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## INTRODUCTION TO ECONOMIC WARFARE

27 March 1951

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## INTRODUCTION TO ECONOMIC WARFARE

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COLONEL WATERMAN: According to the schedule, this is the introduction to economic warfare, but actually I am going to cover a good deal more than would be usual in an introduction--probably introduction, preface, and all of the chapters in the book, except the present and future. Those two matters will be covered at a later date by another speaker, Colonel Sam Clabaugh.

The general areas which I plan to cover in this discussion are divided into four distinct parts--definition, philosophy, history, and measures. With the definition of "economic warfare" itself, I will include also its relation to the rest of the Economic Potential Course. Then we will go into some of the philosophy of its employment, a little history of its development, the concurrent development of the international laws of neutrality, and last of all, the measures by which economic warfare is implemented in practice.

Of course, it is always desirable to define the subject you are going to talk about, but particularly so in this instance because there is enormous confusion about what we actually mean when we say "economic warfare." There are several official definitions in use as well as any number of unofficial ones. The Joint Chiefs of Staff in their latest military dictionary define it as: "The defensive use in peacetime, as well as during a war, of any instrumentality by military and civilian agencies to maintain or expand the economic potential for war of a nation and its probable allies, and, conversely, the offensive use of any measure in peace or war to diminish or neutralize the economic potential for war of the likely enemy and his accomplices."

If I were to adopt this definition for my own presentation, I would encroach on the subject matter of the entire course in Economic Mobilization, since "the use of any instrumentality to maintain or expand the economic potential for war of a nation" encompasses a substantial share of economic mobilization. "The offensive use of any measure in peace or war" would take me well outside the scope of this college. As a matter of fact, I believe that the Joint Chiefs are considering the adoption of a much narrower definition.

General Wedemeyer last fall introduced you to the concept of the four types of warfare and the four types of objectives of warfare. I have listed those four types in a slightly different slant in the (chart No. 1 page 17). Of course, there are military, economic, diplomatic and

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psychological as well. Military measures, of course, also effect economic targets and they will have their effects on diplomatic and psychological targets. By the same token, the other two types of weapons will affect all four types of targets. I haven't shown that by trajectory lines in order not to clutter up the chart, but I think you will recognize that those weapons will have their effect on all four types of targets.

Since we here in the school are primarily concerned with both economic targets and economic measures, we must give some recognition to all of the measures which can be aimed directly at economic targets. The last two days you have had a pretty thorough coverage, I believe, of the military weapons as used against economic targets by Dr. Lowe and General Le May, so I am going to concentrate on economic measures as against economic targets.

If we could avoid it, it would be preferable, I think, not to use the term "economic warfare" at all, but rather to make it clear whether we were talking about economic measures or economic targets, but in practice we need a handy term for what we are talking about and so we must use "economic warfare." Therefore we shall require a definition of the term. The definition which I propose to delineate the scope which I have tried to cover by these remarks is:

"The use of economic and other measures in peace or war to diminish or neutralize the economic potential for war of the likely enemy and his accomplices." Compare the very great definition put out by JCS with the one we are using in this course. You see that our definition limits us to enemy economic targets and emphasizes economic measures while at the same time, of course, recognizing that there are others.

We are now restricted by that definition to the search of the enemy's economic potential for vulnerable spots and to a consideration of the means, primarily, but not exclusively, economic for attacking them.

Now that I have defined the subject of my discussion, I would like to take a few minutes to orient it with respect to the rest of the course. You are already aware that economic warfare is a part of the economic potential unit. Included in the unit in addition are economic intelligence and international trade relations. Economic potential studies are balanced considerations of the basic elements of a country's economy with special emphasis on their war-supporting characteristics that reveal the strengths and the weaknesses of an economy. The question arises as to what we do about the revealed weaknesses of an enemy's economy. I think the answer is obvious. We strike at them and strike hard. Economic warfare is a way of striking at them.

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Here, in the next chart, I have portrayed the relationship in military metaphor between economic potential, economic intelligence, international trade, and economic warfare.

That bomber up in the corner (chart 2, page 18) marked "Economic potential" represents the target; the radar you see in the center labeled "Economic intelligence" is the target-finding device. Economic intelligence, of course, is a device by which to find the weaknesses in the enemy's economic potential. The AA director down in the lower corner is the fire direction device which selects the target and the weapons which we intend to aim at the target. International trade and financial relations are the weapons available to conduct economic warfare by economic measures.

Well, so much for the problem of defining economic warfare and fitting it into our course. Now I would like to turn to the second item--the "philosophy of economic warfare." Back in the Middle Ages war offered very little opportunity for economic warfare. When war consisted of a clash between two self-contained armies, both carrying with them all the arms they might ever expect to get and living off the country, there was no purpose in attacking the economic potential of a nation. Furthermore, actually it contributed nothing to the current war effort. As a matter of fact, scarcely anything could have been done in that direction anyway, since no nation had the sea power or the overpowering trade position which we consider the necessary prerequisites for waging economic warfare.

Two distinct factors loom as the precursors of economic warfare in history--the rise of a nation whose greatness was based on trade and sea power; and, second, the birth of the concept of total war with Napoleon as midwife. It is not surprising, I think, that as the economic strength of nations has become increasingly vital to their war efforts more attention should be given to ways of inhibiting that strength. The ultimate objective of our military efforts has always been to seek out and destroy the enemy's army. Of late, this has been modified to the destruction of the enemy's will to resist, but to the directors of our military efforts, the destruction of the will to resist is still closely tied to the destruction of his armies.

In this country our military leaders have always sought to encompass the destruction of the enemy with a minimum of loss to our own forces. Armed forces stripped of weapons, ammunition, and rations are easily destroyed, and civilian population deprived of the minimum necessities of life quickly lose the will to resist. In modern times, when armies can no longer live off the land, the complex economies which support them become a very inviting target. To carry that thought to the ultimate goal, if the enemy economy could be completely shut down by the destruction

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of its productive facilities and by sealing it off from the rest of the world, the armed forces would be effective as fighting forces only so long as their stocks of ammunition, fuel, and rations lasted. It would be necessary only for our forces to avoid destruction until the enemy's supplies were exhausted and then by default we would be the victors.

Economic warfare might be regarded as just another string to our bow were it not for one fact, that is, the cost of war in terms of irreplaceable resources has become too great for any nation to bear for very long. We must find ways to deal with our enemies at smaller cost to ourselves if our victories are not to bleed us to death. If the enemy's armed forces draw their strength from his economy, isn't it logical for us to go to the heart of that strength and seek to destroy his economic power? When attack on the economy appears less expensive than an attack on the armed forces, it becomes doubly inviting.

One of last year's students in a report on economic warfare developed this thesis I have just suggested in terms of war against Japan. It was his opinion that Japan was defeated by shutting off its outside sources of materials and food and destroying its productive power from the air and that the massing of a land army for an invasion of the home islands was a prodigious waste of our resources. You can take this thesis or leave it. I am offering it only as an illustration of the way in which the philosophy of economic warfare might be applied to our own experience.

Now let us turn to a little bit of the history of the third item, in my outline. The history of economic warfare begins in the modern sense with the rise of Britain. It may be possible to find some instance of what might be termed economic warfare in the wars of the ancient and medieval states surrounding the Mediterranean. For example, sieges laid to cities might be so classified in a limited sense, but they were at the same time primarily military warfare directed at military as well as economic targets. There is no continuity of pattern such as can be traced in the British conduct of war.

The British story begins with the defeat of the Spanish Armada in 1588 and the ascendancy of British naval power. Thirteen years later, in 1601, we find Queen Elizabeth issuing an edict for the naval blockade of Spain. Incidentally, that edict almost always crops up in any text on economic warfare. It is normal and logical that we find responsible for the development of the concept of waging war by economic means the first world power whose greatness rested on commerce. Economic warfare continued for several centuries to consist solely of naval blockade--a military measure directed at economic targets. England's efforts to wage economic warfare aroused a storm of protest from the neutral countries that banded together and demanded that some standards of international control and the rights of neutrals be established.

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The American Revolution was the climax of the British efforts at blockade. So vigorously did the neutrals object of the interference with their trade that Britain was compelled to give way and there resulted therefrom the Leagues of Armed Neutrality of 1780 and 1800. These two conventions set forth the rights of neutrals to trade with belligerents except in contraband items. Contraband items in those days constituted a very, very limited list of things which included virtually only those items which could be used directly to kill an enemy soldier.

The position of the United States in all these diplomatic maneuvers should be self-evident. Of course, the states were delighted to have the neutrals insist on their right to trade with them. It was at this point that the American course with respect to economic warfare and neutrality was set for the next 150 years. Throughout the nineteenth century, the general pattern was clearly marked. Britain continued to be the principal exponent of economic warfare. The United States, adopting a diplomatic policy of noninvolvement in the wars of other nations, maintained the right to trade with others whether they were at war or not.

We abandoned our position briefly during the War between the States, when we attempted to enforce a complete blockade on the South, and the British, exchanging roles with us, sought to penetrate our blockade.

World War I found us again holding to our concept of the rights of neutrals, while the British again waged stern economic warfare against Germany. Our entry into that war was due, at least in some degree, to the repeated violations of our neutral rights by the German submarines.

It was only in World War I that blockade began to be transformed into the modern form of economic warfare--and this wholly through necessity. The British fleet proved incapable of maintaining an effective economic strangle hold on Germany. With the advent of the submarine it became too risky to halt and search ships at sea. Furthermore, in that war there were many neutral countries inside the blockade ring. It was impossible, without taking some pretty drastic economic steps, to insure that imports by those countries would not find their way into Germany.

Thus, in World War I, we begin to see attempts to control shipments at their points of origin, the blacklisting of traders in neutral countries, and the making of agreements with the neutrals concerning quotas of imports and final disposition of imports.

As for the United States, after our entry into World War I we became more enthusiastic wagers of economic warfare than even the British. Our involvement in the war had the effect of pulling the props right out from under the rights of neutrals. Without the backing of a strong power, these rights could no longer be enforced, except as the belligerents saw fit.

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Between wars the British laid their plans very carefully for future economic warfare, while the United States reverted to its old policy of isolationism. When World War II began, the British were able to bring into being a Ministry of Economic Warfare, fully prepared to institute all the measures which we now include in the term economic warfare, while, as for us, all we brought forth was a neutrality act.

Nonetheless, we, too, had come a long way in this respect. When World War II broke out, we had already made up our minds whom we were going to be neutral against and we quickly abandoned ourselves to discriminatory acts in favor of the Allies.

I don't want to encroach too much on Colonel Clabaugh who is going to deliver an address on "Economic Warfare Today" but I would like to say just a word or two about economic warfare of the present and future. The concept of the League of Nations, and now of the United Nations, is in opposition to neutrality. The doctrine of collective security assumes always the presence of an aggressor and a duty on the part of all nations to punish that aggressor. Because of that, the argument has been advanced that neutrality is dead. Well, if neutrality is dead, there will be little opportunity for economic warfare because the neutral countries are its major battlegrounds. Yet if we take a look, we see that some of the traditional neutrals are not members of the United Nations and some of the recent events have shown a clear propensity on the part of some members to back away from the squabbles between the big powers and edge toward the side lines.

So much for background. Now let us proceed to an examination of specific measures of economic warfare--what they are and by what means they are carried out.

The following are the principal methods of economic warfare--first the economic methods are: (1) export control, (2) shipping, (3) blacklisting, (4) war trade agreements, (5) preclusive buying, and (6) financial control. Then the other methods are military, political, and psychological measures. I will cover each of the economic methods. I intend to leave the military methods pretty much alone because it would hardly be fitting for me to stand up here and tell you people about strategic bombing or naval operations.

Export control is the primary method of keeping our own resources out of enemy hands. It also serves the positive purpose of building our own potential through the retention of strategic resources. It is the home port check, which in combination with other measures, insures that our materials, our end products, and our technology will not reach the enemy.

I would like to emphasize the importance of control of the export of technology. Information of the technological advances made by the free world may really mean more to the Russians than any hard goods that they might buy abroad.

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Chronologically, export control is usually the first measure of warfare of any type--put into effect long before any military measures. As you probably know, we have exercised export control in this country against our present likely enemies for some time. Mechanically, export control is effected by means of licenses of various kinds. The necessity for it is better understood when you recollect that, in a free-enterprise system like ours, export trade is carried on principally by individuals and private firms. In the normal course of business an exporter will ship out of the country any profitable item for which he can find a customer. Control is exercised by requiring him to get a governmental license for his shipments. License requests can be examined as to the importance of the item to our own war potential and as to destination.

As a matter of fact, I see in the audience one of the men who is in the business of examining licenses for just those two things. Colonel Moffatt, a last year's graduate, is now handling for the Munitions Board the checking of license applications, which are made to the Department of Commerce, for outgoing goods.

The establishment of effective export controls is not so easy as might be supposed. It has proved difficult in recent months to determine what materials should be withheld from shipment. Exporters naturally exert pressure to have the commodities in which they trade kept off the embargo list, and there is some confusion in the Government as to what ought to be on that list. Another difficulty is illustrated by a recent example. Congressional hearings developed that some four million pounds of copper were shipped to Red China last fall by the expedient of shipping from Japan to in bond in New York and then shipping to China without actual entry into the port of New York. Of course, we control shipments out of both Japan and New York but we were circumvented by the combination. This loophole has now been closed.

Export control is aimed at the prevention of shipments out of our own country. The next important measure is the one designed to prevent shipments to the enemy from foreign countries--shipping controls. Shipping controls are a direct substitute for the old form of close naval blockade. They consist primarily of two devices--the navicert and the ship's warrant. The navicert is a license granted to an exporter in a foreign country by our consular officials for the shipment of goods out of that country. The ship's warrant authorizes neutral ships to obtain provisions, fuel, and insurance. In the last war navicert control was exercised mainly by the British consular officials. The British consulates did much of that work for us as well as for themselves. That control worked something like this:

An exporter wishing to ship goods from a foreign port goes to the British consul and gets a navicert for the shipment which covers the

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shipment, the carrier, the passengers, and the crew and which certifies that they are all free of taint. This protects the ship from molestation by the naval patrols. If any ship should attempt to sail without a navicert, a message goes out from the consul to the fleet and the ship is intercepted and retained for examination. If there is nothing wrong, the ship is allowed to proceed, but the delay is expensive. If you are on the level, it is much easier to get a navicert. You can also see that this type of blockade can be enforced with a much smaller navy than a close blockade required.

A ship's warrant is used as an additional control on ship owners who refuse to play ball. Since most of the sources of maritime provisions, fuel, and insurance are American or British controlled, a refusal to sell these items is enough to prevent any ship from going anywhere.

I think you will recognize, of course, that detaining ships at sea is pretty high-handed stuff. It is not feasible for use until after actual military hostilities have begun. But we will see that there are other more ~~subtle~~ means of accomplishing the end of keeping foreign products from flowing to our prospective enemies.

Export controls and shipping controls serve the purpose of keeping goods from flowing directly out of our ports and foreign ports to the enemy, but what about the flow of goods which goes to apparently innocent destinations and is then transshipped to the enemy? There are several ways of dealing with this problem, too. One of these is the Proclaimed List of Certain Blocked Nationals--a fancy name for the blacklist. I will not go into the legal distinctions between blacklist and proclaimed list unless you are interested during the question period. The blacklist is a list of traders who persist in trading with the enemy. Once a blacklist has been built up, it may be used as a basis for refusing export licenses and navicerts, thus keeping goods out of the hands of neutrals who would transship them to the enemy.

The blacklist was a vital part of our economic effort in World War II. Germany had made a major infiltration of the South American economy and counted heavily on obtaining supplies through its nationals and friends in South America. The blacklisting of these people went a long way toward cutting off the flow of supplies to Germany from South America. We handled the South American blacklist and the British handled the European blacklist.

War trade agreements are still another means of making export controls effective at the receiving end. Any goods shipped to a neutral make an equivalent portion of its productive capacity available for other uses. If this capacity is turned to the service of the enemy, we might just as well have shipped directly to the enemy ourselves. War trade

agreements are undertakings entered into by the neutrals in which they agree not to send materials to the enemy in return for being allowed to receive goods through the blockade. This is obviously nothing more or less than baldfaced extortion on the part of belligerents, and therefore the form which the trade agreement will take is always influenced by the relative power positions of the neutrals and the two belligerent sides. For example, in the last war, it was impossible during the early part of the war to get much more of a concession from the European neutrals than an agreement not to sell to the Germans the same products or similar ones to those being allowed to pass through the blockade. It was very important not to put these countries in a position of compelling a German invasion as long as Germany had that capability. After the Allied landing on the Continent, it was possible to get progressively tougher with the neutrals until we were able to get them to agree to stop all trade with Germany in return for being allowed to receive goods through the blockade.

An example of the manner in which a neutral country may be pressured into cutting off the flow of supplies to an enemy is illustrated by the case of Indo-China during the period after the fall of France and before the entry of Japan into the war. Germany, cut off from supplies of rubber from British-controlled areas in the Far East was getting some from Indo-China. The major export commodity of Indo-China is rice. The inability to export rice would upset the country's entire economy. The jute bags in which rice is exported are made in India. The British served notice on Indo-China that unless the shipment of rubber to Germany was stopped, the supply of jute bags would be cut off. This alone was a threat powerful enough to compel the Indo-Chinese to cease the shipment of rubber to Germany.

The cessation of a neutral's trade with an enemy may cause serious economic problems when the enemy is the principal customer for some commodity which the neutral possesses. Under such circumstances the neutral may be induced to cooperate by a promise to buy the supply of the commodity in question. This leads us into the next measure of economic warfare--preclusive buying.

When agreements cannot be made with neutrals to prevent them from shipping their products to the enemy, there is still another method available for preventing that shipment--buying up the entire supply of goods yourself. This is called preclusive buying, or in the British usage, preemptive buying.

The use of the term "preclusive buying" is usually restricted to purchases which are solely to deny the enemy and not for our own needs. You can appreciate that this may be a somewhat costly proposition and it is utterly impossible to buy up everything the enemy might be able to use. In conducting a preclusive buying program, you must concentrate

your efforts on those items which are most vital to the enemy. Good intelligence is an absolute must in this operation. Funds for preclusive buying are always limited. Even when a nation attempting it is wealthy, there is always the problem of obtaining sufficient foreign exchange of the country in which the preclusive buyers are operating.

Preclusive buying operations must be conducted with a reckless disregard for normal good buying practices. You must pay whatever price is necessary to snatch that commodity out of enemy hands and without haggling. Otherwise, he may, by using more decisive methods, buy it out from under your nose.

The classic example of preclusive buying in World War II was the Iberian wolfram campaign. Wolfram, as you know, is tungsten-bearing ore. The Germans were cut off from other supplies, and tungsten is an important ferroalloy. The Allies had other sources available to them, so from the Allied standpoint it was a purely preclusive operation. The circumstances under which the program was carried on were very different as between Spain and Portugal. The Portuguese Government exercised control over prices and purchases. It allocated supplies between the two belligerents, thus defeating the purpose of the Allied effort. In Spain, however, the market was allowed to operate freely, with the result that the price of wolfram shot up from \$300 or \$400 a ton to something like \$20,000 a ton. You can visualize the problems this imposed in the supply of Spanish foreign exchange. With prices like these practically everyone in the wolfram areas turned to mining.

Another major preclusive effort was made in Sweden, where the Allies sought to buy up the entire supply of ball bearings to keep them out of German hands. This effort was pretty well defeated by Swedish expansion of manufacturing facilities. From the viewpoint of the Swedish businessman, business was very good indeed. There were lots of customers for his ball bearings, and he was glad to expand production to satisfy them all. This preclusive effort, of course, was a failure.

Does that mean that preclusive buying is no good as an economic weapon? I don't think so. What I think is that the target commodity must be one in which production is not expansible, where fast action would permit you to buy up the total available supply at one fell swoop. It is hard to pick an item like that, but there are some--perhaps some specialized agricultural commodity where you can't raise any more for another growing season. I cite that as one example. There may be others.

As you have seen, the major dependence is placed on export controls, shipping controls, and the blacklist to see that the enemy gets none of our production to turn to his own benefit, but the ways of international trade are devious and one can never be absolutely certain that some of

the stuff which is shipped out may not find its way into enemy hands. Any other measures which may be necessary to tighten controls must be employed.

The principal additional measure is control of enemy assets and the assets of countries which the enemy has overrun. When assets available to the enemy are frozen, it becomes much more difficult for him to arrange to purchase goods in this country for shipment to him by covert means. Were enemy funds allowed to remain uncontrolled, it would be easy for the enemy to transfer these funds to some neutral cloak who would buy American goods and then, through a series of transshipments, get them to the enemy. The freezing controls are administered by the Treasury, which enlists the aid of the banking system. All banks examine ownership of funds held by them and report frozen funds. Thereafter, transactions in these accounts may take place only under license. Enemy property is also taken over and is administered by the Alien Property Custodian in the Justice Department. The freezing of funds and property acts to prevent, not only the purchase of commodities, but also the financing of subversive activities and sabotage.

In addition to the primary measure of seizing foreign assets held in this country, there are other financial measures which may be employed in economic warfare. These grow out of the need for preventing the enemy from capitalizing on the various types of assets which he may loot from overrun countries. Principal among these are controls on securities, United States currency abroad, and gold.

You have already seen that naval action is an essential measure to support the use of shipping controls. There must be a close tie-in between the targets of economic measures and those of strategic bombing. As a general matter the targets themselves are very different. Economic measures must be directed at the movement of commodities in trade, while the normal targets for air bombardment are usually fixed plants in place. Nevertheless, these efforts must be complementary. If, for instance, it is decided that the elimination of the ball-bearing supply is vital, the air must go after enemy ball-bearing plants, while the economic warfare people seek to cut off the shipment of ball bearings and ball-bearing materials from the outside.

Political and psychological measures also play their part and I am going to omit any further reference to them.

In conclusion, I have described the problems of definition to suggest what ought to be included in the responsibilities of those charged with conducting economic warfare. I have given you an idea of the methods by which economic warfare is waged. But, most important, I have tried to stress the value of economic warfare as a method of dealing with our

enemies at a minimum of cost to ourselves. I hope you will find that I have given you some apparatus for analyzing the possibilities of bringing all of our offensive weapons to bear on an enemy in the most effective manner possible.

I would like to wrap this up by making an observation which I think Will Rogers would make were he here today: What this country needs is not only more economic warfare but more economical warfare.

QUESTION: I would think that most sabotage is designed toward the destruction of economic resources in a country. Why don't you consider that as economic warfare?

COLONEL WATERMAN: I would certainly regard sabotage as a method of economic warfare, but I wonder if it is not included in the general term "military." After all, it is a small-sized military operation against an economic target.

QUESTION: So is your blockade an operation of a naval force, a military force.

COLONEL WATERMAN: I think it is. If you want to consider sabotage of a kind represented by throwing sand in the gears as something apart from military, it is agreeable with me. I think it is a very valid method certainly.

QUESTION: Sand would be used against neutrals while sabotage would be against an enemy?

COLONEL WATERMAN: No, I would say that the major battleground for economic warfare is in neutral countries but I certainly wouldn't limit economic warfare to actions with or against the neutrals. I think that I tried to indicate in my definition that any instrumentality that strikes at economic targets is within the general scope of economic warfare. I tried to make my division between efforts that straighten our own economy at home and efforts to attack the enemy's economy, not because it is beyond the definition of economic warfare, but because the scope is too great to be dealt with in one lecture. After all, you have been dealing with it since last August. But as to the specific question itself, I wouldn't say economic warfare is limited to neutral countries.

QUESTION: Is the ERP to be considered economic warfare?

COLONEL WATERMAN: It depends on which definition you choose to accept.

QUESTION: Would it fall under the definition you have.

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COLONEL WATERMAN: I don't believe it would because my definition contemplated action against the enemy's economy. Now in the broader definition, the building up to your own potential and that of your Allies, yes, I think ERP and all foreign aid programs should be included, but I recognize, of course, that what I have done is artificial. It is necessary to stick to direct attack on the enemy's economic potential solely for my purpose of getting the thing within manageable brackets. I see no reason why you are concerned about it. As a matter of the preparation of your own report, it could be included as an item of economic warfare in the very broad general sense, but if you want to stick to my definition, I would say probably it was not.

QUESTION: Wouldn't ERP be considered economic warfare in a negative sense in regard to the Russians, even though we gave it to our Allies, supposedly, to begin with?

COLONEL WATERMAN: Reverse economic warfare? Well, sure. I think we have to class it under the heading of economic aid to the USSR. I hardly think that comes under our economic warfare definition. Under no definition that I know of would we include economic aid to the USSR.

QUESTION: I would like to know how much of a limitation there is on this matter of economic warfare during peacetime inasmuch as all wars practically always have started for economic reasons. Therefore, people who don't want to fight, you can't do too much economic warfare in peacetime unless you want to start a war. So I was just wondering how much of a limitation that is. Of course, I have my ideas, too, but I just wanted to see what you thought.

COLONEL WATERMAN: It is the theory of the calculated risk, I believe. Let us take an example. Let us see what we are willing to risk at this time to hamper the Russians without actually forcing war. I mentioned export controls. We have a very tight export control system now which we hope is keeping the Russians from getting almost anything which is of strategic value to them. There is one other step which has been taken quite recently. We froze the Red Chinese funds in this country. That has always seemed to me to be a pretty aggressive sort of action. We presumably are not at war with the Chinese except in one rather limited locality, but we took the step of freezing Chinese assets held in this country, and now those funds cannot be used for any purpose by anybody except with a license. Of course, when the license is taken out, the purpose is very carefully scrutinized to make sure it is for non-Red Chinese benefit. There are two examples. Again, I say, it is a question of calculated risk.

QUESTION: Have you run across any occasions that indicate Russia has taken separate economic warfare action against us?

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COLONEL WATERMAN: Well, again it depends on the definition. Russia's idea of economic warfare seems to be the building up of a close integration of the satellite economies, but there is one other example that I can cite which may have been taken for the sole purpose of what we call economic warfare. Russia slipped in and bought up a tremendous amount of the Australian wool crop last year. Whether she did it because she needed that wool or whether she did it so we wouldn't get it is a question I can't answer. Nevertheless, it is a possible example.

COMMENT: I can give you another example. Russia cut off all shipments of manganese in January 1949. Now the Russians are engaged in preclusive buying of tungsten.

QUESTION: Is manganese still cut off?

COMMENT: Oh, yes.

COLONEL WATERMAN: There is an interesting side light to that. If you attempt to cut off a vital material from a prospective enemy too early in the game, there is always the risk that the prospective enemy will develop new sources which he might otherwise not have developed in time for a war. In a way, I think, you can see that is what is happening. We have redoubled our efforts to develop sources of manganese to take the place of those that were cut off. Maybe we would have done it anyway, but that is a possible consideration.

QUESTION: I understood you to say you couldn't use the blockade except in time of hostilities? How would you classify the Berlin blockade on the part of Russia?

COLONEL WATERMAN: Legally that was not a blockade. The Russians just found a great many reasons, nonwar reasons, for turning back our ground transport--again a calculated risk because they assumed we wouldn't go to war over it.

I think when you go to the extent of actually seizing and searching ships at sea, you are getting into a position of risk which is pretty precarious. That is why I say I don't see it as a measure of use until hostilities have begun. In fact, it is my recollection that a great many hostilities have begun and grown out of the attempts to interfere with shipping at sea. Nations seem to be very touchy on that particular subject.

QUESTION: Would you consider import controls as a form of economic warfare? I am thinking of situations where countries attempt to keep the products of potential enemies out of their own and other countries in order to deny their potential enemies hard currency so they can buy in some other market.

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COLONEL WATERMAN: Import control is sometimes regarded as a measure of economic warfare. In fact, the National Security Resources Board, in preparing its series of studies on methods of economic warfare, actually included a study of import controls. I think there is justification for considering that as a means of economic warfare.

QUESTION: Under financial controls are we allowing the French to buy gold in this country at \$35 an ounce? They are selling it at \$45-- some accounting system! Are we allowing Russia to have the same privilege?

COLONEL WATERMAN: I am sorry I can't answer that. I don't know whether we are or not. I would rather doubt it. As a matter of fact, there is no reason for the Russians to be buying gold. They, next to us, have the largest stocks of gold of anybody in the world. Any attempt on the part of the Russians to buy gold here would certainly be looked at with a very quizzical eye by our people.

QUESTION: It's a nice profit, though, if they can do it.

COLONEL WATERMAN: Sure. I refer you to the Kefauver Committee regarding nice profits.

QUESTION: Do the British consider that any commercial ship requires a navicert during war regardless of the nation or where it is sailing from or where it is sailing to?

COLONEL WATERMAN: It is my understanding that ships sailing from the controlled ports were all required to have navicerts, for this reason--I may be wrong on this but this is my understanding of it. If navicert control weren't exercised over those ships, it wouldn't be very difficult for a ship to indicate it is going on a coastwise voyage from South America up to the United States and then head across the Atlantic. But the controls and the investigations, both before and after the fact, pretty well insure that nobody would take that risk because having once done it, one would be out of luck on future navicerts and ships' warrants. So it is my understanding that everybody would use them on all controlled ports.

QUESTION: Say a Portuguese ship was sailing from Portugal to Sweden, would the British search that if they felt there was not a navicert for the ship?

COLONEL WATERMAN: I certainly believe they would. Does that seem highhanded?

QUESTION: Yes, it does.

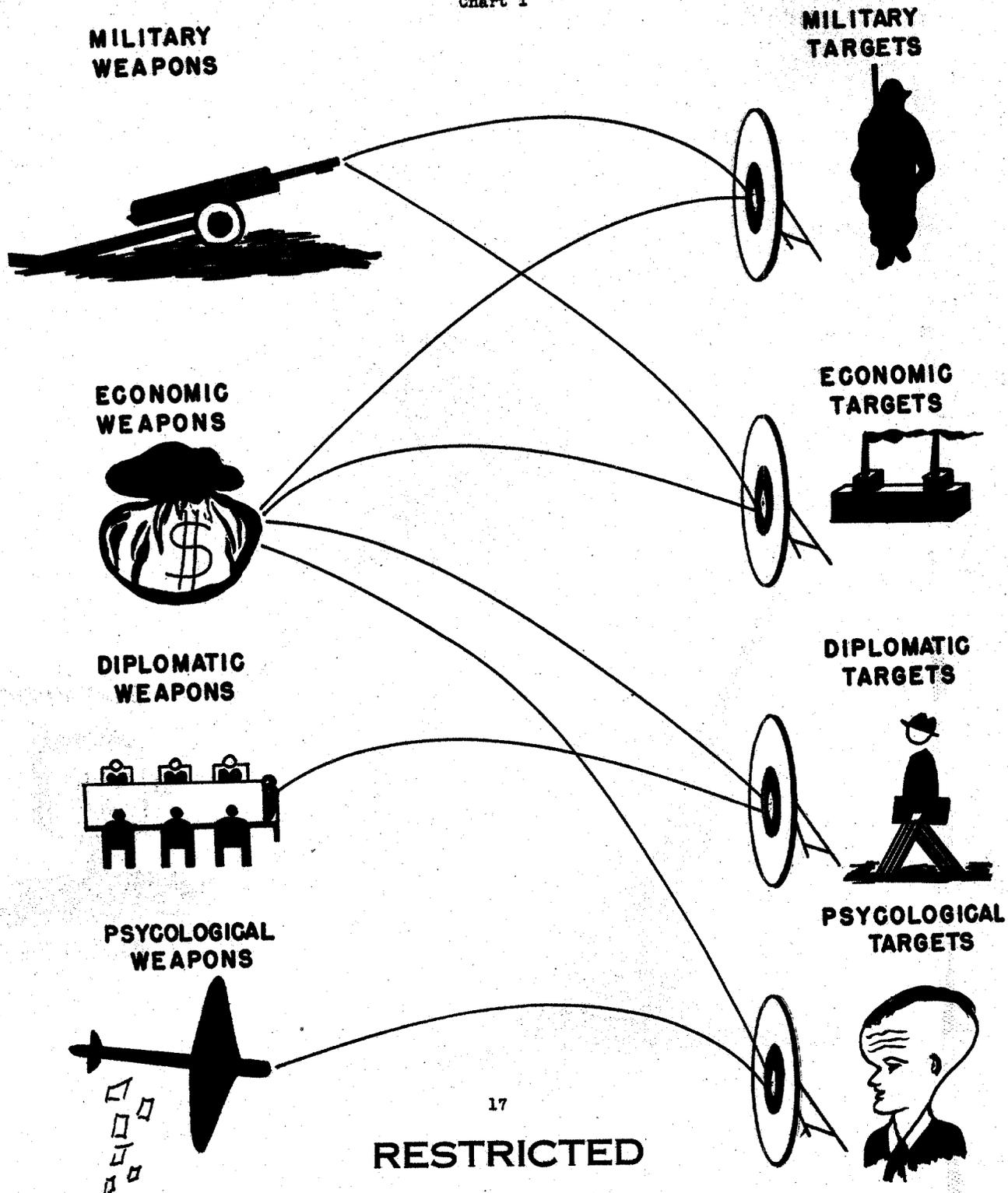
RESTRICTED

COLONEL WATERMAN: I said it was not particularly applicable except in time of war. It was that sort of thing that caused this whole development of the laws of neutrality which I mentioned that grew up around the time of the American Revolution when the British began their blockade in earnest and stopped everybody and searched everybody. It was the strong neutrals of that day--Sweden, Spain, France, for the time it was a neutral--that forced the British to agree to establish and abide by certain laws of neutrality. The British took a pretty tough attitude about the whole thing.

Thank you very much.

(26 June 1951--350)S.

Chart 1



**ECONOMIC**

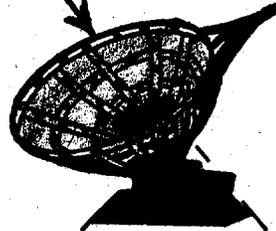


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Chart 2

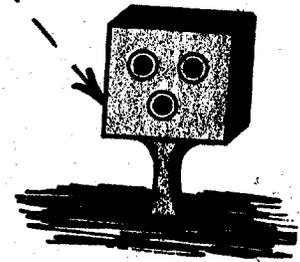
**POTENTIAL**

**ECONOMIC**



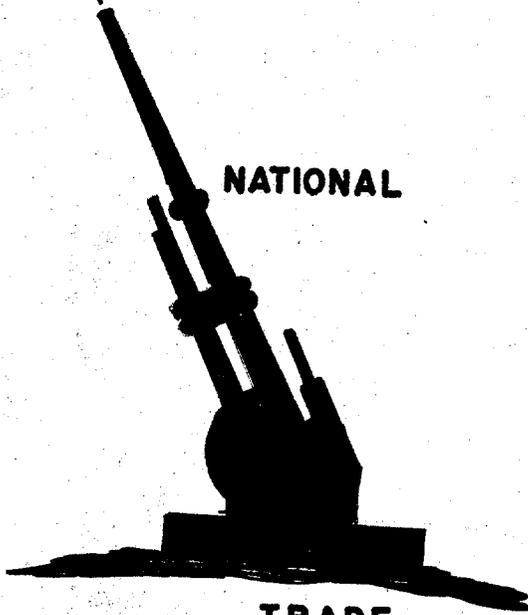
**INTELLIGENCE**

**ECONOMIC**



**WARFARE**

**NATIONAL**



**TRADE**