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## OSD DECLASSIFICATION/RELEASE INSTRUCTIONS ON FILE

### POSSIBILITY AND PREVENTION OF UNCONVENTIONAL ECONOMIC WARFARE ATTACKS AGAINST THE UNITED STATES AND HER ALLIES

#### Introduction

With the differences between the existing economic and political systems widening and the accumulation of economic power under potential enemy control increasing, the anticipation of the possible use of such power for unconventional economic warfare attacks against the United States seems more than timely. An exploration of exposed or unprotected points in our economic system, which could become targets of a surprise attack aiming at the crippling of our economy, could indicate adequate defensive measures and lead to their timely adoption and to the prevention of such attacks. Even though our own position may be found relatively impregnable, the possibility of similar attacks on our allies should be examined and prevented.

It is assumed that the potential enemy and his satellites have adopted totalitarian economic and political systems. An unconventional enemy could use even conventional business transactions for unconventional surprise attacks. The unconventional nature of such attacks need not lie in the action itself but in its timing, scope, execution and objectives. The effectiveness of such attacks could be parried if their nature and timing could be foreseen. However, it is next to impossible to anticipate and list in detail all the imaginable forms which such attacks could have in the future. The present statement thus merely indicates the various possible types of unconventional economic warfare attacks, suggests their eventual objectives and limitations, and some of the defensive measures which could prove effective. Their comprehensive investigation, anticipation of their possible timing by the enemy and the devising of suitable methods for their early detection and forestalling and counter-action should be made the continuous responsibility of appropriate government agencies. It would be dangerous to restrict our attention to only such forms of unconventional attacks which we are able to foresee already at the present stage or to rely only on improvised arrangements, for their detection and prevention. The stakes involved, and the novel nature of the threat, seem to justify a continuous and comprehensive effort to meet it.

#### I. Forms of Unconventional Economic Warfare Attacks.

According to their nature and immediate objectives, the various offensive measures with which totalitarian states could attack free economies could be listed under seven principal categories. While such subdivision should not be considered as all-inclusive, it might facilitate a more systematic dealing with the subject. The specific examples listed below under each category should be considered as merely illustrative. It is not implied that such attacks will or could be made, or that the list is complete. Even though most of these forms of attack might prove ineffective if aimed at the United States economy now, they could seriously weaken the economies of some of our potential allies. Their current

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1. Attacks on Financial Markets

Free economies in which financial markets play an important part in influencing economic activity could be exposed to attacks aimed at the upsetting of established price levels, creation of panics, financial difficulties, shifts in controls, and eventual depressions. The possible making of immediate "profits" on such attacks by their instigators would be secondary to the main objective of initiating a crisis in the opponent's economy. Such attacks could be visualized in the following forms:

- a. Raids on the stockmarket leading to market weakness, curtailing of new investments and reduction of business activity.
- b. Dumping on the bond market, embarrassing financial institutions, and creating difficulties in government financing and affecting the interest rates.
- c. Large scale gold imports, adding to monetary reserves and increasing inflationary pressure.
- d. Sudden release of hoards of authentic or falsified currency, with a view of accentuating inflation and creating mistrust.
- e. Undermining foreign exchange values through dumping and blackmarket operations in gold and currency.

The effectiveness of similar operations would at present be hampered by government bond market support, gold sales regulations, Monetary Fund foreign exchange agreements, as well as the technical difficulty of performing undetected similar operations on a large enough scale. They would probably have to be organized through intermediary of foreign banks so as to be inconspicuous. Different techniques and timing would have to be adopted from country to country, according to the prevailing financial institutions, market conditions and regulations.

2. Attacks on Commodity Markets

The flow of important staple commodities, including food, fibres and metals, could presumably be interfered with by well-timed large scale operations on principal commodity markets. Dumping could possibly lead to price breaks, costly curtailments and reorientation of production and distribution, even destruction of crops. Cornering of limited supplies could create bottlenecks and accentuate price inflation. Unconventional commodity operations could be visualized both on national and international scale. To become fully effective, they would, however, have to circumvent the following obstacles:

- a. Governments are operating already now on large scale in commodity markets, provide price support, and in some countries at

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the present time monopolize foreign trade in certain commodities.

b. The effectiveness of ruthless large scale operations would be hampered by existing export and import licensing, allocations, storage requirements and requisition possibilities.

c. Several international staple commodities are already under some control of international government or private agencies in which the presumable enemy country does not participate.

d. The formation of stockpiles, and the existence of important commodity reserves under government control, would permit counteracting of smaller scale unconventional market operation.

e. Large scale or continuous operations sponsored by foreign governments could hardly remain secret.

In spite of these obstacles, an unconventional attack on commodity markets could become more practicable than an attack on financial markets as it could be undertaken on a smaller scale and would produce more immediate results.

### 3. Gaining Control of Industries and Business Organizations

Nazi Germany weakened the industrial war potential of her enemies through business control of German foreign investments and license agreements. Implementing Nazi policies through business arrangements, defense production and related research was kept from expanding in foreign countries, artificial bottlenecks were created in potential war industries, war contracts were sabotaged, engineering and military secrets disclosed. With relatively small means applied with considerable leverage at strategic points, remarkable results have been obtained due to the unconventional nature of the attacks and its skillful disguise.

If patiently and cautiously prepared, similar infiltration of some of our smaller war industries by potential enemy interests can be visualized. If adequately cloaked from the beginning, such infiltration of enemy control might be even more difficult to uncover than during the last war. Proper industrial mobilization policies could reduce the possible effects of such enemy control on our total industrial war effort. However, the danger of espionage and sabotage would remain. An even greater infiltration of control of industries could take place in some of the allied countries. Adequate measures to detect and supervise unconventional foreign control of strategic industries should therefore be considered, established and maintained.

### 4. Adverse Propaganda Campaigns

The communist inspired world wide propaganda against cooperation with the American "boom and bust" economy and the dangers

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of "Wall Street Imperialism" has no doubt affected our relations with even our closest allies and has probably cost us hundreds of millions of dollars in foreign commerce and terms-of-trade. Foreign inspired attacks on the free enterprise system in some of the allied countries immediately after the war have remained largely unanswered, discouraged our free enterprise from resuming foreign operations, and prepared the ground for socialization and nationalization and final communist penetration. An even more direct and insidious form of "unconventional" economic attack are the various communist inspired and fostered strikes and other campaigns promoting social, racial and national unrest. In view of the relatively small cost and great effect of such propaganda campaigns and subversive activities, it is vital that proper attention would be given to them.

## 5. Interfering with Foreign Economic Relations

Once totalitarian countries would be able to increase their foreign trade, the fact that they can export and import without full competitive restraint would enable them to dump below cost or to buy preemptively at higher price in foreign markets and thus to interfere seriously with free competitive economic systems. Applying unconventional trading techniques successfully used by Nazi Germany in South Eastern Europe and Latin America, large totalitarian unions could monopolize, one by one, the trade of adjacent smaller countries, penetrate them economically and later politically and thus gradually restrict the markets accessible to the United States. During this process, our foreign investments would gradually be lost and our terms-of-trade impaired and our economy eventually forced into isolation. Accompanied by depressions and social unrest, such piecemeal attack on our markets could become a long range scheme for world conquest without war.

## 6. Abuse of International Agencies

Certain totalitarian countries have refused to participate in United Nations agencies proposing to facilitate international economic cooperation on a free competitive basis, such as are the International Bank and Monetary Fund and the International Trade Organization. At the same time they and their satellites have made sure to get their full share in international relief and assistance campaigns, such as were undertaken by UNRRA and FAO. Beyond that, totalitarian countries don't fail to use the forum of the United Nations for political propaganda whenever opportunity presents itself. We are being challenged to increase our participation in world reconstruction and development, while at the same time facing attempts to discredit our economic system in the eyes of other nations and direct attacks on our national economic objectives and policies. If not counteracted adequately, such unconventional attacks to which we are exposed by totalitarian countries could not fail to affect in the long run our international standing and leadership and possibly alienate some of our potential allies.

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7. Being Misled into False National Policies

With their own countries made practically inaccessible, their military preparedness a well guarded secret and their foreign relations and propaganda apparatus under absolute control, totalitarian countries could be in position to drain the resources of democratic nations by involving them in abortive foreign aid programs and in erratic and costly rearmament and mobilization efforts. While possibly weakening our economy by tens of billions of dollars, such unconventional attacks may be next to impossible to divulge. Since suspension of foreign aid and limitation of armaments could become equally fatal, the best safeguard against finding ourselves locked in an economic or military trap is to remain strong enough to be able to break it. Lest they in the end would help our potential enemy, it appears vital that our foreign aid programs be carried out so as to assure fully the desired quid pro quo and that our military preparations be part of a well considered and successful diplomatic and military over-all strategy. Evidently the lessening of the dollar shortage abroad and the export of armaments can strengthen us only if we make absolutely sure that the dollars and ammunitions thus supplied will not eventually be used against us.

II. Effective Countermeasures Possible

While the array of possible unconventional forms of attack on our economy may seem impressive, such attacks could be effective only if adequately prepared and skillfully executed and if not prevented or counteracted by adequate measures. The inherent momentum, adaptability and strength of our economy should make its protection against attacks relatively easy if foresight and determination will be used. The following broad measures could be envisaged for the prevention and countering of possible attacks:

1. Maintenance of a well balanced, fully productive and fully employed economy with continuous internal and external readjustments preventing development of weak spots, which could become targets of concentrated well-timed attacks.
2. Readiness of suitable controls for detection of irregular foreign sponsored operations in our monetary, financial and commodity markets, and for prompt counteraction of eventual enemy-sponsored unconventional attacks in these markets.
3. Establish definite industrial mobilization standards against which the performance of individual plants could be assessed so as to disclose companies falling behind suspiciously in preparations for possible emergency. Maintain up-to-date information on industries under foreign financial and license control and rosters of administrative personnel of such industries.
4. Improve the tracing down and counteracting of foreign propaganda campaigns, assure disclosure of possible alien influence on our associations and trade unions, consider eventual adoption of re-

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retaliatory legislation against abuse of our freedoms by foreign agents instigating subversive actions.

5. Consolidate and reassert economic leadership abroad through trade, licensing and investment, encouraging acceptance of our institutions and techniques, carrying out the ECA program, strengthening allied countries and preventing their being used as bridgeheads for possible attacks.

6. Bolster effectiveness of international institutions under our leadership, particularly the United Nations agencies so as to increase their participation in international consolidation and development, improve exchange of information and set up bulwarks against possible unconventional economic attacks by obtaining broader acceptance of Monetary Fund and ITO covenants.

7. Prepare, and if necessary adopt, retaliatory measures against institutions and individuals of countries restricting economic freedoms by curtailing their financial, commercial and industrial operations in other countries to the scope permitted to foreign nationals and institutions in their own government controlled economies.

### III. Conclusions and Recommendations.

a. A preliminary exploration of eventual unconventional economic attacks on the United States leads to the tentative conclusion that while the possibility of such attacks actually might exist, their effectiveness in the immediate future would probably be limited in view of the various government controls already in existence, and especially since strong protective measures could be devised and taken to counter such attacks on the United States as and when our potential enemy should resort to them.

b. At the same time, some of our allies may be found vulnerable and exposed to such attacks already now. Their success would evidently weaken our own relative position and our prospects to consolidate and increase our balance of economic power in the future.

c. Therefore, it is believed advisable to deal now with the possible danger and the eventual prevention of such attacks adequately and systematically both from our point of view and that of our allies:

i. The vulnerability of the United States and its allies to unconventional economic attacks should be investigated with the assistance of agencies interested and close to the subject such as the Department of National Defense, State, Treasury, Commerce, Agriculture, Justice, Federal Reserve Board, etc.

ii. Adequate measures for prevention and counteraction should be devised and, as and if found necessary, applied.

iii. Desirable coordination of such measures with our other foreign economic policies in peace and war should be provided for.