this post-war experience and in 1941 enacted the Lend-Lease Act, which authorized the President to furnish defense articles of any kind to nations whose defense he deemed vital to our own security, without requiring repayment in any strict sense, Any direct or indirect benefit to the United States was regarded as an adequate basis for making the transfer. Some of the items supplied, such as ships, <sup>were</sup> returned to us after the war; in some cases, cash settlements were effected to cover a relatively small part of the items transferred. Our allies reciprocated as far as possible by furnishing our forces "reverse" lend-lease. These reciprocal transfers became an important part of the total program which was based essentially on the concept of mutual aid in a common defense effort.

Although the lend-lease program was administered by a new ad hoc government agency, Treasury was responsible for the procurement of a number of important classes of materials transferred under the program. Treasury also participated in the financial arrangements relating to lend-lease, including the ultimate settlement of the lend-lease accounts. Treasury may take some pride in the fact that the lend-lease idea was first proposed in that department. It will be of interest to this audience to recall the statement made by the late Mr. Stettinius, in his book, "Lend-Lease, Weapon for Victory," that the Treasury lawyers derived the lend-lease idea from an old statute of 1892 which authorized the Secretary of War "when in his discretion it will be to the public good" to lease Army property "not required for public use" for a period of not longer than five years. Under this statute, various army items such as tractors, cranes and barges had been leased from time to time. Under the lend-lease Act the principle was extended and modified so as to make it possible to supply weapons to our allies. The Mutual Defense Assistance Program under which we are now providing military assistance to friendly nations to strengthen the free world against armed aggression represents a further development of the lend-lease concept.

Treasury's wartime activities included the operation of the Foreign Funds Control. As soon as the so called "phony" war was ended by the German invasion of Norway and Denmark in April 1940, the Treasury blocked the assets in the United States of the countries which were overrun. By the middle of 1941 this blocking action extended to all the countries of continental Europe as well as to China and Japan. This action was designed to prevent the Germans and Japanese from making use of the assets in this country which rightfully belonged to persons in invaded areas. These blocked assets could not be utilized without a license. The existence

of this control deprived the Axis countries of much of the incentive to use force and duress to make foreign owners of American assets assign them to the invading powers.

Besides preserving the relatively large assets of the citizens of the overrun countries, the blocking action immobilized the funds in this country -- a substantially smaller total -- which belonged to the Axis powers. The Treasury controls prevented enemy countries using transactions through American banks and financial institutions, even indirectly, for the furtherance of their ends. By means of the licensing system we exercised controls over various enterprises, including plants which were owned or controlled from Germany and Japan, and made these enterprises work in the interest of this country rather than for our enemies. The Treasury controls also had extra-territorial effects and, in coordination with similar controls exercised by our allies, helped disrupt enemy activities in Latin America and other countries outside the field of conflict.

A phase of the Foreign Funds Control worth mentioning was its extension to our overseas territories. For example, the Treasury sent members of its staff to the Philippines to supervise the blocking of the extensive Japanese assets in the Islands. At the outbreak of war this staff took custody of Japanese assets. Philippine financial institutions were invited to deposit their dollar and peso currency with the American authorities in order to prevent its capture. When the defense of the Philippines became hopeless the currency was burned to make sure that the Japanese would not get it. We shipped Philippine gold holdings out of the country and dumped considerable amounts of silver in the harbor. Work of this nature involved risks for the Treasury people engaged in it, and several of them were in fact captured and interned by the Japanese.

The military planning of our armies for the liberation of countries which had been overrun by the enemy had to be accompanied by plans for restoring the economic and financial systems of the liberated countries. One financial problem with which Treasury was much concerned was the provision of a suitable local currency. We could not count on being able to get this on the spot, since we might find local banks destroyed or unusable because of the questionable loyalty of their management. Local currency would be needed which our troops could spend individually and which the Army could use to purchase local supplies and to pay local civilians who might have to be put to work. It would obviously be much easier to hire laborers to unload ships and do other essential jobs if we could pay them cash at the end of each day, rather than give them receipts promising payment at some future time.

Our first invading Armies carried with them spearhead currencies which they could use until local currencies or supplementary military currencies could be provided. In North Africa we used as a spearhead

currency yellow seal dollars which were simply United States silver certificates on which the seal had been printed in yellow rather than in blue. The yellow seal was to enable us to segregate the currency if we were driven from North Africa. It also made it possible to distinguish this currency from the regular United States currency which we found in circulation when we arrived.

The use of the yellow seal dollar as an invasion currency soon gave way to the use of local currencies. These local currencies, unlike the yellow seal dollars, were not obligations of the United States. Under international law a friendly force trying to liberate the territory of a friendly power from an occupying enemy may validly expect that power to render all practicable assistance. A good case could, therefore, have been made for requiring the governments of the liberated countries to provide all local currencies and credit needed by the allied forces. We decided, however, to make certain reimbursements to these governments.

When local currencies were supplied to United States forces for military expenditures the relevant military appropriation was charged for the dollar equivalent in the United States. The rate of exchange for the local currency was established by the United States in liberated areas by agreement with the local authorities. In this way the local currency expenditures of the military forces were not a net addition to but a part of the expenditures authorized by Congress, so that in this way Congress maintained its control over the expenditures of the United States military forces.

During the war, despite the demands of immediate war-time problems, the United States, in conjunction with its allies, turned its attention to the great problems of reconstruction and development which would have to be faced after the war. It was recognized that these problems could not be successfully met without a high degree of international cooperation. It was also recognized that the United States would have to play a much more important role in the reconstruction program after World War II than it had done following the first world war. The Treasury took the lead in this country in the formulation of plans for the establishment of post-war, international financial institutions and took a major part in the work of the Bretton Woods Conference in 1944. As you all know, this conference resulted in an agreement to set up the International Monetary Fund and the International Bank for Reconstruction and Development, institutions to be owned and controlled by the member nations as a joint venture.

I suppose that members of the Bar more than any other group have a sympathetic understanding and appreciation of the tremendous difficulties, both technical and otherwise, which had to be overcome before the representatives of the 44 nations who assembled at Bretton Woods could be persuaded to agree on a precise form that post-war monetary cooperation should take. However, an agreement was achieved and the United States accepted membership in the Fund and Bank after

being authorized so to do by the Congress in the Bretton Woods Agreement Act of July 1945.

The fundamental purpose for which both institutions were established was to facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members.

It would take me too far afield to discuss at any length the functions and operations of the Bank and Fund. Suffice it to say that, due to the uncertain economic and political conditions which have prevailed since the war, neither the Fund nor the Bank has made as great a contribution as it would have been capable of making in more normal times. This is not to imply that the contribution they have thus far made has not been an important one. Both institutions have provided extensive and effective machinery for consultation and have built up an extremely useful store of technical information to which many members are turning more and more for guidance in planning for increased productive capacity and the attainment of more stable economies. In addition the Bank has thus far authorized loans for productive purposes to fifteen member countries totaling over \$800 million.

A feature of the Bretton Woods Agreements Act of special importance to Treasury was its provision for the establishment of the National Advisory Council on International Monetary and Financial Problems. The Council was directed to coordinate the policies and operations in the field of international finance of all agencies of the Government and also of the representatives of the United States in the Fund and the Bank. The Secretary of the Treasury is the Chairman of the Council, the other members being the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Governors of the Export-Import Bank, and the Administrator for Economic Cooperation. The Treasury provides the Secretariat for the Council as well as the Chairman, and much of the work of the Treasury in recent years in relation to problems of international finance has been closely related to the activities of the Council. The Treasury takes a leading part in the activities of the inter-agency working groups and committees which prepare reports, sift issues, and make recommendations on international financial problems for action by the Council.

Because of the importance of the international financial interests of the United States, the Treasury maintains financial experts abroad in a few foreign capitals. These men are representatives of the Secretary of the Treasury, and, in addition, act as financial advisers to U.S. Ambassadors and occupation authorities. In countries in which there are ECA Missions, the Treasury representatives also act as financial advisers to the Mission Chiefs. The Treasury representatives abroad maintain close liaison with the local treasuries or ministries of finance on international financial matters of concern to the United States, and assume key roles in our foreign financial negotiations.

The relationships between representatives abroad and the local treasuries supplement the direct contacts continuously maintained in Washington between the Treasury and financial representatives of foreign governments.

My aim in this talk has simply been to give you the highlights of some of the important problems of international finance with which, in recent years, Treasury has been actively concerned. The problems of this nature which face us to-day are many and complex. New difficulties arise as we endeavor to continue aid to the free world and at the same time expand our own defense program and our military assistance to friendly countries.

May I, in conclusion, express my great pleasure at being here to-night and take this opportunity to extend to the Virginia Bar Association and its members my best wishes.

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