Naval War College Review

Volume 2
Number 2 *February*

Article 3

1949

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Recommended Citation

Abbott, Charles Cortez (1949) "Economic Warfare - The Attack," *Naval War College Review*: Vol. 2 : No. 2 , Article 3.
Available at: https://digital-commons.usnwc.edu/nwc-review/vol2/iss2/3

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ECONOMIC WARFARE - THE ATTACK

A lecture delivered by
Prof. Charles Cortez Abbott
at the Naval War College
October 21, 1948

Professor Spiegel in his book, *The Economics of Total War*, defines this subject as follows:

> "Economic warfare is designed to destroy the enemy's economic war potential by physically destroying war essential assets and by blockading supplies from abroad........" It "requires the coordinated blending of military and economic measures."

Colonel Clabaugh of the faculty of the Industrial College of the Armed Forces in a recent lecture in that college's Economic Mobilization course said:

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

In order to place economic warfare in some perspective, it may serve a useful purpose at this point to make a number of observations regarding it. Economic warfare of course is not a new

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development. It is probably as old as warfare itself. Certainly in Plutarch's account of the wars of the Greeks and the Persians there are numerous happenings which we would characterize as falling within the orbit of economic warfare. In the Napoleonic wars measures of economic attack and defense played a prominent part, and in our own Civil War the blockade of the South was of very great consequence.

With the passage of time, the realignment of nations, and the development of new weapons, economic warfare continually changes its form. The development of air power and of submarine warfare has of course greatly widened its scope and objectives. On the other hand, total war on a global scale has tended to diminish the feasibility of naval blockade in the older, narrower sense of blockading a hostile coast line and has fostered a growth of new measures which I will speak of in a moment.

It has been commonly observed that economic warfare encompasses many ordinary peacetime practices of business, such as foreign investment, patent interchange agreements, establishment of branch plants in foreign countries, and commercial relationships of many kinds. At the other extreme are operations of a strictly military character, undertaken in wartime, that possess an economic purpose, such as submarine warfare and the air attacks on the German synthetic oil plants at Leuna in the last war. In between these extremes come such operations as our efforts to deprive the Axis of Spanish and Portuguese wolfram through preclusive buying, or our efforts through the use of ship warrants and denial of bunkering facilities to force the Argentines to employ their merchant tonnage in shipping services advantageous to us.

In general, the effectiveness of economic warfare increases or decreases directly in proportion to the military strength and success of the nation or alliance. Many illustrations of the validity of this proposition can be found. For example, the character of the trade agreements which the United States was able to negotiate with neutrals—Spain, Portugal, Sweden, Switzerland, and Turkey—changed rapidly and in our favor between 1942 and 1944 as allied military successes increased. As fortune favored our arms it was possible to put increasing pressure on neutral countries and areas and, consequently, progressively to deprive the Axis of essential raw materials. This observation perhaps is nothing more than a further confirmation of the fact that economic warfare in itself can probably never be a decisive factor independent of military action, although it can very substantially contribute to military successes.

Probably economic warfare is most successful when a particular action is undertaken on such a scale and so rapidly that the economy attacked has no chance to accommodate itself to the blow or to develop substitute materials or alternative trade routes or connections, with the result that the effects of a sudden and unexpected action tend to become cumulative. If the country is suddenly and completely cut off from some item such as ball bearings, or if all foreign trade relationships with neutrals are swiftly and violently distorted, the effects on a country's economy will be very far reaching, particularly in a military sense. Reasoning of this type is of course one of the bases for apprehension regarding a sneak attack on industrial areas in the United States.

On the other hand, it is easy to overestimate the effects of particular operations designed to accomplish economic dislocation. The strategic bombing of German industry and transport prior to the spring of 1944, for example, seemingly injured the German economy much less than was currently believed in this country. A commonly quoted judgment of one of the officials of the British Ministry of Economic Warfare is to the effect that MEW did not underestimate Germany's needs or resources, but that German ingenuity in developing substitutes for critical materials and components was greatly underestimated.

It is clear, of course, that there are two bases for economic warfare. The first may be described as the economic and business facts characteristic of a nation's economy. Economic and commercial geography, sources of raw materials, peacetime trade flows, commercial and banking connections of important companies, the location of key plants and industries—these determine the points in a nation's position that are susceptible to economic attack. Great Britain, for example, was vulnerable to a food shortage; Nazi Germany was vulnerable to a shortage of gasoline. The second basis is economic intelligence, or knowledge of these facts. The focus of such intelligence must be to determine the shortages that exist in the economy at the outbreak of war or that appear during hostilities.

In order to prosecute economic warfare successfully the necessity for the collection, collation, and analysis of economic intelligence is self-evident. Its importance can hardly be overestimated and it is essential in every phase of this type of operation, from the selection of targets for strategic bombing to knowledge of shortages in the enemy's territory.

A great deal, probably a major portion, of the information needed for an effective system of economic intelligence can be gleaned from published sources. The problem is one of organizing to do the job, especially in peacetime. In the last war there was a great deal of overlapping, confusion, and duplication among the agencies concerned with this task, and there is no question that far too much time elapsed before an effective economic intelligence organization was achieved. The inescapable conclusion is that much of the job of collecting economic intelligence can and should be done prior to the outbreak of hostilities.

A very large part though perhaps not all of the necessary information that is not available from published sources probably exists in the files of government departments and of business concerns in this country. The logic of the problem of assembling data for economic warfare requires that any particular country base its intelligence system on the organizations and sources of information at its command. (Traditionally, Great Britain has used shipping concerns, banks, foreign trade connections, and its control of the international news organizations for this purpose, in addition to its diplomatic and consular representatives; Germany, as we all know, used German companies or plants located abroad, patent interchange agreements, and the various kinds of German emigrant societies; Russia clearly uses the Communist Party and its fellow travelers for this purpose). It is doubtful if any systematic effort has been made to collect and collate information in the hands of leading American business corporations with far-flung foreign connections, such as the large banks, General Motors, Standard of New Jersey, International Harvester, and so on. The omission is a matter of great regret, since if such information were collected and collated it would certainly be very comprehensive.

The need for this kind of effort appears to be the greater since, insofar as I understand these matters, there is relatively little knowledge of the workings of the Russian economy in this country, at least as compared with other major powers. This lack of an integrated body of data makes offensive economic warfare against the Soviet considerably more difficult than would otherwise be the case. Incidentally, I believe that careful analysis of the trade agreements that Russia has concluded since V-J Day, and is concluding, both with countries inside and with countries outside the Iron Curtain, should be one of the more fruitful sources of this kind of knowledge, in that such agreements might suggest actual or potential shortages in the Russian economy.

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We come now to the techniques of economic warfare—blockade, export licensing, preclusive buying, control of shipping, blacklists, blocking of foreign assets, and all the rest.

Historically, the backbone of economic warfare has been the naval blockade in the strict sense of the word. Reliance has been placed on the stationing of naval vessels on an enemy coast and outside enemy harbors, on patrol of the sea lanes, on observation of shipping in neutral roadsteads, and on the careful designation of contraband and, when possible, its seizure. During the two World Wars this pattern has been altered by three well-defined developments. The first was the growth of the navicert system, a system which resulted in great economies in the use of warships in supervising neutral shipping. The second has been the development of the long distance or paper blockade, which in its more advanced form seeks not only to cut off all supplies for the enemy at the point of origin, namely, in neutral countries, but even goes so far as to mould the economy of neutral territory to your own use. The third circumstance has been the breakdown of distinctions between contraband and noncontraband goods, whatever the lawyers may say.

The reasons for these changes are clear. Global warfare and conflicts between world-wide alliances, together with the development of new weapons such as the airplane and the submarine, have greatly increased the need for employing naval vessels in strictly naval operations and on convoy duty. Conversely, the amount of naval vessels' time available for blockade purposes has been reduced. Furthermore, the larger the land mass and the volume of resources controlled by the enemy, the fewer are the objectives that can be achieved by a close blockade. The number of strategic items in short supply for the Nazis in 1942 was really very small—petroleum was perhaps the only item in which shortage ever became acute. Moreover, the logics of total war on a global scale make useless any distinctions between contraband and noncontraband items. Finally, the necessities of total war require that a combatant not only devote all of his resources to the war effort but also, so far as is possible, compel neutral nations to devote their resources also to purposes advantageous to him. In pursuit of this objective the combatant, of course, makes use of shipping controls, trade agreements, preclusive buying, financial measures, and any other procedures available to him.

An ancillary purpose sought in the effort to control the trade of neutrals is to deprive the enemy of any advantages of trade with other countries or the use of any assets that he owns located outside his own boundaries. The ultimate goal is to deprive him of the benefits that arise from the fact that he is a member of a community of nations.

With reference to the navicert system, it should be pointed out that the Navy has three, perhaps four functions to perform under this procedure: the issue of the navicert, although this can perhaps be done by other agencies; apprehension of blockade runners; the enforcement of the rules of blockade at control points; and periodic spot checks of merchant vessels on the high seas to ensure that the blockade rules are being observed.

Should a condition of open hostilities develop between this country and the Soviet there can be little doubt that the measures of economic warfare existing at the end of World War II would be quickly reimposed. The export control measures which, as you know, were originally instituted under the Export Control Act of July, 1940 as a means of conserving scarce items, would be reinstituted. They would be reimposed partly for their original purpose of conservation, partly as a means of putting pressure on and bargaining with neutral areas or with areas producing resources essential to our own effort, and partly to ensure that no products of American fabrication were exported and fell into enemy hands.

War Trade Agreements, which are essentially a mechanism for rationing noncombatant areas and for bringing the operation of their economies into conformance with your own needs, would be quickly negotiated. The rationing of neutral or noncombatant areas has a number of separate aspects, each one of which merits attention. In the first place, you cannot afford to give these areas all they want of many commodities, or even all the shipping space that they want. In the last war, the East Coast of South America was not only severely rationed as regards its receipts of newsprint and steel but also as regards shipping space allocated to it. In the second place, it is important that only the *essential* needs of neutral areas be satisfied; otherwise it is entirely possible that scarce items may be reexported to the enemy. In the third place, rationing of the items that these areas want from you is the best lever for assuring that you get the supplies from them that are needed in your war program. In the last war it was made very explicit by the Belgian Congo that continued shipments of scarce minerals, fats and oils and fibers were contingent upon the Congo's receipt of manufactured goods and such picturesque items as old clothes and tinware essential for trade with the natives.

The injury to the Russian war effort that such measures might inflict would in general be determined by the extent to which the Russian economy and war potential is dependent upon imports of raw materials, components, and technical skills from abroad. I will not attempt to appraise this matter, since the Russian war potential is the subject of another lecture in your course.

I would like to suggest, however, that the effect of these measures might be influenced to some extent by another factor, namely, the amount of territory controlled by the Russians. The greater the size of the land mass controlled by a military economy the less it tends to be subject to the pressures of economic warfare. When Nazi Germany overran Poland, the Balkans, and Norway she greatly increased the resources at her command, not the least of which was man power. On the other hand, the addition of territory may lead to greater shortages of certain kinds. For example, Holland is a deficit food area, and the fact that the Nazis overran the Netherlands must have increased the pressure on their own food supplies. One may presume that the use of French industrial capacity by the Germans increased the pressure on German petroleum resources. The fact that the United States welded Latin America to our war economy—insofar as we did—required that we supply Latin America with minimum amounts of shipping services, newsprint, flour and so forth. As is well known, our efforts to service the Caribbean and the East Coast of South America resulted in a number of submarine sinkings that might not otherwise have taken place and consequently intensified the shortage of merchant shipping. In short, if Russia overran Western Europe it would increase her war potential, but it would also increase her vulnerability to certain types of economic pressure, though probably not in equal degree.

If war between the United States and the Soviet should break out, the long distance or so-called paper blockade, with its three basic instruments, the navicert, the ship's navicert, and the ship's warrant, would certainly be imposed immediately.

As you know, the navicert originated in the First World War while the United States was still a neutral. It was originally a device for expediting the shipment of noncontraband goods from one neutral country to another, a sort of permit for passage through the blockade, given at the point of origin. It speedily developed into a system of controlling all goods passing in trade between the neutral countries.

A ship's navicert which was a logical outgrowth of the navicert for a particular consignment, was given when all the items in a ship's manifest had been navicerted, and permitted a vessel to make a single voyage through naval controls. The ship's navicert provided a description of the ship and its proposed itinerary; a list of officers, crew, and passengers; a description of the cargo, ship's stores, mail, and money; and an account of the source, destination, consignor, and consignee of the cargo. When the application for a ship's navicert was received, the crew and passenger lists were checked, and objectionable persons were removed before the issue of the navicert. The effect of the navicert system was that all unnavicerted ships and cargo became subject to immediate seizure.

A ship's warrant entitled a vessel to the use of British and Allied port facilities—bunkering, ship stores, repairs, and so forth. In order to receive a warrant the owner agreed that no vessel owned or operated by him would sail to or from the navicert area without a ship's navicert, that he would not sell or part with effective control of any vessel owned by him without the approval of the proper authorities, and that he would not employ any enemy company for the purpose of obtaining insurance or other facilities. In addition, fleet owners were generally required to charter portions of their fleets to the issuing authority; in the last war that meant either the British Ministry of War Transport or the War Shipping Administration. I have always been under the impression that the presence of Swedish vessels in the Pacific in services designated by the British was a result of this kind of lever on neutral shipping.

The extent to which the imposition of shipping controls may directly injure the Soviets seems to me very problematical. On the other hand, the use of these controls would clearly increase the resources at the command of this country and of Great Britain, and it is in this respect that they would be chiefly useful.

If the cold war should turn into a hot war, it seems certain that proclaimed lists of individuals and of business concerns commercially "untouchable" would be speedily developed and that Russian-owned funds and other assets in territories under our control would be sequestered. Here again the direct injury to the Russians would be doubtful. Certainly there would be no important body of Russian assets owned in this country to sequester—nothing like the $7,955,000,000 of assets that were blocked in this country during the last war.

In short, the ocean-borne commerce of Russia, particularly that part that could be reached by the navicert system or the proclaimed list, seems to be very important to the Soviet. Her land boundaries to the Near East and the Far East would be difficult if not impossible to seal through measures of economic warfare. The conclusion is, I think, that strategic bombing would be far more effective in breaking down the Russian war potential than would these other mechanisms.

By way of conclusion let us consider some of the economic aspects of the cold war. These considerations are important on their own merits. More importantly, the degree of success with which the United States and the Soviets prosecute their respective programs of economic warfare prior to the time hostilities break out—if they do—will greatly influence the possibilities of economic warfare after the event.

The general pattern is clear. The Soviets have their policy of economic erosion; the United States has the Marshall Plan.

The chief, the most interesting, and the most baffling characteristic of the Russian policy is its destructive character. The erosion, undermining and collapse of other economies serves the Soviet purpose. Only in minor degree, apparently, are the Russians interested in preserving the productive capacity or trade connections of territories under their control and in adapting these facilities for their own use. In this respect Russian policy largely differs from other types of economic penetration that the world has seen. On the whole, and notwithstanding some well-known exceptions, the British and the Germans have traditionally sought to preserve the economic potential of an area being penetrated, and even to build upon it. Their purpose for the most part was to turn the productive capacity and facilities in such territories to their own use, not to destroy them.

As I have said, Russian policy is furthered by the spread of economic chaos, by civil disturbance, the diminution of production and trade, inflation of currency, dislocation of channels of trade, and the disappearance of plants and individual business concerns. One of my friends points out that the Russians are masters of "economic cannibalism," the absorption or destruction of economic activity outside Russia, leaving the Russian economy, poor as it may be, without a rival.

In this policy, especially in its early stages, manipulation of the monetary and banking structure is a key element. As we all know, inflation of the currency and prostitution of the banking system in a given area is the quickest way to check the economic processes of production and distribution and to discourage businessmen and the spirit of enterprise. The importance of money and credit was recognized by Lenin. Both Nazis and Communists have used control of money and banking mechanisms as a means of breaking down the economies of satellite, peripheral states, and the position that control of the currency has assumed in the Berlin situation seems to be not wholly accidental.

As against this program the United States has as a countermeasure the Marshall Plan, with all the implications and ramifications covered by that phrase. It is commonly said that this plan is designed for the economic restoration of Europe, but this seems to be not a wholly adequate statement. In an immediate sense the plan was designed to check economic deterioration in western Europe; in a larger sense it is presumably intended to restore an economic balance of power in Europe, a *sine qua non* of the restoration of a military balance of power.

Certain aspects of the Marshall Plan, however, particularly aspects that are significant under economic warfare, I do not think are fully appreciated. In what I am about to say I am relying chiefly on three very competent documents: *A Survey of the Economic Situation and Prospects of Europe,* United Nations Economic Commission for Europe, Geneva, March 30, 1948; a supplementary document published by the same source, *Selected World Economic Indices,* Lake Success, July, 1948; and *The Eighteenth Annual Report of the Bank for International Settlements,* published at Basle, Switzerland, June 14, 1948.

It does not seem to be valid to look on the Marshall Plan as a means of restoring European industrial production to prewar levels. Such a restoration had in fact been substantially achieved before the end of 1947. Industrial production of 14 major nations of Europe, excluding Germany, in the latter half of that year was on the average 99% of prewar production; 8 nations* which in 1938 accounted for 34% of European production had exceeded prewar output, in some instances by considerable margins. This level of production seems to have been achieved in large measure because of the increased labor supply in Europe and by a more

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* Belgium, Bulgaria, Denmark, Ireland, Norway, Poland, Sweden and the United Kingdom.

complete use of the supply than was the case in 1938, since European postwar output per man-hour has been much lower than in the prewar period. The conclusion is, I think, that in the field of industrial production the logical aim of the Marshall Plan must be to raise output above prewar levels. This can take place only over a period of time, as capital equipment is increased. It is also probable that an increase in facilities is a necessary condition for a rise in the man-hour output to something like its prewar level.

In the field of trade the picture is very different. In current prices, European trade is above the prewar level, but in terms of 1938 prices it remains substantially below that of 1939. The Bank of International Settlements Report states: "Expressed in real value, the trade of European countries with one another in 1947 represented only 56% of the prewar volume, while Europe's trade in the non-European countries amounted to 78% as regards exports and 106% as regards imports......" The relatively high level of imports of course is in good part attributable to American generosity.

The chief area in which this "deficiency" in intra-European trade appears is in the drop in German trade with Western Europe (something like one billion dollars of trade in each direction having disappeared), and secondarily in the shrinkage of trade flowing between western Europe and central and eastern European countries. The conclusion appears to be that a major objective of American policies must be an increased volume of European trade. Accomplishment of this goal will in turn be largely dependent upon the establishment of sound monetary conditions, balanced budgets, and relaxation of controls upon foreign exchange and international commerce. These problems of course are chiefly domestic problems for the countries concerned. Insofar as the Marshall Plan does not induce or force attainment of these conditions it will not realize its potentialities.

In some ways the major European problem is the loss to Europe, as the result of the war, of "invisible receipts" from foreign invesments, shipping, insurance, and so forth. The Bank of International Settlements Report states that in the period 1933-1938, "The net income from Europe's investment in non-European countries was equal to about $1.4 milliard......and accounted for about one-quarter of Europe's total imports from non-European countries; in 1947 the corresponding net income would seem to have been only $400 million, some 30 percent of what it was before the war." Here again the conclusion is plain. Unless Europe, during the period in which this country supplies aid, so reorganizes its economy as to adapt itself to these new conditions the Marshall Plan will fall short of its purposes. But this adaptation is again essentially a domestic problem, or perhaps a complex of domestic problems, for European countries. The Marshall Plan in and of itself here can do little more than buy time—time for the European economy to adjust itself.