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17 February 1955

TALK TO STRATEGIC INTELLIGENCE SCHOOL
ON ECONOMIC INTELLIGENCE

In the next hour I intend to discuss 3 major aspects of this subject:

First: The purpose of economic intelligence,

Second: Its production and coordination, and

Finally: and very briefly a few words about our sources of economic intelligence information.

On the first of these three topics we can begin by noting that it is the function of economic intelligence to explain production, distribution and consumption for all sectors of the economy. To do this requires not only an analysis of individual sectors of the economy; such as the electronics industry, transportation, telecommunications, agriculture, and the munitions industry. It also demands a more aggregative type of analysis to give an integrated and inter-related picture of developments involving more than one sector.

Now our question is: What is economic intelligence used for? For the answer to this we might take a look at our chart. Here you can see a somewhat artificial division of objectives. In the first category we include studies which serve as a basis for broad policy decisions and in the second group we have a different kind of report which is used to support decision implementation. Obviously there is

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an overlap between these two categories. But let's quickly run down the list in order to see more precisely what is involved.

Capability for Military Action:

Many of our major policy decisions depend on estimates of the economic capabilities for war, both of our Allies and of the Soviet Bloc. In preparing studies for the Bloc capabilities for war, for example, we may have studies covering the whole picture of the Bloc's economic capabilities or we may have a very narrow study; such as one covering the Bloc's transportation capabilities for a selected campaign.

It's been interesting to watch the change in methods of circulating Soviet capabilities over the past 5 to 6 years. In the early days very crude calculations were made comparing the Soviet Bloc output of key industrial products with those in the West. Later Soviet availability of the key items was balanced with civilian and military requirements. Today much more sophisticated techniques are used to include the so-called "input-output" analysis which takes into account the inter-relationship among selected industries. The economic intelligence community has decided that in the absence of bomb damage there is no limitation in the economy severe enough to prevent the Soviets from going to war, and current studies are concentrating on hypothetical war-time capabilities.

Studies of this kind relating to economic capabilities for military action are in considerable demand by such groups as the National Security Council; the Joint Chiefs of Staff, the NATO

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Standing Group, the Weapons Evaluation Systems Group, and others.

Capability for Cold War Measures:

Economic intelligence studies of the capabilities of the Soviet Union to undertake cold war measures would include certain fairly recent studies of the capabilities of the Soviet Union to use trade and technical assistance as a device to gain political leverage in some of the underdeveloped areas of the world; such as India and Indonesia. There seems to be more and more evidence of Soviet efforts in this direction.

To Maintain Economic Stability and Progress:

We are obviously very much concerned not only about the economic stability in the Soviet Bloc but about the economic stability and progress of the non-Bloc nations. A tremendous amount of effort in the post-war period has gone into studies of the economic situation in these countries. Some of you may know of the work done in ECA, FOA, MSA, and the Departments of State and Defense along these lines as a basis for major decision on foreign aid and technical assistance. In this connection there was a situation in Iran, some years ago, which required some study as to the urgency of Iran's requirements for foreign assistance. You may remember this was occasioned by the withdrawal of the British-Anglo Oil Company from Iran. Both before this event and immediately thereafter, a great cry was heard from many quarters that Iran would very soon be bankrupt and the economy would collapse paving the way for Soviet domination. This reasoning was based on the calculated impact resulting from the loss of the tremendous oil revenues to the Iranian government. The timing

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and shape of many Western decisions rested in part on conclusions as to the urgency of Iran's economic situation. Certain economic intelligence studies at that time concluded that while there would be a strain on the economy, Iran could take measures that would prevent the development of an internal economic crisis. This conclusion proved correct, but at the time it was far from unanimous. In this case the intelligence analysis was correct because it had been based on facts that revealed not only the problems that the Iranian government would face, but also the adjustments within the economy which it might reasonably be expected to make. In short, these adjustments were made and there was no economic collapse.

Vulnerability to Military Action:

One of the best examples of this category of vulnerability study is the whole series of target studies analyzing the vulnerability of the various sectors of the economy to air attack. As most of you know these studies cover many detailed aspects of production, distribution, and consumption for numerous sectors of the Soviet economy. I'm sure that I don't need to labor this example for you gentlemen.

Vulnerability to cold War Measures:

One of the major U.S. programs designed to exploit Soviet vulnerabilities to western cold war measures in the international economic defense effort (economic warfare) which has been heavily supported by economic intelligence. This intelligence has taken the form of commodity studies covering the Soviet Bloc to assist

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in a determination of items to be controlled and broader studies to assist in evaluating the focus and effectiveness of the program.

In this connection I might point out that an analysis of this, or any vulnerability, requires an understanding of the dynamic inter-relationship between a nation's capabilities and its vulnerabilities. By this I mean that an effort to exploit a vulnerability by one nation will, given time, always be adjusted to by the opposing nation within the limits of its capability and in accordance with its schedule of priorities. Let's take a couple of concrete examples.

X Before World War II the Allied Powers were aware of a long list of deficiencies which existed in the German economy. This list included some of the following vital materials:

Petroleum and Iron Ore	2/3 of pre-war consumption imported
Manganese	No deposits of any consequence
Ferro-alloys (Tungsten, nickel, cobalt)	Deposits almost totally lacking
Copper	Less than 10 percent of requirements produced domestically
Bauxite (For aluminum)	No deposits
Rubber	No production of natural rubber

And we could go on listing deficiencies in lead, tin, zinc, mica, sulphur, and many, many others.

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These facts unfortunately led many people astray, including specialists in economic warfare. Statisticians could prove that Germany was hopelessly lacking in almost all of the raw materials necessary to carry on a real war. Moreover, many experts concluded that if Germany started another war, a blockade exploiting these deficiencies would bring about military collapse or revolution in a very short time. As a result many felt that Hitler was merely bluffing and the illusion of a "phony" war lasted, as you know, until the spring of 1940.

But what actually happened? Let's list some of the actions Germany took to offset the effects of economic warfare:

1. The government took firm control of the country's economy thereby permitting an allocation of scarce materials to priority military objectives.
2. Tremendous preparations were made to stockpile scarce materials.
3. Low grade mineral deposits, which normally would be unprofitable to work, were mined intensively.
4. Agricultural lands were cultivated more intensively and poor lands were put into cultivation for the first time.
5. Synthetics were developed and substitute products were used to replace certain essential imports, including certain alloy metals and rubber.
6. Plans were made to obtain supplies of vital materials from neighboring countries by conquest or purchase, including petroleum from Rumania, iron ore from France, nickel from

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Finland, and so forth.

The allied nations were, of course, aware that some of these things were going on but the ability of Germany to make adjustments overcoming the critical deficiencies of her economy were grossly underestimated. All of this is not to argue against economic warfare - rather it is to emphasize that an analysis of the impact of such measures must be realistic. False anticipations of the enemy's weakness merely deceives our own planners.

Very recently there was another opportunity for intelligence to highlight this inter-relationship of vulnerability and the capability for adjustment. During the Korean War, you may remember, there was a great deal of discussion about the impact of the Western export control program on the economy of Red China. One of the principal unknowns in this was the extent to which Red China could obtain its vital requirements from the USSR and other Bloc nations. It was first thought by some that (a) the USSR was not in a position to spare the volume of support required by Red China, and (b) that even if it were able to do so the Trans-Sib and the connecting rail lines in Manchuria would not be able to carry that volume. Intelligence anticipated, and later reported, that the Soviet Bloc would have the capability to supply the items in the quantity required and that the Trans-Sib and the connecting lines in Manchuria not only had the capability to deliver these goods but had an even larger capability if it were required. There was no self-delusion on these points. It was clear that Red China could adjust and did adjust to the loss of imports from the West.

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Vulnerability to domestic Pressures:

Just a brief word on this. In setting a policy to exploit a country's vulnerabilities, the policy-makers should understand the pressures already existing within the economy in question. In connection with the U.S. economic defense policy for example, there have recently been studies of the agricultural situation in the Soviet Union. We know that this is one of the weakest sectors of the Soviet economy and that the prospects of any early and dramatic improvements are very remote. We also know that this same agricultural problem was given considerable prominence in the recent political shake-up in Moscow. In fact, Malenkov's resignation address took special pains to emphasize his failures in agriculture. It is obviously important that we have a thorough knowledge of the situation not only as it relates to the U.S. economic defense policy but to other programs, including psychological warfare.

Course of Action - Military:

Up to now we have talked solely of economic intelligence as it applies to an analysis of the capabilities and vulnerabilities of foreign nations. Let me say just a word about the way economic intelligence is used in estimating probable courses of action. Intentions are really derived from bits of evidence about the probable courses of actions of foreign nations; and to be meaningful this evidence must be evaluated against the background and in the context of intelligence on economic capabilities and vulnerabilities. Moreover this evidence must be considered in the light of pertinent

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political and military intelligence. Economic evidence of intentions by itself means very little unless it is considered in relation to the total pattern of the particular situation. Evidence, for example, of the strengthening of bridges and the stockpiling of POL in certain forward areas would not appear by itself to be very menacing unless it appeared in the context of a threatening situation.

Similarly, in evaluating other military developments such as probable Soviet efforts in the guided missiles field, we must, in considering limited evidence, take account of Soviet capabilities to manufacture the guidance systems, the special fuels, etc.

As a good example of how future courses of action can be predicted by a knowledge of the basic economic situation, we might look at Germany shortly after World War I. Many of the basic economic forces which aided the rise of Hitler and helped to shape his aggressive military policy were recognized by the then little known economist John Maynard Keynes. This present situation prompted Keynes to write his book "The Economic Consequences of Peace" predicting many of the broad German policies that would, of necessity, emerge from this basic economic situation.

Reports as Support for Decision Implementation For Military Plans and Operations

Turning then to the second category of objectives, we can again take the example of target analysis in connection with support of military plans and operations. Economic intelligence must render

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close support in any bombing operation, not only to evaluate the physical damage from bombing but the repercussions of such damage to the economy. If a particular electric power installation is knocked out, for example, how does this affect aluminum production and which industries will feel the aluminum shortage. This is the same general kind of support rendered by economic intelligence during the last war.

Skipping to II C in our chart, --"Support for Cold War Measures"-- the economic intelligence community presently renders almost day-to-day support for the U.S. economic defense enforcement program. The Economic Defense Division in CIA is continually on the alert for clandestine trade in contravention of Western trade controls and reports on violations are transmitted almost daily to the U.S. Diversion Control Net. This is just one example of "cold war" support.

Up to this point we have dealt largely with economic intelligence as it relates to the Soviet Bloc probably because this geographic area takes the most intensive efforts of the intelligence community. However, a large portion of the intelligence community continually provides support for some of the more conventional economic programs that have been of tremendous importance to U.S. security interests. This includes, for example, the operational support for the U.S. foreign and technical assistance programs, all of which require detailed knowledge of the economies of the foreign countries concerned.

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I think you can see from this brief run-down that in many major decisions and operations, economic intelligence plays a very vital role and I hope this gives at least a rough idea of just where economic intelligence fits into the whole intelligence picture.

Production and Coordination of Economic Intelligence:

Now that we have covered the uses to which economic intelligence is put, we can look at the system here in Washington for the production of this intelligence. Within the last six months the economic intelligence community has agreed to a directive outlining primary responsibilities for the production of all foreign economic intelligence. This directive, issued by the Director of Central Intelligence, outlines the following general areas of primary responsibility:

Military economic intelligence on all foreign countries including such subjects as shipping, logistics, and target analysis.	The military departments of the Department of Defense.
Economic intelligence -- other than military economic -- on the non-Bloc areas.	The Department of State.
Economic intelligence -- other than military economic -- on the Soviet Bloc areas.	CIA.

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While we have this agreement among the intelligence agencies, we all know that economic research on foreign areas is not confined to the intelligence community -- Commerce, FOA, Treasury, and many other agencies of the government are also deeply involved in this subject.

Recognizing this, the IAC in 1951 took steps to make some sense out of all these duplicate and overlapping efforts by establishing the Economic Intelligence Committee. The organization chart gives you a rough idea of the broad committee structure. The full members are drawn from the IAC agencies and it is these representatives who have the principal responsibility for making the committee work effectively. Roughly 20 non-IAC agencies are brought in when subjects are considered in which they have an interest or responsibility. The secretariat is an instrument of the whole committee and assists the main committee in providing guidance and direction to the subcommittees and working groups. The subcommittees themselves are made up of the top professional personnel in their respective fields, and it is their responsibility to oversee the continuing research program in these fields. The working groups, on the other hand, coordinate special priority studies on an ad hoc basis.

It would be naive to conclude that the EIC has solved all of our coordination problems, but it has gone a long way toward making sense out of the diverse efforts of a lot of individual agencies. We might quickly review the major responsibilities of this committee

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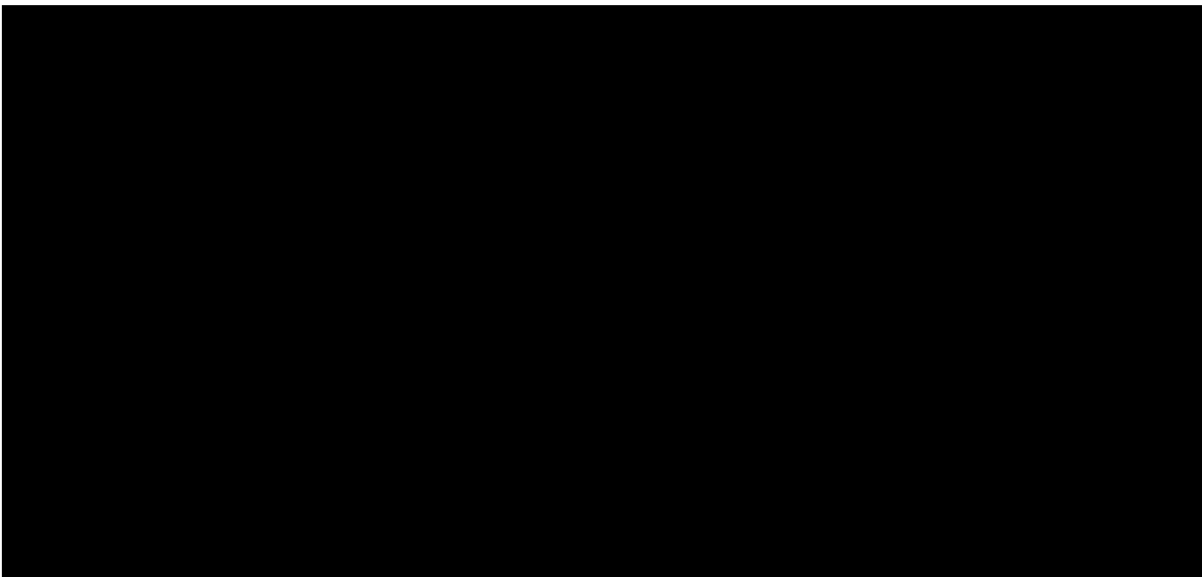
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under three separate headings.

1. Coordination of major studies of national security importance.
2. Review and rationalization of the total economic research effort and identification of priority intelligence gaps.
3. Review and improvement of the collection and processing of intelligence.

The British Prime Minister, Mr. Churchill, and former President Truman had a lot to do with initiating one whole series of EIC studies. In early 1952 in a meeting on-board the Yacht "Williamsburg", they were discussing matters relating to China trade and shipping policy when they found certain major differences in their intelligence briefings. The EIC was called into action and after contributions by State, Army, Navy, Air, and CIA a completely coordinated study was produced and approved by the U.S. intelligence community. It

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As you may know, the subject of transportation is one on which every agency in the intelligence community seems to have some "expertise", and it is understandable that the consumers could get almost any answer they wanted, depending on the agency they contacted. The EIC tackled this problem and within the last few months completed a coordinated study. However, this study was honestly judged to be inadequate by the same professional experts who had produced it. This, in itself, is a startling development. It was even more encouraging when three of the agencies on the Economic Intelligence Committee, Army, Air Force, and CIA, agreed to combine forces in one CIA office to make a concerted effort to lick this problem. So much for coordinated studies.

The EIC, in line with its second function of taking inventory of the whole research effort, has made a survey covering most of the professional personnel engaged in economic research in Washington - where they are and what they do. It has also listed practically all economic research on the Soviet Bloc underway in Washington or under government contract. I don't need to tell you the affect this has had in reducing duplication and in insuring a better intelligence product. The subcommittees have gone even further and have identified critical deficiencies in such fields as electronics, chemicals, and military end-items, and have gone so far as to allocate research responsibilities among the EIC agencies with assurances that these

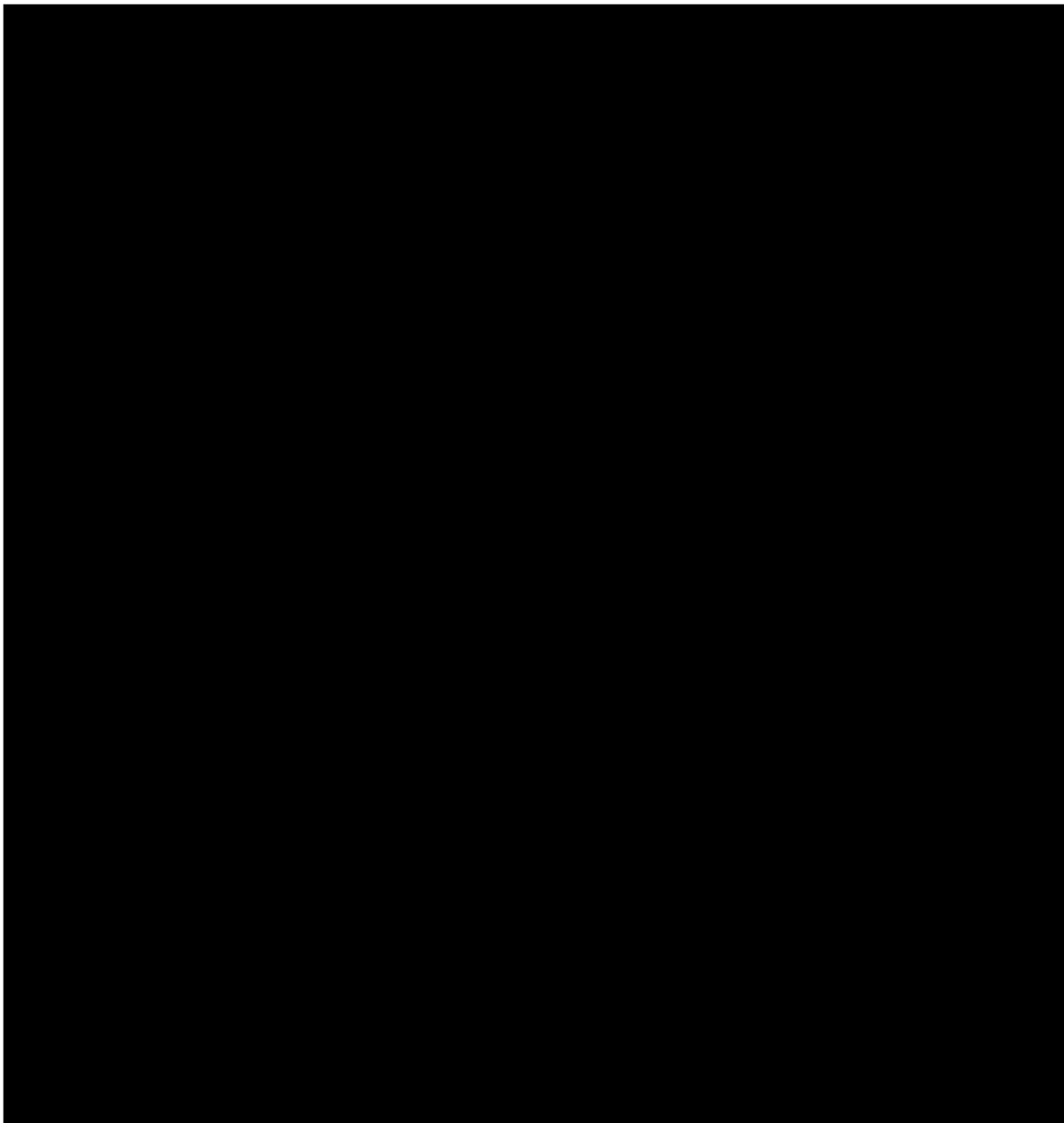
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studies would be given priority treatment.

The third function of the EIC, I am sure, relates even more closely to your principal interest. This is the responsibility to improve guidance to the collection effort. On this problem, several things have been done by the Requirements Subcommittee.



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[REDACTED] Finally, the EIC is developing, on an experimental basis, statements of priority collection deficiencies which are of major interest to all IAC agencies. Precisely how these are going to be converted into priority collection requirements for the various sources of information [REDACTED]

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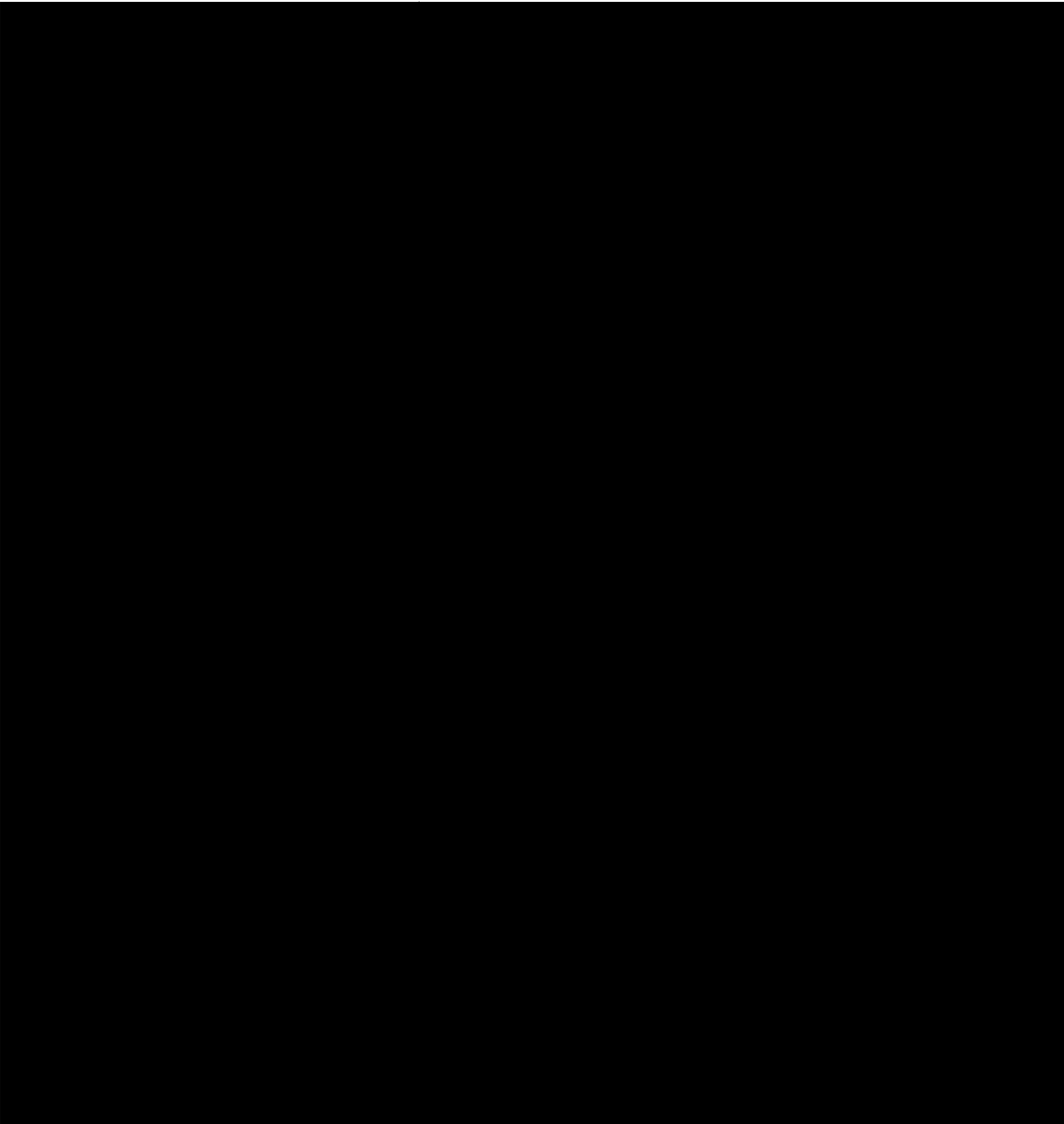
[REDACTED] is not yet clear. You will probably hear more about this in the future.

Up to this point we have been talking about the Economic Intelligence Committee as the principal coordinating mechanism for economic intelligence in Washington. You should understand, however, that there are other groups engaged in other types of more specialized coordination. Let me mention a few of these. The first is the NIS program. I know that you have heard about this earlier in the course. Let me simply say that this program is confined to basic encyclopedic background intelligence. It is not meant to be current and it is not meant to be focussed on specific problems. It does, however, provide an excellent system for coordinating all types of basic intelligence, including economic intelligence on all areas of the world. The second specialized type of economic coordinating committee is the Economic Defense Intelligence Committee. This group was set up to provide support to the US economic defense program -- the program which some of us might call the economic warfare program. This interagency committee not only provides intelligence support for the preparation of control

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lists and other aspects of the economic defense program, but also assists in the preparation of specialized collection requirements to the field. These are the people who are interested in knowing, for example, all of the details about illegal shipments in contravention of trade controls. The third specialized group is the



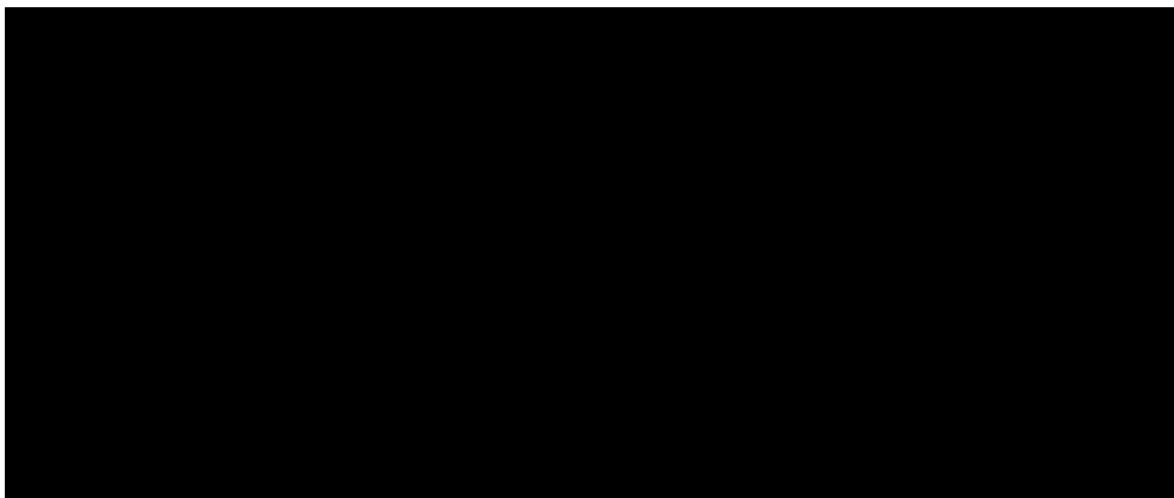
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I have finished up this presentation on the subject of coordination for a purpose. We have found in the Economic Intelligence Committee here in Washington that by paying less attention to bureaucratic prerogatives and by giving more emphasis to a combined attack on common problems, we are all much more effective in getting the job done. This is particularly true in the collection of information. There is no collector in the field, regardless of his parent agency, who does not have an interest in collecting some kind of economic intelligence. I would like to urge that you work with these people in the field as part of the team.

Sources of Economic Intelligence Information:

In conclusion I might run down briefly the sources of economic intelligence information which represent significant contributions to the research analysts.

Foreign Language Publications

Interrogations: a. Defectors
b. Returned Scientists
c. Returned POW's

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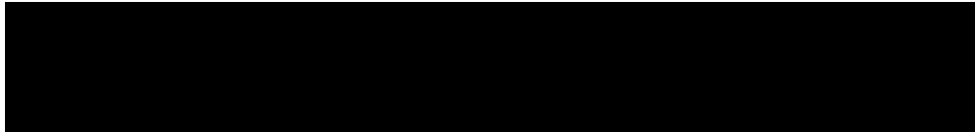
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Contacts at Missions Abroad

Photo Intelligence

Covert Sources

FBIS Radio Monitoring

Contacts in the US

Analogs of Soviet Economic Activity

Official Records and Archives

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Tire Production: (1943)

	Other Intelligence Estimates	- 1,250,000	
25X1B4d	██████████ Intelligence Reports	- 176,000	<i>per mo.</i>
	Actual German Production	- 186,000	<i>per mo.</i>

Difference of 6%

Tank Production: (1942)

	Other Intelligence Estimates	- 1,550 a month
25X1B4d	██████████ Intelligence Reports	- 327 a month
	Actual German Production	- 342 a month

Difference of 5%

Truck Production:

	Other Intelligence Estimates	- 2,000 a year
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	Actual German Production	-80,000 a year

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