THE DEVELOPMENT OF ECONOMIC WARFARE AS AN AMERICAN POLICY

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GENERAL DISCUSSION 9

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OUTLINE CHART
(Referred to at various places in lecture)

DEVELOPMENT OF ECONOMIC WARFARE AS AN AMERICAN POLICY

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THE DEVELOPMENT OF ECONOMIC WARFARE AS AN AMERICAN POLICY

20 March 1950

DR. WILLIAMS: General Bull, General Vanaman, and gentlemen: There is some advantage in getting up here without an introduction because it leads one to believe he may talk anonymously on the subject. Sometimes anonymity is quite an advantage. There was a young fellow who was appointed to the faculty of a small college--after he had taught there two or three weeks, they had an afternoon reception for the new members. He was having a fine time, talking in big terms. He met a very attractive woman and she asked him how he liked the college. Oh, it was partly good and partly bad. The professors were a hard-working crew; but the administration wasn't so good. He thought possibly that the president of the college didn't know what it was all about. She said, "Do you know who I am?" He said, "No." "Well, I am the wife of the president of the college." Taken somewhat aback, he said, "Do you know who I am?" She said "No." He said, "Thank God for that, good afternoon Madam."

The subject of economic warfare is important as a chief technique in the waging of warfare, particularly as the emphasis upon economics in war is rising. But, more than that, it is one aspect of a great revolution in American foreign policy. And in addition, it provides some evidence of the kind of world in which we live. We have come out of the peace and quiet of the latter part of the nineteenth century to be drawn into the vortex of a very grim rivalry in force politics. The old situation, in which we could sit on the side lines and watch European wars at a distance, at least for a period during each war, is gone. We have shifted over from a position of isolation and neutrality to one in which we regard economic warfare as our normal policy.

Now, after that opening barrage of ambiguities and generalities, let us get down to the subject. Economic warfare, as it will be defined here for the purposes of this talk, consists in various measures used to reduce the enemy's economic support of his war effort, or, in times of peace, to prevent the using of our resources to build up the economic potential of a possible enemy.

There are two or three points to be made with regard to that definition. In the first place, economic warfare consists of various measures used to reduce the enemy's economy. Those measures are not all economic. Some of them are military. The adjective "economic" in the term "economic warfare" refers more to the objective than to the methods used. As you will see, we use aerial bombardment and naval interception along with various economic methods. In the second place, in relatively recent times economic warfare has flowed over into peacetime and consists of a differential policy--applying a course of action favorable to our possible friends while withholding favors from our potential enemies.

On page iii there is an outline chart which I have great hopes of following. It might serve as a screen for you to locate the lecturer at any given moment as he stumbles his way across the field.

The word "change," appears on the outline chart several times. It is in I, C and down in III, A. "Change" is a key word in this discussion. The changes that have come about are not trivial alterations of policy. They are revolutionary. They mean the throwing aside of old concepts which have been set forth by American statesmen for over a hundred years as principles of international law, universal in application.

We might stop for a moment to consider some of the birds and bees of diplomacy. Almost all countries adopt the technique, when seeking an immediate interest for themselves, of explaining it in terms of universal truth. I think probably that the British are the world's champions at this, due no doubt to their very high quality of diplomats and their facility in the use of language. But all countries use this technique in their international disputations and the United States is not very far behind any of them. A great principle, set up to explain the reason for an immediate advantage, may, however, be suddenly found inapplicable, therefore, we have to set up great principles on the other hand to explain a different and sometimes opposite objective.

The United States was born advocating the greatest possible latitude for neutral trade. It is true that we were a belligerent at birth in the War of American Independence, but we needed supplies which could be brought here only by neutral ships; therefore, it was to our advantage to ask that such ships be given every possible latitude in their trade.

There were two exceptions made to the freedom of neutrals that this country always conceded, (1) the right of a belligerent to interfere with neutral commerce through blockade and (2) the right to capture contraband. Blockade in those days consisted of stationing naval vessels outside a port of the enemy and preventing ships from going in or our. The law of contraband applied to articles particularly useful in war, such as arms, munitions, uniforms, military harness, and so on. These could be taken from a neutral vessel when en route to an enemy port. Of course there was a great deal of interpretation regarding both of these terms, the belligerents tending to expand and the neutrals to contract them.

After the War of American Independence came the European wars (wars of the French Revolution and Napoleonic Wars), which affected this country in 1793. We remained a neutral until 1812. These wars were a shot in the arm to the American economy. Our shipping was in great demand. Our shipyards were busy building ships to replace losses and increase the merchant marine. Our merchant marine tripled in tonnage during this period. Our foreign trade and our public revenues increased four times

between 1793 and the end of 1807, when the embargo reduced them. Our public debt was cut in half. It was really an era of prosperity. It was estimated that if a ship owner or merchant had three ships to send out and only one of them got through, he would make a profit on the venture.

Thomas Jefferson, who was Secretary of State at the beginning, set forth the policy of the country in rather broad terms. His statement was made during a dispute with the British regarding an American ship which had been seized while carrying corn to a French port. He said that in a war a neutral has the right--and this was according to reason and usage, as he put it--to conduct its agriculture and its industry and carry the products of its agriculture and industry to all parts of the world, neutral and belligerent alike. For the neutral the war should be as if it did not exist.

This policy of advocating the rights of the neutral continued from 1776 down to 1917 with the exception of one brief period. In the Civil War we were a belligerent and the British were neutral, and there our positions were transposed.

There is no use to go into the semantics of the discussions. The many terms used are of importance mainly to students of international law. They represent the focal points around which the discussions were waged. Such terms were employed as "blockade," "legal blockade," "paper blockade," "contraband," "conditional contraband," "noncontraband," "the Rule of 1756," "continuous voyage," "ultimate destination," and so on. Then any good lawyer could be relied upon to throw in some Latin, such as rebus sic stantibus or pacta sunt servanda, to confuse the issue further. Despite these terms, the main motivations were that the belligerent was trying to cut off the trade of neutral countries with its enemy while the neutral was trying to get as much trade as it could, not only to prevent the breakdown of his own economy, but possibly also to profit from the situation.

At the Second Hague Conference in 1907 the American delegation, acting under instructions from Washington, introduced a resolution that all private property on the high seas should be exempt from caputre, that is, both enemy property and neutral property. Of course, the two exemptions I mentioned before were admitted. The resolution didn't go through, but it showed the extreme position the United States was taking in the year 1907, when we were just upon the brink of a great change in our policy. So far as I know, nobody at the time could anticipate the impending change.

Now we come to World War I. In the first years of this war the United States quarreled with both Great Britain and Germany over interference with our commerce; but in 1917, when we entered the war, we accepted the whole British program of economic warfare and cooperated with them in administering it.

On the outline chart under I, C, there is an item called "Causes of Change." The reasons on first glance were merely that we had previously been a traditional neutral and had now become a belligerent. But beyond that the world was changing. As civilization develops, the ability of men to work together increases. Unified enterprises involving larger aggregates of men are possible. Units of administrative effort increase in size. This is true in industry, in government, and in the military system. Today it is possible for a large superstate, almost continental in proportions, more populous and far stronger than was the Roman Empire, to strike around the world with devastating effect.

Perhaps western civilization is moving into its "Time of Troubles," when giant states and combinations of states will contest with each other until one combination is able to organize the world. At any rate, it is no longer possible for a country, like the United States, to remain out of political controversies that are upsetting its security. So, from an isolated and neutral position, we have been drawn into the center of this struggle.

The methods of economic warfare in two world wars are set forth on the chart. I will go over them rapidly. The first is naval interception. On second thought I believe the term should be changed to read "interception of shipping," because there are means other than naval force, such as land-based aircraft, to accomplish this aim. This has been traditionally done by surface vessels, which capture enemy ships on the high seas and intercept neutral merchantmen bound for enemy ports or even for neutral ports if the goods can be transshipped from the neutral country to the enemy. During the two world wars there was an administrative device worked out for the control of commerce. Neutrals were rationed. Permissible cargoes were covered by papers such as naval certificates (navicerts).

Torpedo and bombing attacks are now used to sink or disable enemy shipping. During World War II the development of submarine warfare proceeded on a large scale. In that war we sank or disabled for the duration of the war almost nine million tons of Japanese shipping in the Pacific. The attacks were mainly carried out by submarines; but carrier-based aircraft, land-based aircraft, mines, and other means were used. It was a tremendous effort.

The heading in II, B is "Aerial Bombardment." If we have to change the wording of "A" we will have to change the wording of "B" to "Aerial Bombardment of Targets on Land." This became a major device in World War II. In the reports of the Strategic Bombing Survey there is much information on that point. The tonnage of bombs dropped on Germany rose until in the early months of 1945 when it reached 175,000 tons a month. Meanwhile German production was going down rapidly. It is not supposed that this decline was entirely due to aerial bombardment, but

we can reach no conclusion other than that aerial bombardment was one of the major causes of the fall in German armament production.

War trade agreements are agreements between a belligerent and a neutral for the purpose of inducing the neutral to limit or stop its commerce with the enemy. Various promises of supplies or shipping facilities are held out to the neutral to obtain an agreement to cut the shipment of goods to the enemy.

Under export controls the belligerent places restrictions on exports for the purpose of retaining within the country scarce commodities and also to prevent strategic items and materials from getting out of the country and into the hands of those who might transfer them to the enemy.

Proclaimed lists or black lists are lists of persons who, while resident in neutral countries, have shown friendship to the enemy in either trade, ideology, or otherwise. During World Wars I and II, these persons were placed upon a register and denied several very important commercial and financial facilities. Their funds in this country were frozen, and they were unable to get licenses for importing materials from the United States.

Preclusive buying is a new method that was introduced in World War II in cases in which certain commodities of strategic value were in neutral countries and accessible to the enemy. To try to prevent them from getting into the enemy country, agents were sent to purchase these commodities without regard to price. A good example was the purchase of wolfram in Portugal.

And finally, we come to the last two points, which are really to be considered as one, the control of alien funds and property. There were in this country previous to our entry into World War II some 9 billion dollars in assets held by persons residing in enemy countries, enemy-occupied countries, and countries from which these assets might be manipulated for the benefit of the Axis. In order to prevent the use of these funds and properties in behalf of the Axis cause, the President, previous to Pearl Harbor, placed them under control--froze them. No transactions involving them were permitted without a license issued by the Treasury. Titles to assets which needed to be actively managed were later vested in the Alien Property Custodian.

After this rather rapid and, I fear, somewhat monotonous survey of the methods of economic warfare in a hot war, we will move on to the third point: peacetime economic warfare. Here again we run into the word "change." Our economic foreign policy has traditionally been opposed to penalties or concessions for the purpose of influencing politics. On the whole the American system of conducting economic foreign policy has been to treat all nations alike, equally good or equally bad.

But in recent years we have departed from that principle. Previously such penalties as were levied were imposed for economic reasons and were sometimes just the reverse of what we call economic warfare. For instance, the Johnson Act of 1934 provided that no country which had defaulted upon its debt to the United States could float bonds in this country. That penalized potential friends and did not penalize potential enemies. Then came a time when this policy began to change.

I want to take a moment to discuss the events which forced the change. They occurred in the period before Pearl Harbor. In 1938 the Germans went into Austria. Then came Munich. In the spring of 1939, the Nazis took over Czechoslovakia, and in the fall they overran Poland. In 1940 they occupied Norway, Denmark, the Low Countries, and France. It was a very alarming situation from the standpoint of the United States.

Over in Asia another serious predicament had developed. The Japanese had started military operations on a large scale in China in 1937. We were then treating all countries alike, and the result was that large amounts of supplies useful for military purposes flowed out of this country to Japan. Oil, iron and steel scrap, motor vehicles and equipment, and such commodities, shipped from the United States, were useful to the Japanese in carrying on the war against the Chinese. That made the people of this country very uneasy. We were helping to overthrow a potential friend, and who could tell when some of this iron and steel scrap shipped to Japan might not come back at us in the form of projectiles and bullets aimed at American soldiers and sailors?

The change in attitude started unofficially. Private societies began to demand that we cease to purchase Japanese goods. They said, "If you stop buying from Japan, that will cut off the supply of dollar exchange and then Japan can't buy war materials from this country." They estimated that every time a pair of silk stockings was sold in this country, the transaction provided the Japanese with enough dollar exchange to buy four machine gun bullets. One pair of silk stockings--four machine gun bullets. So women were requested not to buy silk stockings. Well, you know women. They like to make a good appearance, and silk stockings are an instrumentality to that purpose. So they continued to buy silk stockings. The weakness shown at that time, however, is not confined to women; it applies to men just as well. And the divided attitude of woman previous to Pearl Harbor illustrates the split personality of the modern human being, the schizophrenia of present-day society, which is one of the fatal defects of the movement for organizing the world. These women believed in law and justice and the solidarity of the human race against aggression. Their hearts were on the side of China, but economically speaking, they were in the war with both feet on the side of Japan. I could go on and on regarding that characteristic of human nature--the inclination of people to hold great ideals and their unwillingness to make sacrifices for them--but we have to get along with our subject.

The movement to restrict trade with Japan became somewhat official with the moral embargo. At this time the State Department was licensing shipments of munitions, and Secretary of State Hull said he hoped he wouldn't receive any requests for the export of airplanes to countries which bombed civilian populations. That came after the bombing of Canton and applied particularly to Japan, although it was also applicable to Soviet Russia whose planes had bombed the Finns.

The next step was the application of export controls in 1940. Export controls had the purpose of stopping the outward flow of scarce products necessary for our own rearmament and also of preventing many of these products from going to Japan. Under that law the United States stopped the export to the Japanese of aviation gasoline and iron and steel scrap.

There was also at this time a differentiation in the policy with regard to loans. The Export-Import Bank was lending money to China but not to Japan. I was talking at that time with some people connected with banking who told me that certain Americans interested in the Japanese trade had come to the Export-Import Bank for a loan to finance their exports to Japan and that the bank wouldn't touch the deal with a ten-foot pole.

The next step was the freezing of funds. This started with regard to the funds of persons living in Europe. As the Nazis occupied European countries, funds in this country on deposit in the names of residents of the occupied countries were frozen so the Nazi war machine couldn't get hold of them. This applied along the whole course of Hitler's conquests in Europe and finally was extended to include residents of Germany and Italy. Then in June of 1941, the funds-freezing policy was applied to Japan. After that our shipments to Japan were practically cut off.

We might stop just a second to see what the results of economic warfare were under those conditions. The Japanese Government had been a little shaky in 1937, before it started operations in China, but it became stabilized as the war was carried on. The military leaders were telling their people at every step how much better conditions were going to be for the Japanese after they had taken some more territory. But after each step the Japanese were not better off, they were in worse condition than before. And in 1941 the shipment of supplies from this country was being stopped, reducing some of the most important commodities used in military operations to a state of low supply. The next step contemplated was that of going down to the Dutch East Indies. But how could the Japanese get to the Dutch Indies without going past the Philippines--a move which would violate the principle of security of line of supply? I know that it is not in very good taste for a speaker to mention any of his predictions which came true. It places one under the suspicion of remembering only those that were valid and forgetting many others

that never came true. Memory screens out the failures in prediction. In my particular case out of ten predictions nine not only wouldn't have come true, but just the opposite would have happened. But I have to mention one.

I was teaching at the University of Pittsburgh in 1941. On meeting the class in international relations in the fall, I made the remark that probably before the semester was over we would be at war with Japan. The class didn't seem to be greatly excited by that statement. They had heard other big statements before.

There was a young fellow in the class who was "working his way through college" by various games of chance and by making wagers on uncertain contingencies. Shortly after Pearl Harbor I saw him in the elevator of the Cathedral of Learning and he said: "Professor, if I had paid some attention to what you said last fall, I certainly could have cleaned up big around here." I taught in college for over twenty years and so far as I can recall, that is the only statement I ever made which had any possibilities of financial gain to the members of the class.

Now we come to the present policy carried on in the cold war, one in which we do make a difference in dealing with our potential friends and our potential enemies. It was not intended to be so at the end of World War II. All were to be treated alike under the framework of international organization. UNRRA was set up to help rehabilitate the liberated areas. This country contributed over 70 percent of the receipts of UNRRA. The United States and the British Commonwealth of Nations and other democratic powers contributed practically all the receipts of UNRRA. But notice this, about 50 percent of the amounts distributed went to countries which later were to be regarded as behind the Iron Curtain.

As the relations between the western powers and the Soviet Union became tense over their differences in policy, the enthusiasm for UNRRA died down. The problem of whether UNRRA should be continued, or whether some new organization should be set up which would do somewhat the same thing, or whether the principle of UNRRA should be abandoned was under discussion in 1946. Then in the fall of that year Yugoslav fighter planes shot down two American transport planes. I don't know how much effect you can attribute to those acts. Whether the whole thing was decided upon before those tragic events or not I don't know. But I know that after they occurred, UNRRA or any reasonable facsimile thereof didn't have a chance. The United States took over the furnishing of its own funds for rehabilitation, and the plan as finally developed was for 17 billion dollars to be spent mainly in western Europe. None of it was to go behind the Iron Curtain. I believe that there is not a clear-cut policy statement to this effect, but that is the way it has worked out funds for western Europe and none for eastern Europe.

Then there has been a difference in treatment with regard to the export of goods. Under the Export Control Act of 1949 the Government was authorized to place restrictions upon exports for the purpose of (1) retaining within this country scarce commodities, (2) furthering the foreign policy of the United States, and (3) exercising vigilance from the standpoint of national security. It is that latter objective which is now the most important in the administration of export control. I am not going into that further than to say that in the first quarter of 1948 our exports to the USSR amounted to over twenty million dollars. In the third quarter of 1949 they were less than one million.

And now the last point is with regard to the prevention of the export of technology. I have read much literature on Point 4 and see nowhere that this movement to aid in the export of technology applies to Russia or affiliated countries. The areas in mind are Latin America, Africa, the Near East, and some countries in the Far East. A differential policy as between potential friends and enemies is set up. The shutting off of technology is, however, particularly a matter of export controls. There is a clause in the act of 1949 to the effect that the export of technical information may be prohibited or curtailed, and this is being done in practice by voluntary consultation between exporters and the Department of Commerce.

Perhaps the most important method of stopping the outflow of technology, however, is by preventing the export of technically advanced commodities. A few years ago I was talking with a developmental engineer who was busy trying to develop some advanced gadgets on order from the Soveit Union. It was the practice of the Soviet Union to buy small quantities of the most up-to-date products to use as prototypes. The Soviet development engineers and their facilities for development are not sufficiently good to make their own prototypes readily. Therefore it is of very great advantage to them to have our own products to use for that purpose. It would be folly to permit export to Russia of such products.

One of the greatest security assets of this country is its technological margin over a potential enemy. That technological margin ought to be maintained and increased. I should like to see it widened to the extent of some such spread, some such superiority, as was held by the English settlers in this country over the American Indians in the early days. That may seem difficult, but I think that we have sufficient facilities industrially and scientifically to justify the dreaming of great dreams. And we are particularly fortunate in having allies who are technologically advanced and can make great contributions. I think that in the economic warfare of the cold war the prevention of the export of technology to the Iron Curtain countries, difficult as it may be, is one of the most, if not the most, important of our objectives.

QUESTION: I wonder if you would care to discuss what we could do in the way of economic warfare that would affect the vital spots of the Russian war potential--preclusive buying and things of that sort.

DR. WILLIAMS: I will give you my own opinion. There are certain methods of economic warfare which would be more important probably than in previous wars. I am thinking of such methods as aerial bombardment of economic targets.

As to the other measures, a great deal would depend upon the political line-up in time of war. If the neutrals were completely squeezed out, the methods of economic warfare that applied to neutrals would not be used, presumably. Of course there may be a great many variations in the activity and status of those who are on our side. The relations between belligerent and neutral might be replaced by negotiations between the principal belligerents on one side and their less active allies. On the whole, however, I expect economic warfare to be more important than ever before, because of the fact that full economic support of war is becoming more and more essential and that anything that can destroy or undermine that support should accordingly become more important.

QUESTION: Would you discuss in the light of after knowledge how effective or ineffective preclusive buying turned out to be during the war?

DR. WILLIAMS: That is one of the methods of economic warfare that has been criticized rather generally. It is said that if you send people with a lot of money to buy up these commodities, you immediately increase the production of them. We certainly did that with regard to wolfram in Spain and Portugal. The price went up twenty times. Under those circumstances you are in one sense defeating your purpose. I think the same thing happened to some extent with regard to ball bearings in Sweden.

But I believe that, despite these criticisms, there is considerable value to preclusive buying. This technique is always related in its effectiveness with the war situation. Preclusive buying, becomes more effective as the war becomes more favorable to the side employing it. I know that some people who saw it from the standpoint of the Board of Economic Warfare and the Foreign Economic Administration contend that there was value in that method.

QUESTION: Where would you say would be a good place to start preclusive buying against Russia?

DR. WILLIAMS: I haven't thought that out very well. I know there are some people here who have given attention to the problem, and if any of them would feel free to get up and speak on that subject, I would welcome it.

Since there is no response, I will have to go back to my original statement, that it would depend upon the political line-up at the time. It is my belief that it would not be so valuable in such a war as it may have been in the past.

GENERAL BULL: If we could consider the effectiveness of economic warfare in World War II--taking your second grouping on that chart, how would you evaluate the headings under II in the prosecution of World War II? Just what was their contribution as a group toward winning the war?

DR. WILLIAMS: It was quite considerable. Of course, here again it was successful in proportion to our military victories. So long as the neutrals thought the Nazis were winning the war, they were not willing to make many concessions. As the war advanced and it began to seem more than probable that the Allies would win, we did get a number of very great advantages out of our economic warfare, particularly through trade agreements, which made it possible to ration and control trade with the neutrals and prevent commodities from going on into the enemy countries. Toward the latter part of the war these methods were undoubtedly quite successful.

QUESTION: At the present time we are operating under the export control program, preventing the export of needed materials to Russia. How about the freezing of funds of satellite countries? Is there any activity along that line or any tendency toward doing that?

DR. WILLIAMS: The funds of persons resident in Bulgaria, Rumania, and Hungary, it was announced about two weeks ago, were frozen. The release on the subject states that a license permitting certain remittances from these accounts was revoked. I don't know that this is a very important step as an economic measure, because there are only a few million dollars in the United States on deposit to the credit of those persons. Perhaps it was more an expression of dissatisfaction than a really sweeping economic measure. But, anyway, according to the news dispatch it has already been applied to that extent.

COLONEL HICKEY: Thank you very much, Dr. Williams.

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