ECONOMIC WARFARE IN PEACETIME

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NOTE TO STUDENTS:

1. The references above are furnished to give the student enough material with which to begin his research. It is anticipated that the student will make use of all other available sources in order to give adequate scope to his subject and, when appropriate, to complete development of the subject to date.

2. The scope suggested below is intended as a guide only, and is not to be construed as a limitation on the student's perusal of the subject.

SCOPE:

1. Relationship to political objectives.

2. Economic nationalism, a concept of self-sufficiency, and its relationship to a war economy.

3. Types of special trade barriers (tariffs, clearing agreements, quotas, etc.).

4. Devices for specialized export competition (currency manipulation, loans, liberal credit facilities, governmental subsidies to exports, etc.).

5. Use of trade to secure political dominance over another country.
ECONOMIC WARFARE IN PEACETIME

Introduction

Economic warfare is continuous through peace and war. However, this paper is concerned with economic warfare among powers not engaged in open hostilities. In its extreme form economic warfare may be defined as the manipulation, by one sovereign power, of the business and economic ties connecting its economy with other powers, for the purpose of achieving political or military advantage. The tactics of economic warfare have included the negotiation of treaties, establishment of trade agreements, and the construction of business arrangements that were primarily designed to further political policy and were only secondarily intended to result in financial gain.

The weapons available for employment in economic warfare include import export laws, strategic stockpiling of critical materials, dislocation of trade routes, cultivation of international good will, preclusive buying, foreign loans and world banking, exchange of patent agreements, international cartels, subversive activities, and foreign assistance programs.

Economic warfare was not recognized as such but came into existence along with governments, warfare and politics. Similarly, all were simple in form at their inception. They have grown in size and complexity with the passing of time until today we find economic warfare is global in scope.

We must not attempt to interpret all commercial conditions and business actions in the light of economic warfare. The search for economic gain is sufficient basis for most business practices. Too persistent a search for sinister motives and for explanations that lie outside ordinary business procedure will serve to confuse a proper interpretation of economic warfare. On the other hand, one must not forget that even the normal business arrangements and trade connections provide the mechanisms of weapons for economic warfare.
Discussion

The specific objectives which at one time or another have been sought through tactics characteristic of economic warfare are numerous. Four general categories of objectives may be distinguished.

First Objective. The Weakening of the Political Position and Military Strength of Rival States. To go back in history, the British Navigation Acts of the seventeenth and eighteenth centuries were aimed in part at this objective. Some of the German cartels of the inter-war period were also focused on this objective. The Berlin Blockade was aimed by Russia at weakening the political and military position of the United States in Germany.

Second Objective. The Creation of an Economy that is Self-Sufficient, Particularly in a Military Sense. Self-sufficiency may be achieved either by acquiring control of the necessary raw materials or by technological advances that permit the creation of substitute materials. Imperial Germany strove for both colonial expansion and for dominance in synthetic chemistry.

Third Objective. The Close Integration of the Economies of Satellite Countries to that of the Dominant Nation through such Means as Commercial Ties, use of Branch Plants, Cartel Operations, and International Loans. The ultimate goal of such coordination is to achieve an integration so binding that satellite countries cannot pursue independent political policies. Present Russian activities in the Balkan states, described herein, clearly come under the classification of this objective.

Fourth Objective. The Increase and Extension of Foreign Trade, with Emphasis upon the Expansion of either Imports or Exports, depending on the Dictates of Time and Circumstance. During the depression of the 1930's, most European countries sought to increase exports. Dr. Hjalmar Schacht, Finance Minister of the Third Reich, however, shaped his policy so as to increase imports into Germany though he never did pay for them.
Some of these objectives are complementary and the inter-relation with political objectives is apparent. The expansion of foreign trade and the integration of economies of satellite nations with a dominate power, can be closely allied policies. It was no accident for example, that both colonial expansion and foreign lending marked the foreign policy of the great nations of Europe at the end of the nineteenth and beginning of the twentieth centuries. The two operations complemented each other and loans to colonial areas served both to expand trade and subordinate one territory to the needs of another. Also, it shows how methods of economic warfare can serve more than one purpose. On the other hand, methods of economic warfare can be singular in purpose and not complementary. Policies aimed at creating a military self-sufficiency generally result in less profit in foreign trading. The reason for the diminishing return of profit stems from the purpose of the objective, such as weakening the potential of another power. For example, a policy of reducing United States' shipments of scrap iron to Japan before World War II would have been inconsistent with developing foreign trade. Such a change in policy would however, have been consistent with aiming at weakening the military potential of another power.

Practically every one of the means of waging economical warfare has as its immediate purpose, the weakening of the economic power and the military strength of foreign nations. Blockades, preclusive buying, seizure or purchase of sources of strategic materials, export licensing, blocking of currencies and transfer payments -- all are intended to undermine the economic and perhaps the political position of other countries.

The potentialities of economic warfare were perhaps seen clearly for the first time during the first World War. In spite of the fact that France and England had tremendous colonial holdings, they found themselves in a less advantageous position in 1914. German commercial interests were discovered to be more
extensive than most people had realized. Plants and factories located in France, Italy, and Spain -- in fact all over the world -- were controlled by Germany and were of military importance. In particular, many products of great significance in modern war were soon to be virtual German monopolies. Acute shortages suddenly appeared in important fields: dyestuffs, nitrates, potash, medicines, military optical goods, surgical instruments, heavy ordnance, magnetos, and certain electrical specialties. In each instance a German company occupied a dominant position. Immediately much talk was heard about German economic warfare in time of peace for the purpose of military advantage. It was called the "key industry" method of economic conquest. A line of demarcation cannot be drawn that clearly separates practices designed to weaken the military potential of foreign powers from policies designed to create military self-sufficiency at home; nor can measures intended to produce a dominate military power be separated from those measures attempting to subjugate satellite countries. The overlapping of these two types of action can easily be indicated by example.

The traditional interest of the German government in the progress of technology, particularly in the field of synthetic chemistry, certainly increased the German military potential at the same time that it was greatly reducing Germany's dependence on the import of raw materials. Some of the practices of I. G. Farbenindustrie and other similar cartels tended to check industrial development in other countries, and thereby their growth and military strength; hence support of the chemical industry by the German government served two purposes.

One of the best examples of procedures intended to strengthen the position of one country at the expense of others, is to be found in the British mercantile policies of the seventeenth and eighteenth centuries. These were particularly concerned with the Navigation Acts as developed first under Cromwell and later by Charles II.
These acts were designed not only to enhance British mercantile and naval interests but also to injure the mercantile and naval interests of Holland and France. They achieved considerable success in both directions. The Navigation Acts prohibited import into or export from any English possession in Asia, Africa, or America, except in ships built and owned in England or her possessions. The ships further were required to be navigated by an English captain and manned by a crew of no less than three-quarters British. There were further restrictions which required that certain key commodities produced in the colonies, such as sugar, cotton, and indigo, could be exported only to England. As a result of these acts, the mother country reaped profits from the shipping trade because of a virtual monopoly in certain instances. Also a direct result was a highly stimulated ship building industry and such by-products as sea going personnel with knowledge and equipment.

Further characteristics both of the present time and of the seventeenth and eighteenth centuries is the narrow margin separating economic warfare from political objectives. One place where these two types of action are closely merged is in the government owned or the government sponsored corporation. For a period, the governmentally sponsored trading companies, such as East India Company, Royal African Company, and the Hudson Bay Company were instruments for extending both commercial and political relations and their officials often held political positions as well as economic. Dupleix, when defeated by Clive in India, was not only Governor-General of the French possessions but also a member of the French East India Company. Interesting similarities may be traced between the positions of such men and the positions of heads of modern governmental functions. The administrators of the Marshall plan can be closely paralleled to their forerunners in the seventeenth and eighteenth centuries.

Since World War II, Russia has organized some government
sponsored corporations. Eastern Europe and the Balkans have been studded with a dozen such companies as the Soviet-Rumanian Petroleum Company, Soviet-Rumanian Civil Aviation Company, the Hungarian-Soviet Bauxite-Aluminum Company, and the Hungarian-Soviet River Transportation Company, and it is apparently the Russian Policy to extend these holdings. Ordinarily these companies are jointly owned by the Soviet Government and the country in question, and they control all or a major portion of a particular industry. Typically, the Russians have at least a 50% representation on the board of directors. In most cases the Russian contribution to these undertakings has been property seized by the Soviet Government from German nationals or from others. In any event, these corporations constitute a most effective mechanism for control by the Russian Government of key industries in the satellite countries, particularly industries with military significance. The pattern of Russian trade agreements shows that a ruthless policy underlies Soviet financial and trade pacts. The principal characteristic of the agreements so far signed between the Soviet Union and various Soviet satellite countries is the monopolistic nature of the joint enterprises which have been activated under the terms of the agreements now in force.

To illustrate the stranglehold that the Soviet Union exercises through her trade agreements upon the economic life of signatory nations, we offer a typical example among the agreements signed with Rumania on 8 May 1945. The agreements not only provide for Soviet capital and technicians to participate in the internal economies of Rumania, but also they authorize the formation of joint enterprises for navigation, agriculture, production and exploitation of oil and other natural resources, and iron and steel production.

The Soviet-Romanian agreement provides for the creation of mixed Soviet-Romanian concerns for the development of: Rumania's oil industry; foodstuffs industries; windowpane and glass products
industry; agriculture; lumber; all of the maritime, river and air
navigation lines; and banking enterprises. The executive powers
in these mixed companies are given to the general manager, nomi-
nated by the Soviets, and to a substitute for the general manager,
nominated by the Rumanians. The participation of the Soviets in
these joint companies will consist, as far as possible, in contrib-
buting equipment and supplies of a nature to increase the produc-
tion potential in the respective branches of the Rumanian economy;
or it will consist in means of payment to permit the acquisition
of this equipment or of these supplies where they may be found.

Specifically, the agreement provides for the formation of a
joint Soviet-Rumanian company, Sovrompetrol, for the "exploration,
refining and marketing of all oil and oil products." According
to the agreement, the two governments are to have equal partici-
pation in the management of the company, but the Soviet's record
would indicate the improbability of the Rumanian Government's
really having much voice in its management.

The Soviets have also obtained stock ownership in the largest
Rumanian metallurgical concern, Resita. This Soviet ownership is
in payment for iron ore taken from the Ukraine and metals brought
to Rumania by the Soviets. In addition the Rumanian Government
assures facilities for obtaining information for the exploitation
by the Soviets of any metals and ores in Rumania.

Under that part of the agreement affecting air transport, the
Soviet-Rumanian Joint Aviation Company, Tars, is to receive air-
planes and other equipment from the U.S.S.R. while Rumania gives
the air ports, their existing equipment, and the sites for the
construction of new airports. The company has the right to initiate
airlines in Rumania and to participate in international airlines
across Rumania.

The Soviets have gained participation in the lumber industry
of Rumania by establishing the Soviet-Rumanian lumber company,
Sovromlemn, under much the same conditions as contained in other
trade agreements. Also to round out the trade agreement relationship a Soviet-Rumanian bank has been established to finance commercial operations between the two countries. Agreements have also been negotiated with Hungary, Finland, Sweden, Switzerland, Denmark, Norway, Uruguay and Argentina.

Historically, as a method of promoting foreign trade, the foreign loan has been of fully as much consequence as the government supported corporation. In fact, the two mechanisms of economic warfare have gone hand in hand. They were used particularly in the period of colonial expansion beginning after the Franco-Prussian war and ending in 1914. During that interval enormous amounts of capital were exported from London, Paris, Berlin, Amsterdam, and the other money markets of Europe. Diplomacy sought the aid of financial enterprise, and the profit motive made for a dual purpose, individuals gained profit while countries gained political objectives through economic manipulation.

Brief examination of procedures and motives of the French, British and Germans will illustrate the relationship between foreign loans and economic warfare.

During the first half of the nineteenth century British loans and investments in foreign lands began to achieve substantial proportions. During the last quarter of the century the export of capital was greatly stimulated and increased enormously in the early part of the twentieth century. It is generally thought that around 1900 roughly half the annual savings of the British people was invested abroad. The Industrial Revolution was initially responsible for the huge sums available for investment and around 1900 great stimulus was given the Colonial Stocks Act. By this statute colonial securities were given certain privileges by the British Treasury which made them a highly desirable investment.

The character of foreign loans made by the French and Germans prior to 1914 was quite different from the British. Here no pretense was made that the utilization of capital from Paris or
Berlin was not without political and economic compensation. In France virtually every international loan was preceded by diplomatic negotiation and bargaining for economic and political concessions.

Conclusions and Recommendations

As America increasingly comes to play the role of capitalist for the rest of the world, it is evident that our foreign loans will be used more and more as an instrument of international policy. We must study the results obtained in this field through history and apply this aspect of economic warfare toward maintenance of world peace.

Although it cannot be accurately stated that the Marshall Plan was designed as a weapon of economic warfare against Communism, the end result was a weapon of real potency. As is stated in our fourth objective, it is a tremendous stimulant to foreign trade and the dictates of time and circumstance place emphasis on export. It further serves to deter any threat of economic depression which the Communists would so like to see in America. The designers of the program were conscious of its role in economic warfare and in Section 115 (b) made certain provisions. Some of the more important provisions of this section are; to stabilize currency and establish a valid rate of exchange, to reduce trade barriers and stimulate world trade among the participants. Another more obvious provision is an agreement by the participating countries to transfer to the United States such materials which are required by the United States as a result of deficiencies in its own resources.

Tied in very closely with the Marshall Plan are the provisions of Article Two of the North Atlantic Pact. The signatories commit themselves to a policy of economic collaboration. The parties of the pact seek not only to strengthen their combined military power but also to promote conditions of economic stability.

Defense against economic warfare is a problem of major concern
to the United States. Our full employment and record peacetime levels of production are not only matters of economic moment but are also of military and political consequence as well. After World War I, American prosperity became a byword throughout the world. The collapse of the thirties was deeper and more prolonged in the United States than elsewhere and as a result the American economy was discredited throughout the world. The Marxians hailed the size of the boom and the depth of the collapse as validating their interpretation of history.

With that example in mind and knowledge of Communist intentions of economic penetration it becomes obvious that a strong domestic economy is not only the first requisite for national security but also the greatest effort the United States can make toward maintaining world peace.
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First Objective. The Weakening of the Political Position and Military Strength of Rival States. For Example, the Berlin Blockade
was aimed by Russia at weakening the political and military position of the United States in Germany.

**Second Objective.** The Creation of an Economy that is Self-Sufficient, particularly in a Military Sense. Self-sufficiency may be achieved either by acquiring control of the necessary raw materials or by the technological advances that permit the creation of substitute materials.

**Third Objective.** The close Integration of the Economies of Satellite Countries to that of a Dominate Nation through such means as commercial Ties, use of Branch Plants, Cartel Operations and International Loans. The ultimate goal of such coordination is to achieve an integration so binding that satellite countries cannot pursue independent political policies. Present Russian activities in the Balkan states come under the classification of this category.

**Fourth Objective.** The Increase and Extension of Foreign Trade, with Emphasis upon the Expansion of either Imports or Exports, depending on the Dictates of the Time and Circumstance. Some of these objectives are complementary and the inter-relation with political objectives is apparent. The expansion of foreign trade and the integration of economies of satellite nations with a dominate power, can be closely related policies.

On the other hand, methods of economic warfare can be singular in purpose and not complementary. Policies aimed at creating a military self-sufficiency generally result in less profit in foreign trading. For example, a policy of reducing United States shipments of scrap iron to Japan before World War II would have been inconsistent with developing foreign trade. Such a change in policy would however, have been consistent with aiming at weakening the military potential of Japan.

The potentialities of economic warfare were perhaps seen clearly for the first time during the first World War. In spite of the fact that France and England had tremendous colonial holdings, they found themselves in a less advantageous position than Germany in 1914.
German commercial interests were discovered to be more extensive than most people had realized. Plants and factories located in France, Italy and Spain — in fact all over the world — were controlled by Germany and were of military importance. In particular, many products of great significance in modern war were soon to be virtual German monopolies. Acute shortages suddenly appeared in important fields: dyestuffs, nitrates, potash, medicines, military optical goods, surgical instruments, heavy ordnance, magnetos, and certain electrical specialties. In each instance a German company occupied a dominant position.

Since World War II Russia has organized some government sponsored corporations. Eastern Europe and the Balkans have been studded with a dozen such companies, and it is apparently the Russian policy to extend these holdings. Typically, the Russians have at least 50% representation on the board of directors of the companies and control the policy. In most cases, the Russian contribution to these undertakings has been property seized by the Soviets from German nationals or others. These corporations constitute a most effective means for control by the Russian Government of key industries in the satellite countries, particularly industries with military significance.

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