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ECONOMIC WARFARE MEASURES

21 October 1947

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COLONEL CLABAUGH: Let's begin with a definition of economic warfare. Let's have no mistake about what we mean by the term. It was a new term in the late war and was bandied about freely in this country--not always with a correct understanding of what it had come to mean. Among those who didn't know the meaning of "economic warfare" was the Chairman of our Board of Economic Warfare, Henry A. Wallace. He thought it meant stockpiling.

Now so far as the literal and figurative meaning of the words is concerned, the term "economic warfare" could have been applied to economic mobilization for war or to production or even to commercial rivalry in peace. But custom and usage make language as well as law. Long before we entered the war in fact, before the outbreak of war in Europe, economic warfare had come to mean the economic strangulation of the enemy--blockade, literally, by ships at sea and figuratively, by diplomatic and economic measures. "Economic warfare" should be used only in the special meaning given it by custom and usage. And what is that meaning? Briefly, it is "the sum of all those measures which injure the enemy's war potential."

War has been defined as the use of force to break the enemy's will and power to resist. The greatest single element in his power to resist is his capacity to keep his armies in the field--to provide them with arms and ammunition, clothing, food, and transport. This is his economic war potential. And to injure and cripple that economic war potential is the object of economic warfare. It is offensive warfare.

Economic warfare is an extension of the blockade to a stoppage of enemy supplies at the source, if possible. "From the seas to the quays" was a slogan of the British Ministry of Economic Warfare. Control of exports by the Dominions and friendly neutrals, war trade agreements with neutrals and, where necessary and feasible, preclusive buying--all of these to stop the goods at the source. If this failed, the EW sought to prevent the trading for them by blacklisting suspect traders, by financial pressures, and by a close watch on enemy transactions. But if the goods were produced and if they were traded for, then they sought--by control of bunkering, ships' stores, repair facilities and marine insurance--to prevent their transport. But if they were produced and if they were traded for and if they started on their way, the Navy sought to intercept the un-nervecerted ship, the Army and the Air Force to attack the transport of such strategic materials as did get through or to bomb the factories that supplied substitutes. The sum of these and related measures is "economic warfare." Of course all of these measures are carried on concurrently as a general dragnet or general blockade. But they are also applied in a planned campaign as to particular areas, or particular commodities

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or particular individuals. These measures are applied by various arms and agencies--the Foreign Office in the case of the U. K. or the State Department in the U. S.,--the Treasury, the Army, the Navy, the Air Force, and other agencies, but the intelligence on which they are based, the economic strategy which they represent, the plans for their application, the supervision of their execution, the close watch on the constantly changing situation as to particular commodities, areas, individuals--these are the responsibility of an economic warfare agency.

Economic warfare is not new but some of its methods are. Will Rogers, I think it was, once said that, contrary to popular impression, the saxophone was not new, but that it was only recently we had adapted our dancing to fit it. Economic warfare is not new but only recently have we adapted measures to fit it.

Writers and speakers on economic warfare are fond of quoting Queen Elizabeth's proclamation of 1601. After recounting the perfidies of the Spaniards and pointing out that they were dependent on neutral supplies to carry on the war, the Queen proclaimed:

"the stopping, hindrance and impeaching of all commerce and traffick with him in his territories of Spain and Portugall will quickly, in likelihood, give an end to these bloudie and unnaturall warres, which disturb the generall peace and quiet of all these parts of Christendome"

Note the spelling: "bloudie," "generall," "warres." The English always were bad spellers. They put an extra "i" in aluminum and make it aluminium, and spell "labour" with a superfluous "u", and many others.

In most of the wars since that time the blockade has been employed. Napoleon in 1806 sought to destroy British industry and commerce by closing the ports of Europe to British trade. In the American war between the States the South's trade with Britain was shut off by the northern blockade.

For centuries Britain, as a great maritime power, has relied on the blockade as the backbone of her strategy. The United States has been the great advocate of freedom of the seas. In both world wars, before our entry into them, we protested vigorously against the interference without rights as neutrals by both belligerents. But our ultimate participation in blockade and economic warfare amounts to a renunciation of our former position. The legal evolution from blockade, the law of contraband and prize courts to navicerts, ships' warrants, and other pressures on neutrals is an interesting story, but another story. The concept of neutrality, in fact, is inconsistent with the concept of collective responsibility for the preservation of the peace.

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In World War I, Britain immediately created the Ministry of Blockade. It was August 1917 after our entry into the war in April before we created the Exports Administration Board. Remember this sequence. I will have more to say about it later. It was October before we established the War Trade Board and February 1918 before we put all exports and imports under license; and May 1918, four years after the outbreak of the war in Europe and more than a year after our entry, before the Allied Blockade Committee was set up in London. Finally, after the need and opportunity had largely passed, we had staffed a great lumbering bureau of thousands of employees, in that war as we did in the recent one.

In the recent war, the evolution from neutrality and an insistence on our rights as neutrals, successively through "cash-and-carry," "lend-to-Britain," and "lend-lease," before our participation in the war as a belligerent, resulted in our setting up an export licensing system in July 1940, nearly 18 months before Pearl Harbor. While this was in part to conserve materials for defense, the language of the statute "in the interest of national defense" could be broadly interpreted to include denial of exports to potential enemies and, indeed, economic warfare considerations or economic sanctions frequently controlled our decisions.

It should be a matter of pride to you who are soon to be graduates of this institution to know that your alma mater was, I believe, the first agency of the Government to recognize the need for study and preparation for economic warfare. The Army Industrial College established an Economic Warfare Division in 1940. This unit was later transferred to the Administration of Export Control with the understanding that it would be returned to the College at the end of the emergency. Two members of the unit--Colonel McKenzie and Mr. Haklason--are still living and still with the Industrial College!

The Administration of Export Control immediately began making plans for economic warfare and dispatched an officer to London in March 1941 as a liaison with the Ministry of Economic Warfare. A confidential list of certain undesirable consignees was prepared, which list was the nucleus of the "Proclaimed List of Certain Blocked Nationals," issued first in July 1941. Comprehensive economic warfare plans were made to be implemented in the event of war. However, in July 1941, the Economic Defense Board was established, and in September of that year the duties of the Administrator of Export Control were transferred to the Office of Exports of the Economic Defense Board. The interest and emphasis of the Economic Defense Board was on foreign procurement and stockpiling especially from Latin America.

On the outbreak of war, the Economic Defense Board changed its name to the Board of Economic Warfare but did little else at the time

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in the direction of economic warfare. with the difficulties of that organization, including the Wallace-Jones feud, the final abolition of the Board, and the creation of the Foreign Economic Administration, you are somewhat familiar. A large Economic Warfare Division of the American Embassy in London was established in 1942 and the Blockade Division of the FEA was organized and functioned effectively although the greatest opportunities had passed.

For an account of the work of this division and indeed of the entire Allied Economic Warfare, I recommend to you the recently published book, "The Hidden Weapon" by Gordon and Dangerfield, former chiefs of the Blockade Division of FEA. It is an intensely interesting and essentially accurate and fair estimate of British and American economic warfare.

Now as to the principal measures of economic warfare. As indicated earlier, they are: blockade, export licensing, trade agreements, shipping controls, financial measures, blacklisting, preclusive buying and strategic bombing of economic targets. These of course are not all of the measures but most economic warfare activities would fall under one or the other of these headings. Remember economic warfare includes everything that will injure the enemy's economic potential. I recall one or two illustrations that might not fall within any of these classifications--one was dropping counterfeit ration cards in enemy territory to confound their ration system; another was buzzing big game herds to drive them from unfriendly to friendly areas. But such extracurricular activities are not too important.

Let's consider the major categories:

BLOCKADE

--Blockade, in the legal meaning and strict sense means the placing of a ship or ships outside an enemy port so that no vessel can enter or leave without being intercepted. It must be a close blockade, it must be adequate and effective, it must be declared. But blockade in the legal sense must not be confused with the interception of contraband. Great Britain did not declare a blockade in the recent war or in World War I.

There is the popular meaning of blockade, which is the interception of contraband. There has been an evolution there. Formerly, contraband was limited largely to munitions of war. Then there was a category of "conditional contraband," such things as might have been declared. In the concept of total war, all supplies for the enemy are regarded as contraband.

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Then there is the figurative meaning of blockade: the denial of materials to the enemy by any means--interception, pre-emptive buying, export licensing, blacklisting, control of shipping, financial controls, attack on industrial targets--in short, all measures for injuring the enemy's economy. In this broad and figurative meaning "blockade" is synonymous with "economic warfare."

EXPORT LICENSING.

Export licensing, along with trade agreements which it implements, is probably the most important. Denial to the enemy of goods originating in our own or allied territory or that of a friendly neutral can be exercised by export licensing.

Export licensing may be employed for:

a. Prohibiting export of commodities to destinations from which they may reach the enemy or make possible the release of similar goods to the enemy.

b. Precautionary purposes, that is, to prevent the accumulation of stocks of important deficiency commodities by potential enemies. (Which we will hope we are doing now.)

c. Purposes of Policy to bring pressure on the consignee country for political or economic warfare ends.

d. Conservation of supplies as in our case in 1940.

e. Another use, particularly employed by the U. K., is for exchange control. I do not mean the export control under the financial measures, but restricting exports to countries with soft currencies; countries that could not pay the U. K. either in dollars or in imports which were essential to the U. K. For instance, the U. K. prohibited export to Brazil, Chile, Peru, and Colombia without a license, because those countries could not pay for them with dollars or with exports which were indispensable to the U. K.

Licenses may be of various kinds--individual, general, bulk, or for a particular program.

The problems of export licensing by the British in the beginning of the war was simpler than for the U. S. being at war, they could prohibit the export of all goods to the enemy or certain dangerous destinations. Then they classified all goods in three categories, A, B, C. Goods in the "B" list were prohibited to be exported except to British Empire countries and goods on the "C" list could be exported anywhere except to the dangerous destinations which included the Far East and European neutrals.

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But the situation in the U. S. in 1940 was different. We were not at war. We could not classify destinations as enemy and neutral. We could put particular commodities under export control only by Presidential proclamation. So our system was very much more complicated than the British. Why we did not simplify it on our entry into the war, I do not know.

Many of the advantages of export licensing are obvious. Stoppage of goods from neutral sources destined for the enemy can be exercised by naval forces and the use of devices such as the navicert, ship warrant, and bunker control. This will delay or prevent their transport.

But in the case of goods originating in a belligerent's own territory or that of allies or friendly neutrals, export control can prevent their ever being shipped at all.

So it was that after the fall of France, with the enemy shore line vastly extended and available naval forces reduced, physical blockade and naval interception became impractical. It was then that the U. S. and the Dominions and some Western Hemisphere neutrals adopted export controls, the blockade was moved back from the seas to the quays, and the economic battle line was drawn between continents and hemispheres and economic warfare became total and global.

NEUTRAL TRADE AGREEMENTS.

The great problem was the five European neutrals--Spain, Portugal, Switzerland, Sweden, and Turkey.

Now let us consider the methods of dealing with them.

Trade agreements with neutrals.--William Penn defined a wise neutral as "one who uses both sides wisely," that is, to his own advantage. The story of the negotiation of war trade agreements and of transactions under them is a fascinating one, but within the limitations of this lecture, can only be suggested. The neutral always pleads his neutrality as a defense against threatened sanctions and as an excuse for denying concessions or demanding better terms. To quote a cynical observation it always costs more to buy a man of principle. The European trade agreements were definitely conditioned by the power position of belligerents and neutrals at the time and on the progress of the war. Britain had negotiated some reasonable agreements early in the war, but from the fall of France to the landing in North Africa, it was tough going for allied negotiators.

In negotiating trade agreements, the Allies sought, of course, to restrict the neutral's exports to the enemy--both re-exports and ex-

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port of indigenous products--and to secure for themselves needed imports of critical materials. The neutrals sought to secure imports from the Allies or navicerts for shipments from other neutrals. The trade agreements were usually for limited periods. And what with protests for violations, requests for amendment, and discussions as to new treaty and supply-purchase agreements, there was almost continuous negotiation.

After the navicert was made compulsory, in the absence of an agreement, the rations or quotas, or import figures, as they were more euphemistically called--it sounded less offensive than "ration" or "quotas" to the neutrals--were fixed by unilateral action. So far as practicable and necessary, rations were fixed below the level of normal trade and a little below the requirements of the neutral country, so that the shortage would give the importing country an interest in preventing re-export to the enemy. While other methods of control are effective as to individual cases, rationing is the most effective method of controlling the total imports of neutrals in wartime. While the rations were fixed arbitrarily they were subject to amendment by agreement. The quotas were fixed on a quarterly basis, and against the quotas were charged all navicerted shipments (in the case of shipments from other countries) and all export licenses (in the case of shipments from allied countries) until the quota was full. Then no more export licenses or navicerts could be issued until the next quarter, just like the use of ration stamps.

SHIPPING CONTROLS.

Now we will discuss the shipping controls. The principal devices in the control of shipping were the navicert, the ship navicert, and the ship warrant. These documents can best be explained by their texts as follows:

A navicert.--"So far as at present known, there is no objection on the part of H. M. Government in the United Kingdom to this consignment."

A ship navicert.--"It is hereby certified that all the items of cargo of this manifest have been passed for export." I will tell you more about the ship navicert in a moment.

A ship warrant.--"This warrant which is issued in respect of the vessel whose particulars are set out on Page 2, certifies that an undertaking has been given by the owners (or managers or time charterers) and accordingly the vessel shall have access to available commercial shipping facilities under British control. This warrant is subject to conditions on pages ___ of this warrant."

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But back of these brief documents is a formidable record of undertakings and a story of the run-king of international law since the days of the Declaration of Paris in 1856 and the Declaration of London in 1909. If the terms seem arbitrary and high-handed, they are still a civilized exercise of belligerent power. The British blockade, it is pointed out, contemplated denial of facilities, interception, detention and seizure of contraband cargo or guilty ships, and disposal by Prize Courts; while the German blockade contemplated sinking with or without warning and dropping of passengers and crews.

Keep these three documents in mind. They are the heart of the shipping control system. Navicerts are in essence commercial passports. It is interesting to note that the navicert was invented by the American Consul General in London during World War I; its purpose was to facilitate American exports during the period of neutrality. The British instituted the navicert device early in World War II, December 1939, and made it compulsory in July 1940. All un-navicerted ships and cargo vessels were subject to seizure.

The ship navicert, as its text indicates, was given when all the items of the manifest had been navicerted. It permitted a ship to make a single voyage through naval controls. It provided a description of the ship and its proposed itinerary; a list of its officers, crew, and passengers; a description of its cargo, ship stores, mail, and money; an account of the source and destination, consignee and consignee. When an application for a ship's navicert was received, the crew and passenger lists were checked and a requirement made that objectionable persons be removed.

Try to keep these documents in mind. They are the new weapons of the blockade. A ship warrant entitled a ship to the use of British and Allied port facilities— bunkering, ship stores, repairs, etc. To receive a warrant, the owner agreed that no vessel owned or controlled or operated by him would sail to or from the navicert area without a ship navicert; that he would not sell or part with effective control of any vessel owned by him without the approval of the Ministry of War Transport, that he would not employ any enemy company for the purpose of obtaining insurance or any other facilities and many other agreements. In addition, fleet owners were required to charter to the Ministry of War Transport a portion of their fleets. All of this constituted the price which the British put on the port facilities which they owned or controlled. It is claimed for the ship warrant system that it is a purely commercial bargain and avoids all questions of international law or even of diplomatic discussion. It was the price which the British put on facilities which they controlled.

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ENEMY EXPORTS.

Now, briefly, a word about enemy exports. The purpose of blockade is not merely to stop the enemy's imports but his exports as well. It was important to disrupt his overseas trade, particularly in Latin America, and cut off his source of foreign exchange and the financing of his agents in this Hemisphere. This, too, was accomplished by paper controls, backed by shipping controls and naval interception of unauthorized shipments. Every export from one of the European neutrals had to be approved by the blockade authorities. If it was not of enemy origin, in whole or substantial part, and no enemy national or blacklisted person was interested, a "Certificate of Origin and Interest" would be issued. For some exports from enemy territory or exports which had more than the allowable "enemy content," but which the Allies for some reason wanted to permit to be exported, something they needed frequently from enemy territory, there was issued an "Export Pass," known as "Ex-pass."

FINANCIAL MEASURES.

We come now to the financial measures. The purpose of financial controls is to prevent the building up of enemy external financial assets, to destroy or immobilize such assets as do exist, and to withhold credit or exercise other financial pressures on persons suspected of trading with the enemy.

Our first economic warfare measure in World War II--or more properly an economic sanction since we were not at war--was the freezing of the assets of Norway and Denmark on 10 April 1940, the day after Germany invaded those countries. Of course the purpose of that was also to protect the innocent nationals of the invaded countries. In June and July, the freezing order was extended to the Axis countries and then to the neutrals, except Turkey.

In Britain as well as in the United States and the other Allied Countries, the financial operations were conducted largely by the Treasury through the banks, but with a financial unit in the SW and in FIA to co-ordinate financial measures with other economic warfare activities.

The great problem of administering the financial controls and the black lists was to detect the "cloaks" which enemy subjects and guilty collaborators used. Switzerland was the great haven for many of the cloaks. There were over 2,000 international financial corporations registered there by 1939, with total capital assets of nearly 4 billion Swiss francs. This little country was among the first five nations of the world in the size of its assets which it claimed in the United States, amounting to 1.4 billion dollars. Gordon and

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Dangerfield in their book, "The hidden weapon," say "The Swiss bankers have an unrivalled reputation for keeping the secrets of their clients, whoever they may be--and the reputation is deserved. The Swiss bank secrecy law made it a crime for any banking institution to reveal to anyone, even the Swiss Government, any banking or commercial information considered confidential. Moreover, the Swiss developed a system of omnibus accounts using numbers and initials to indicate different undisclosed owners." But the Swiss were not the only refuge of the financial cloak and dagger boys. Other neutrals and the occupied countries had their share.

Closely related to the unclocking of assets during the war was the Safehaven program. The Nazis in anticipation of defeat, had sought to put much of their loot out of the reach of the Allies, as they did after World War I as a nucleus for another try at world domination.

BLACKLISTING.

One of the most powerful weapons of economic warfare was the black list--the "Statutory List" it was known as in the U. K. and the "Proclaimed List of Certain Blocked Nationals" in this country. The latter was issued under the authority of the old Trading with the Enemy Act of 1917. The first list was issued in July 1941. The British list had been issued on the outbreak of war in 1939. Our first list contained 1834 names. Our list and the British list were closely coordinated and reached a high of over 15,000 names, then declined to about a third of that before they were abolished in July 1946.

These lists consisted of persons suspected of trading or collaboration with the enemy. They became "untouchables." No American or Briton could deal with them in any way. Their property was subject to seizure if it came within Allied control. Neither they nor their goods nor their correspondence could pass through Allied controls. These lists consisted mainly of Axis nationals or agents located outside enemy territory. In the case of the British list they were mostly in the European neutral countries. In the case of the U. S. list they were principally in Latin America. Names on the American list were automatically added to the British list, but names on the British list were not added to our list until after our entry into the war. Our list was originally a matter of hemisphere defense.

There was serious question about the legality of the black list and it has been bitterly attacked in some quarters, but it was an effective measure although it may have done some violence to "due process."

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PRECLUSIVE BUYING

All of the resources we have talked about thus far were used in some form in the First World War. Preclusive buying was not used in that war and, in some cases, we would probably be better off if we hadn't used it in the late war.

The British as you would expect were more conservative in their preclusive--or as they called it pre-emptive--buying than we were.

With us, it was a happy hunting ground for the spenders--all the thrill of an auction, all the excitement of a sale, no matter the expense of the tax-payer. But even the British may doubt the value of their more conservative program. Take, for instance, their pre-emptive purchase of German-type ball bearings from SKF in Sweden. Their purpose was to monopolize the SKF capacity for the type of bearing, which the Germans were using, but their purpose failed principally because SKF had built new facilities for making just that type of bearing.

Preclusive buying, frequently, in fact usually, serves to increase production. Take the wolfram campaign in Portugal, for instance. Portuguese wolfram had averaged 11,444 a ton in August 1940. By October 1941, it was 20,000 a ton. That's a lot of cascades and pose-tas. The result was that every mother's son and many of the mothers, who could wield a pick and shovel, were out picking at the outerop,

But the prize for lack of imagination and foresight goes to the rabbit-skin program. We would buy all the rabbit skins so the German soldiers and damn on wouldn't have their warm furs. Fortunately, we saw the error of trying to keep up with the prepotent productivity of the rabbit and soon abandoned the race.

STRATEGIC BOMBING.

We come to the strategic bombing, or, more properly, the selection of economic targets for strategic bombing.

I hate to introduce this vast and controversial subject and dismiss it with a sentence. I do so for the sole purpose of defining its place in economic warfare and showing the role of the economic warfare agency in relation to it. The Ministry of Economic Warfare in the U. K. selected the desirable economic targets and designated them for the R.A.F., but the R.A.F. made the final selection and timing in the light of operational factors. In the U. S. apparently every agency of the Government was selecting strategic bombing targets. As you can realize, the bombing of economic targets is definitely a part of an economic warfare campaign.

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ECONOMIC WARFARE INTELLIGENCE.

A word about economic warfare intelligence. You are familiar with the open sources in peacetime. Some of these are useful in wartime. Among the most valuable current sources in wartime are intercepted messages (called intercepts), censorship gleanings, monitoring of broadcasts, foreign language press, foreign refugees, neutral travelers, and prisoners of war.

The British had a scientific laboratory at Cairo, I believe, not unlike some of the FBI equipment and using similar techniques by which they could tell the source of materials, of the natural fibers, of synthetic fibers in the case of clothing and uniforms, and the metallurgy of arms and equipment. Then they could know what shortages were pressing them and what substitutes they were using.

This was important in disclosing their substitutes. The British say they did not overestimate the effectiveness of their economic warfare measures in the war, but they did underestimate the enemy's resourcefulness in the adoption of substitutes. It is necessary to discover these substitutes as soon as possible and shift the attack to them.

Speaking of intelligence, visualize if you can the Central Office in the Ministry of Economic Warfare, with these intercepted messages coming in, with extracts from the censorship, with information from the consular representatives, with interviews with prisoners of war and refugees, all coming in to a unit working 24 hours a day. The information was manifolded and sent to the interested divisions of the Ministry with an action copy to one and appropriate action was taken.

The Ministry of Economic Warfare and the Economic Warfare Agency in this country does not act through its own forces. It calls on various agencies of the Government--the Treasury, the Army, Navy, and Air Force, and other agencies--but the Economic Warfare Agency makes the decisions.

A comparison of the British and American organizations may be helpful. Great Britain has led in the study and development of the techniques of the blockade and of economic warfare. Economic warfare has been her strategy, historically and traditionally. The role of economic warfare in the grand strategy had been studied in the Imperial Defence College from 1926 to the outbreak of the war. The British Handbook of Economic Warfare is a model for intelligent planning. And unlike ourselves they implemented their plans of a-day. The draft legislation in the Handbook was enacted on 2 September 1939 without a change and the Ministry of Economic Warfare sprang into being and into action. It would be difficult to conceive of a better example of wise planning.

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and able administration--public or private--than that offered by the Ministry of Economic Warfare. I regard it as a case history to the Organization and Administration Division, Colonel Neils.

You may want to note that, organization-wise, Britain made no distinction between domestic and foreign procurement. They were both handled by the supply ministries. In the U. S. we handled foreign procurement both for our own supply and for procluse buying in the same agency. In other words they drew the jurisdictional line between their own supply and blockade of the enemy. We drew it between our domestic and foreign operations, regardless of whether our procurement was for our own requirements or to proclude the enemy from procuring it.

It was not unnatural for us to link our own supply and enemy blockade in one organization, that is, to group together all our foreign economic operations and to draw the jurisdictional line between domestic and foreign operations. It was equally natural for the British to ignore the distinction between the foreign and domestic nature of operations and draw the line between their own supply and denial of the enemy.

This difference in approach reflects the difference in the economies and foreign relations of the two nations and their respective roles in the war: Britain, the sea power, thinking in terms of blockade of the enemy; Britain, the world trader, whose foreign trade is so definitely a part of Britain's domestic life. Whereas we in the U. S., were nearly self-sufficient, think of foreign trade as something apart from our normal daily lives, and of foreign trade in wartime as a means of stockpiling and supplying our deficiencies.

THE LESSON LEARNED.

Now, in conclusion what is the lesson of our experience in economic warfare?

I conceive it to be this. The urgency--the necessity--of our creating now an economic warfare planning organization and the nucleus of an economic warfare agency, one that could be activated immediately in an emergency. It should include draft legislation, executive orders, and procedures to be followed during the period of threatened hostilities, in the outbreak of war and after the outbreak of war.

The delay in world War I and in World War II, in setting our economic warfare organization, which I have pointed out, should be object lessons. The great opportunity for economic warfare or economic sanctions is in the period preceding the outbreak of war and in the early days of the war.

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And here are some facts which prove that: In the first 9 months of 1941, Japan, Germany, and Italy bought 54 percent of Argentina's export of tungsten and in the first 8 months of 1941, bought a considerable proportion of the following Brazilian exports: 28.7 percent of her quartz crystal, 45.9 percent of beryllium, 60.8 percent of mica, 36.7 percent of diamonds, 29.7 percent of titanium.

In May 1941, I saw an intercepted message wherein Mitsui or Mitsubishi--I forget which--were offering Berlin 10,000 tons of Philippine chromite ore for shipment over the trans-Siberian Railway.

In 1941, the "Lata" Airlines (the Italian transatlantic line) were flying regularly between Brazil and Italy, carrying industrial diamonds, quartz crystal, strategic minerals, and enemy agents. They were flying by courtesy of American tetraethyl lead. And more than that, they were spotting our convoys and notifying German submarines. As a result, at the height of the German submarine campaign a majority of our sinkings occurred I believe in the South Atlantic although there was heavier traffic at the time over the Northern route. Therefore, at a time when we were giving all aid to Britain and building a bridge of ships across the Atlantic, and suffering severe losses, effective economic warfare could have greatly reduced these losses.

So far as I know, or have been able to learn, no agency of the Government is now making any integrated economic warfare plans, and no agency is charged with that responsibility. But I hope there may be. Thank you.

Now I am at your mercy for questions.

GENERAL DISCUSSION.

QUESTION: During the war we used to get directives from an organization called the Combined Chiefs of Staff. So far as I know, they limited themselves to strategy and high policies. They had a great effect on the war. As a matter of fact, I am certain that the spirit of cooperation between the British and American forces was due, at least in part, to the mutual effort necessary to understand and implement the directives of the Combined Chiefs of Staff. Now was there such an international coordinating directive body to guide our efforts in economic warfare similar to the Combined Chiefs of Staff in Washington, or did the Combined Chiefs of Staff establish that field?

COLONEL CLABAUGH: There was allied coordination both in world war I and world war II. There was the Allied Blockade Committee in world war I but it was not set up until 1918. In world war II there were allied committees, combined committees, sitting in London. We

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built up a considerable unit in the American Embassy in London known as the Economic Warfare Division. But, there again, that did not come until well into 1942 after much of the opportunity for economic warfare had passed.

The importance of allied cooperation in economic warfare, I think, is perhaps greater than it is in military, naval, and air warfare because, in the strictly military warfare, objectives and factors and methods controlling operations vary in different areas; whereas, in economic warfare the objective is the strangulation of the enemy. It is the same materials that you are trying to stop coming from the same areas. It is the same ships to be navicerted or intercepted. It is the same people to be black-listed. So that the necessity for not only a coordination but an actual unity of economic warfare operations among allies, I think, is essential.

QUESTION: The matter of intelligence is one that I think is important, from what you have said. Is there any economic warfare intelligence agency now operating for the United States? If not, can you give us some idea of what we could learn from the British experience, particularly with respect to timing it ahead of time?

COLONEL CLARKE: Well, I assume the Central Intelligence Agency will have over-all supervision of our economic intelligence in peacetime. As you know, much of the advanced intelligence comes from open sources. In wartime, as I suggested, it comes from current sources and there is the necessity for immediate action. There is no time to lose in intercepting a ship and in taking other economic measures.

I was impressed in the British Ministry, as I indicated, with their central intelligence group in the Ministry of Economic Warfare. Everything that was caught by the censors at Berrum and the other control stations, everything that the Admiralty intercepted, the code messages they were able to decipher, or messages in the clear, all of these were sent to the Ministry of Economic Warfare and matched up immediately with whatever other information they had and appropriate action taken. There was not the delay of transmittal and conference and coordination, individually, with all of the other agencies.

QUESTION: Was it apparent that the British had a long-range plan for economic warfare, based on a long period of intelligence experience?

COLONEL CLARKE: They did, and the intelligence activities were part of the plan in the "Handbook of Economic Warfare."

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COLONEL McARTHUR: Colonel Clabaugh, would you be kind enough to give us a few more details on the matter of selecting individuals or firms to be put on the blacklist?

COLONEL CLABAUGH: Yes, sir. The first nomination might come from any branch of the Ministry or any agency of the government. It would be based on intelligence, intercepted message, or other sources that made the party suspect, followed by careful investigation. That information with supporting evidence, was then passed around to the members of the Blacklist Committee and he was voted on very much in the manner of members to the country club.

I recall sitting in a Blacklist Committee one day and seeing a memorandum, referring to a particular Spanish name, which concluded with, "This man is a member of one of the oldest and most powerful families of Spain. I consider him eminently qualified for the most select list and unqualifiedly endorse him." So, you see, there was a little humor in the nomination and election of these members.

Of course the penalty of coming on the blacklist was severe. In the book to which I have already referred, the authors tell the story of an eminent Swiss, Dr. Hans Sulzer, who is head of the firm of Sulzer Brothers, makers of Diesel engines and other equipment. He had professed to be pro-ally, but they had reason to resent his actions and threatened him with the blacklist. He defied them. He was very powerful in the Swiss Government. The Swiss Government passed a law making it illegal for him to do the things that the allies were demanding. The allies called his bluff and put him on the blacklist. I think he went to London and promised to be a good boy. A new treaty was negotiated with the Swiss and his name was removed from the blacklist.

That illustration, I hope, answers your question.

STUDENT: Yes, sir.

QUESTION: Colonel, would you elaborate further on the use of the submarine in economic warfare. It seems to me that that is not strictly in the category of a blockade but is similar, somewhat, to strategic bombing, except it does not go to the source. If I am not mistaken, our submarine warfare had a good deal to do with the economic warfare in the Pacific. Is that correct, or not?

COLONEL CLABAUGH: Your point is well taken. Of course, submarine warfare was the basis of Germany's economic warfare against the allies. You are quite right. The use of our submarines in the Pacific was very definitely economic warfare.

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QUESTION: In any future war, couldn't you expect bacteriological warfare to be one of the important aspects of economic warfare?

COLONEL CLABAUGH: No: I would not say that bacteriological warfare would be a phase of economic warfare. But the demand of bacteriological agents and supplies to the enemy would be economic warfare.

QUESTION: For example, I mean so far as it relates to the destruction of crops--in the same category as bombing.

COLONEL CLABAUGH: In the broadest sense, that would be economic warfare because it would be seeking to cripple the enemy's economic potential.

QUESTION: You have stated that no agency of the Government is at the present time charged with the responsibility of planning for economic warfare. You have expressed the hope that that might be done. Where in your opinion, should that responsibility be placed? Should it be assigned to the Department of National Defense or, say, to the Department of Commerce, or Department of State, or some other agency of the Government? Or do you think we should create another agency for that purpose?

COLONEL CLABAUGH: Well, in peacetime the various agencies of the Government will have their several plans. The State Department is the agency charged with responsibility for our foreign relations in peacetime. The Treasury is considering financial controls and blacklisting; Justice Department, controls; Commerce Department, trade agreements.

Answering your question specifically as to where the responsibility for that should be, I would think that the National Security Council would probably be the agency of which the terms of reference are sufficiently broad to include that provision.

QUESTION: I take it, from the term "economic warfare," that the term "warfare" would refer to the applying of these factors prior to the beginning of war or immediately before, when war was threatening or imminent.

I also gather from your talk that the application of economic sanctions should be applied at the earliest practicable moment. And yet these means that you have demonstrated seem to be only those means that can be put in, in any great force, during wartime and not during the peacetime period. How can we best apply this during peacetime, in that early phase you mentioned?

COLONEL CLABAUGH: That is a good question.

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Of course it cannot, strictly speaking, be economic warfare in time of peace; but they are then economic sanctions. If a potential enemy is accumulating excessive stocks, we may seek to restrict or curtail our exports to that nation in order to make them available for another area where we have commitments in regard to reconstruction and rehabilitation, or for our own requirements. That suggests the need of continuing in some form during the period of emergency or readjustment, such as we are in now, some of our controls, or providing for the inauguration of a system of export controls in time of emergency.

Economic sanctions may actually prevent a war. But an economic sanction is like a threat: You had better be prepared to back it up, as in the case of an ultimatum. You may, by economic sanctions, stop an aggressor or strangle a potential enemy and bring him to terms, but when you choke a man you have to make a good job of the choking, or he will fight back. The consideration of economic sanctions flows into and merges into the consideration of economic warfare to follow.

QUESTION: For example, you said Germany and Italy procured a lot of important materials in South America. Yet they were our potential enemies. Now how could that be prevented? The dealings, in all probability, were between Germany and Brazil or Bolivia.

COLONEL CLAUDAUGH: The question of foreign policy negotiation with the neutrals, granting concessions to them on security agreements from them, was the delicate problem that confronted our Government during that time. But it does not minimize the importance and the desirability of attempting to do something about it.

QUESTION: Where does this fit into the Mobilization Plan? You said the best time for this to operate is prior to a war and immediately thereafter. We know the 1939 Mobilization Plan apparently never was actually used--the one that was set up by the Army. Is this part of a mobilization plan that is operated by the military, or is this a plan that must be put forth by civilian agency of the Government and carried through to the point where it becomes a military operation?

COLONEL CLAUDAUGH: Both the British "Handbook of Economic Warfare" and President Roosevelt's message at the time of instituting export controls stated that they were essentially military functions. But, as are many other phases of the war effort, they represent a coordination and actually an integration in the economic warfare agency of both military and civilian agencies of the Government.

As to whether or not it is a part of our Economic Mobilization Plan, we think of economic mobilization as being part of our own effort in the war, not the denial or strangulation of the enemy's economic potential.

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QUESTION: During the war one heard a great deal about Russia re-exporting to Japan, as also was the case with the British re-exporting lend-lease materials to the Argentine.

Can you give us a few words on that? Do we have any sort of a check against Russia re-exporting our lend-lease material to Japan?

COLONEL CLABAUGH: I recall that early in 1941, when it was disclosed that certain of our lend-lease supplies had been re-exported, or had been incorporated as components into manufactured articles which were exported by the U. K., Mr. Harriman, who was in London at the time, took the matter up with the British. Such instances as had occurred up to that time, I think, were inadvertent and were corrected.

However, it later became apparent that there would have to be some relaxation of the restriction as to transfer of lend-lease goods in the case of the U. K. because, otherwise, we would defeat the purpose of Lend-Lease, which was to aid their economy. I think there was some relaxation by a constant supervision and control.

Now in the case of Russia's acts at that time and subsequently, "your deponent sayeth not." He is not qualified to speak. I don't know.

QUESTION: The experience of economic warfare, to date, has been against the country which is largely dependent on raw materials. Would you say something about economic warfare against a country which is largely self-sufficient in raw materials?

COLONEL CLABAUGH: Your question points out an interesting fact. Economic warfare, I would say, is not limited to the denial of raw materials. These other measures can be invoked. No nation, however, is entirely self-sufficient as to raw materials. The economic warfare strategy, of course, would vary with the position of the enemy.

It is quite true that a nation which is largely self-sufficient as to raw materials is less vulnerable than one that is deficient in them. But even such a nation is vulnerable to other deficiencies; otherwise, he would be all-powerful.

QUESTION: I was reading in the "New York Times," Sunday, an article that covered the reduction in our exports to Russia in the last six months. I believe last month's exports were about 25 percent of what they were six months ago. Now this is economic warfare in some manner. What sort of control do we have in force covering our exports to Russia?

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COLONEL CLABAUGH: The Office of International Trade is still administering export licensing under an extension of the export licensing legislation enacted during the war. They would not necessarily be governed by economic warfare considerations. That would not necessarily amount to a sanction, but might be due to directed exports to other areas, as I said a moment ago, where we have commitments or to shortages which certainly exist in this country.

QUESTION: Well, this was quite notably economic warfare, according to the headlines. Is there any particular reason for hedging around that? Won't you agree that it was economic warfare?

COLONEL CLABAUGH: I would agree that a number of considerations, including economic sanctions, would be eminently justified.

CAPTAIN ROWLEY, USN: In connection with the Marshall Plan and the implementation of it possibly through a new agency of the Government (as some people have suggested), some of the means you have pointed out here for economic warfare might have a corollary in implementing the Marshall Plan--East against the West and the West against the East and against all people who don't play ball. Do you see any hookup or link between some of these measures for your purposes here, of economic warfare, and for the purpose of trying to retain one group of countries with you, as in the Marshall Plan goal?

COLONEL CLABAUGH: There is no clear and distinct line of demarcation at any time in the whole question of directed exports, and particularly in this time of critical adjustments. But I do not think it would be proper to call the implementation of the Marshall Plan economic warfare.

CAPTAIN ROWLEY, USN: No, I didn't mean that. I meant some of the ideas about quotas, rations, import and export controls.

There was an article, I believe in the paper last evening or this morning, about it. There seems to be a building of public acceptance of the idea that the imposition of over-all domestic controls may be a good thing, very shortly. Some of these same methods that were used and the types of organizations you had to keep track of them, and the means you had of keeping track of import and export figures among other countries seems to me to have somewhat of a corollary in any sort of Marshall Plan setup.

COLONEL CLABAUGH: When we get into the question of controls, domestic and international, we are opening up a controversial field in which we have two desiderata: one to promote free trade and free enterprise; and the other to institute the minimum of necessary controls to accomplish the desired objectives. That is the difficult course we have to steer.

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QUESTION: My question has to do with the selection of economic targets and strategic bombing. Has any conclusion been reached as to the relative desirability of attacking transportation targets as compared to industrial targets? Which is the more effective in straining the enemy's economy?

Yesterday morning, in the lecture about the U.S.S.R., it was brought out that their transportation system was relatively weak; it was a weak spot or a weak link in their economy. Hence my question, has any conclusion been reached from the studies of strategic bombing of enemy nations as to which was more effective, transportation or industrial targets?

COLONEL JENEAUGH: I think that would depend on all the facts as to any situation. I will give you an illustration: During the British economic warfare against Germany, they found that while, as they said, they had not overestimated the effectiveness of their economic warfare, their blockade, they had underestimated the resourcefulness of the Germans in developing substitutes. So then they shifted the attack, for a time, to transport, to attacking transport in Germany. However, transport is not as vulnerable to strategic bombing as is industrial production, in the opinion of some people. It is only in the case of bridges and things like that, that cannot readily be repaired, where the effect is crippling to the enemy.

Are there any other questions? (No response.) If not, thank you very much.

(28 October 1947--450)S/sr

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