Economic tools to protect national interests and to influence the behavior of other actors have long been used on the world stage. Tariffs, quotas, and embargoes are facets of punitive policy and hallmarks of the international arena. Such economic intrusion exists on a broad spectrum, ranging from restriction to interdiction and destruction, potentially imperiling the very existence of an adversary. Economic measures have also spanned the long bridge of strategy, having been conceived and executed both as a method to achieve a non-economic outcome and as an economic end of military, diplomatic, or psychological actions.

With such versatility, depth, and potency, it is of little surprise that the economic dimension of power is a preoccupation of both state and nonstate actors. Several contemporary leaders have invoked the disquieting specter of economic war as the core of strategy intended to defeat an adversary. After the U.S.-led invasion of Afghanistan in 2001, Osama bin Laden observed that in the confrontation with America, the “struggle is both financial and physical,” and to emerge victorious, it would be necessary “to strike the economic base that is the foundation of the military base ... to focus on attacking the American economy by any means available.”

In Venezuela, Syria, Russia, and Iran, officials have all raised the issue of economic war.

Although the international arena echoes to frequent invocation of the phrase “economic war,” the concept remains frustratingly amorphous. Existing interpretation cleaves economic activity in two, possessing a different character in war and peacetime. Regarding the latter, historian Tor Egil Førland considers it “cold economic warfare”: sanctions as part of statecraft. These limits are unshackled by war. But this economic warfare, following Førland, must be analytically distinguished from “military warfare,” which attacks the adversary’s military capabilities, not its economic resources. Other scholars view economic tools as part of a linear progression of policy existing between diplomacy and military violence.

There are two potential problems in utilizing these approaches to national defense. Firstly, war and peace are hazardous notions. As the American diplomat George Kennan wrote in 1948, competition against peers is a “perpetual rhythm of struggle, in and out of war,” largely operating below the thresholds that are calculated to trigger a conventional military response. Secondly, military capability and economics are interrelated, since national power is a complex orchestration of different dimensions of statecraft. Viewing military violence as a departure from the application of economic instruments misses the myriad interrelations between approaches to implementing national power.

This rhythm requires innovation in the perception and application of national power at both the strategic and operational levels. Rather than bifurcating war and peace across the spectrum of struggle, the economic instrument should instead be characterized uniformly as one of “compellence.” In Thomas Schelling’s articulation, compellence involves an action that diminishes with alteration in the behavior of the adversary. Moreover, a deep understanding of the interrelation of facets of
national power is critical to achieving aims in foreign policy and preventing deleterious effects in the application of strategy. The historical record of economic warfare’s evolution as a concept in U.S. defense planning crystallizes several messages to contemporary problems encountered in the execution of economic compellence.

From the British

The era of globalization at the end of the nineteenth century created a panoply of challenges and possibilities for states at the center of international commerce. This rapid expansion in the ratio of international trade to total global economic productivity led British Armed Forces to devise strategies that could weaponize the international trading system and compel antagonistic states through leveraging economic dependencies.\(^8\) The advent of World War I ushered in a proving ground for the strategies that focused on military methods to restrict trade. The United States initially expressed concerns over the morality and legality of British methods of interdiction. But as domestic opinion shifted toward Britain, America proposed and adopted the navicert—commercial passports—an element of blockade that would thus be the primary tool of U.S. economic compellence in the war.\(^9\)

In its aftermath, the economic dimensions of World War I were a lesson requiring the U.S. Armed Forces to institutionalize the conflict’s lessons in order to orchestrate intelligently national economic, industrial, and military preparedness in any future extensive security emergency. In the interwar years therefore, the Army Industrial College, established in 1924, explored America’s interest in the economic instrument to compel...
foreign actors for this very purpose. Its study was included in the curriculum and defined as "the use of economic, military, political or other measures to injure an enemy's economic support of his war effort, or a possible enemy's economic potential for war."

In the shadow of Germany’s invasion of Poland, the 1939–1940 term saw the college prepare a series of studies on economic warfare. In 1940, an economic warfare information section was established, emphasizing economic mobilization to support the war effort. At the outset of World War II, the United States still conceived of economic warfare as industrial preparedness in support of armed forces, omitting the myriad ways in which economics are connected with the conduct of military operations. Integration of economic intelligence and planning to support the war effort was initiated gradually. A section was added to the Office of Administrator of Export Control in 1940, expanding to a research division that included an intelligence section in the Economic Defense Board, called the Board of Economic Warfare (BEW) after the Pearl Harbor attack of December 1941.

In parallel, the Office of Strategic Services (OSS), as the United States’ newly created independent intelligence body, undertook economic intelligence gathering and analysis in order to inform both the policy of the Joint Intelligence Committee and the Joint Psychological Warfare Committee. While the BEW was primarily concerned with imports and exports, the OSS was an institution focused almost entirely to study of the enemy. World War II mobilized civilians to the war effort, from manufacturing to the production of propaganda. In weaponizing society, civilians themselves became targets. And as society assumed a central role in military success, a centralized intelligence organization was needed to analyze the relationship between economy, military capability, and national will of both allies and enemies.

Many professional economists worked for the OSS at this time. Later, some of them would exert considerable influence on U.S. national security policy. One such economist, Walt W. Rostow, served as national security advisor to President Lyndon Johnson. During the war, Rostow worked for the Enemy Objectives Unit as part of the Economic Warfare Division at the American Embassy in London, which was staffed by OSS personnel trained in economics and with additions from the Board of Economic Warfare. The purpose of the Enemy Objectives Unit was to select targets in support of allied bombing. The unit focused on "the principles of concentration of effort at the enemy's most vulnerable point and of prompt and maximum follow-through when a breakthrough was achieved," and there was an "assumption that the broad objective of the strategic bombing offensive was to weaken the German war economy" through application of this "doctrine of warfare."

Rostow's work in the OSS highlights the relationship between military instrument and economic effect. Interplay between these dimensions of conflict employed to achieve strategic success are at the heart of the effective exercise of national power. The total war against fascism—the onset of which for many was a strategic surprise in the wake of the war to end all wars—brought forth new conceptualizations of warfighting. In 1943, American historian Edward Mead Earle wrote about the economic foundations of military power to conceive of an interrelations between economic, political, and military strengths, and that national security strategy
increasingly required consideration of economic, psychological, moral, political, and technological factors. Upon the cessation of hostilities in 1945, therefore, both government and academic conceptualization of these linkages existed to lay the groundwork for an expansion of this nascent framework.

**Against Communism**

The economic fragility of European states and the emergence of the United States as the dominant world power in the aftermath of World War II led to the United States’ expanding involvement in European affairs to establish a geographic bulwark against the encroachment of communism. The economic dimension of national power was now front and center of executive policy. The Truman Doctrine of 1947 and the Marshall Plan enacted a year later provided both framework and means to afford economic assistance to Europe in order to mitigate political disorder arising from social and economic instability.

Simultaneously, shortcomings in defense and intelligence identified during and after World War II led to refocusing and restructuring. The Eberstadt Report of October 1945 argued for economic factors to be given consideration in the articulation of national security policy. The National Security Act of 1947 formalized the requirement for a centralized national security organization to coordinate intelligence by creating the Central Intelligence Agency (CIA). After the war, many economists that had worked in the OSS and the BEW had transitioned to the Centralized Intelligence Group, an interdepartmental body created by presidential directive in 1946. The creation of the CIA the following year afforded a permanent home. In that transition, a later CIA-sponsored assessment asserted that “our major economic intelligence units today grew out of the intelligence support for economic warfare in the last war.” The United States had come late to formalizing intelligence as an arm of foreign policy, but preeminence on the world stage now meant rapid expansion.

The Hoover Commission of 1947–1949 recommended that through the National Security Resources Board, an economic warfare program should be created to buttress national security in peace as well as war, reflecting a need to consider atypical modes of warfare. In 1948–1949, the National Security Resources Board produced a series of interagency studies on mobilization planning for foreign economic measures with the CIA spearheading intelligence. One such report defined economic warfare as “the use of economic, diplomatic, military or other measures to injure an enemy’s economic support of his war effort or a possible enemy’s economic potential” and outlined various punitive economic measures that constituted the term. Despite an assessment of nonmilitary procedures for waging economic warfare, the report asserted that there are “no provisions for over-all coordination of current foreign economic measures in peace nor economic warfare in emergency and war.”

In 1949, the State Department produced the “Planning Study on Intelligence for Economic Warfare” that recommended the creation of an interdepartmental committee under chairmanship of the CIA. Diffusion of collection and purpose remained a central issue, as was highlighted in a CIA report written in response to concerns articulated in National Security Council Action 282 (NSC 282) of March 1950:

> Foreign economic data are now regularly collected and analyzed by some twenty-two agencies of the Government … This diverse flow of information has been generated to meet the operating or other responsibilities of these several agencies. Much of this information and analytic competence is relevant to one economic aspect or another of national security. Present ad hoc methods for consultation do not adequately provide for the mobilisation of the available data and analytic competence around security problems.

The CIA assumed responsibility for economic studies of the adversary which, through its newly created Economic Research Area, “became the focus of the Agency’s research and analysis effort.” It was to immediately experience a “remarkable and perhaps excessive escalation” under the direction of economist Max Millikan.

Yet the problem articulated in response to NSC 282 was not immediately solved, and it remained the crux of effective application of economic power. In 1954, a consultant’s report on the “intelligence support for economic warfare” was provided to the assistant director of the CIA’s Office of Research and Reports. It defined economic warfare as the application “of all measures to impair an enemy’s economic support of his war effort” and “economic defense” as those...
measures employed in peacetime, with the difference being "largely legalistic and semantic." The study was unequivocal in arguing that economic warfare was part of a coordinated application of national resources where the aim "is to support the military objective by the strangulation and attrition of the enemy’s economy, and as stated above, economic, military, psychological and political weapons may be employed."29

The consultant’s report assessed that this protracted “struggle” against communist forces would be “fought with political, psychological, and economic measures, with or without military warfare. In such a continued cold war or in armed conflict, economic measures will play an important role” because of the Soviet bloc reliance on strategic imports.30 An in-house CIA study considered that in economic warfare, all instruments of national power should be leveraged “to injure an enemy’s economic support of his war effort or a possible enemy’s economic potential for war” and thus the term is “defined in the light of its objectives, rather than the means employed.”31 Alive to the problem of clarity, the CIA study observed that the term “economic warfare” is “sometimes used to include all measures” for economic mobilization, “including procurement, production, foreign economic assistance, and all the economic aspects of war” but is “so broad as to have no specific application.”32

Turning on a DIME

In 1958, the junior Massachusetts senator, John F. Kennedy, argued on the senate floor that “we should certainly use all elements of national policy—economic, diplomatic, and military” in the pursuit of foreign policy goals.33 Identifying the problem of means and ends that had become conflated and confused, Kennedy asserted that “[w]ar is not so much an objective of foreign policy, as an instrument—a means of securing power and influence, of advancing a nation’s views and interests.”34 For Kennedy, this was inducement through aid, or punishment through sanctions. Crucially however, he failed to see the link between domestic and foreign when he argued that there was an “exaggeration of economy” to the detriment of national security: there was too great a “willingness to place fiscal security ahead of national security.”35

The deep-rooted problem of conceptualizing the interrelation of military and economic capability identified by the CIA in the early 1950s remained unsolved. Yet the economic instrument, within the suite of governmental tools, remained paramount to the successful application of national power. Winning in protracted conflicts in which military encounters were only one aspect of the confrontation would require understanding the dynamics, and like the studies from the interwar years, effectively linking the domestic economy to foreign adventurism.

As the Cold War endured, effectively fusing instruments of power remained a principal problem of policy prescription. In a speech given in May 1981, William P. Clark, then President Ronald Reagan’s national security advisor, called for the identification and implementation of an innovative defense strategy that would fuse “diplomatic, political, economic and informational components built on a foundation of military strength.”36 In application of this concept, Clark noted that “we must force our principal adversary, the Soviet Union, to bear the brunt of its economic shortcomings.”37 The Soviet Union remains a salutary lesson in the import of understanding the economic dimension of national power. Its military expeditions as part of the Brezhnev Doctrine stretched the economic fabric of de facto imperial government so thinly that the thread would unravel.

Doctrine in the post-Cold War era has reinforced this division of national power into discrete pillars. While it enables comprehension of the components of power, disaggregation also stymies the possibilities that can arise from interrelation of effort. There are bloodless statements that lack actionable insights: the “instruments of national power” in Joint Publication 3-0, Joint Operations, must be used in a “synchronized and integrated fashion to achieve national, multinational, and theater objectives.”38 Doctrine defines the “instruments of national power” as diplomatic, informational, military, and economic, known by the acronym DIME; hinging operations to the strategic level, Joint Doctrine Note 1-18, Strategy, identifies that “these elements align to the major executive branches applying the power: the Departments of State, Defense, and Commerce, as well as the intelligence community.”39 Stovepiping instruments in departments hinders even basic attempts to perceive the obvious interrelations between instruments.

Beneath such a broad interpretation in doctrine, analyses that are more practical are required. Optimization of DIME to prevent self-defeating consequences requires actionable articulation of a
ECONOMIC COMPELLENCE

The reductive approach of stovepiping inherent in assigning the instruments to particular branches of government masks the continual interrelation of the dimensions of national power, preventing effective application of economic tools in the warfighting domain. Scott J. Harr, writing previ-
ously in Military Review, notes presciently a requirement for extensive coordination required between separate elements, and that while the United States views the four constituent elements as part of power, Russia perceives and applies them as instruments of war.40

Domestic Fissures

The inevitable weakness in protracted and expansive compellence is the self-induced overextension that renders a state economy susceptible to shocks in the international system. After all, this was the original conceptualization by British military planners in the run-up to World War I, where the obvious interdependence and interconnectedness in the form of trade created brittle trans-state linkages such that effective weaponization of the economy could devastate the economy of military antagonists, precipitating loss of morale in the population and amply highlighting the interrelations between military, economic, and psychological aspects of state.

Exploiting the economic dimension of a society through induced overstretch is a hallmark of the strategy of America’s contemporary adversaries. To catalyze American overstretch arising from a perpetual war footing, after all, was the aspiration of al-Qaida ideologues: Abdel Bari Atwan has asserted that bin Laden’s successor, Ayman al-Zawahiri, relied heavily on historian Paul Kennedy’s The Rise and Fall of the Great Powers.41 According to the historian, past empires fell because of actions in the international arena for potent gain. The United States has applied a mosaic of economic actions in the international arena, some designed to reward and others, particularly sanctions, intended to punish and ultimately influence state behavior.43 Implementation of sanctions is a hallmark of democracies—sanctions are of minimal detriment to domestic popularity and can highlight purpose and strength in foreign policy for electoral gain.44 Yet economic compellence introduces force into the international arena. Whereas in one direction, sanctions are intended to constrain behavior in an adversarial actor, they can also function in the reverse direction, often as potent narratives of collective grievance. The punitive effect on the population means sanctions can often be counterproductive. Sanctions against Iraq are a leitmotif of bin Laden’s statements: in 1996, bin Laden accused the United States and Israel of “perpetrating the death of more than 600,000 Iraqi children because of the shortage of food and medicine which resulted from the boycott and sanctions.”45 Economic compellence can effect enormous, indiscriminate violence, illustrating the central import of this pillar of national power and the necessity to consider second- and third-order effects upon implementation.

Trans-state connectivity has again amplified in the post-Cold War era, bringing possible innovations to the application of instruments. The 2002 National Security Strategy contained acknowledgment of
relationships that John F. Kennedy had failed to discern on the senate floor in 1958: that “the distinction between domestic and foreign affairs is diminishing. In a globalized world, events beyond America’s borders have a greater impact inside them.”

The accelerated economic globalization witnessed since the breakup of the Soviet Union has increased the porosity of national borders to capital in a similar way to that era of expanded interstate trade at the end of the nineteenth century that ultimately led Britain to formulate strategies focused upon the weaponization of commerce. Like the British then, the United States now must be alive to the myriad methods through which allies and antagonists can influence state behavior by applying economic tools to achieve national objectives internationally. Capital has a home. As South Korean economist Ha-Joon Chang noted, multinational companies remain national entities engaged in international enterprise. Research and development is conducted domestically and leadership is largely drawn from the home nation, leading Chang to caution that it is a mistake to overlook the nationality of capital in the international arena.

**Conclusion**

States compel through economic intrusion to achieve objectives in the international arena. At stake against the backdrop of perpetual struggle. Secondly, there is often confusion between ends and means in application of the instruments of power. Thirdly, interrelations between these instruments are complex but necessary to consider. Finally, failure to assess the implications of economic compellence can create serious unintended consequences.

The problems encountered in the field of economic intelligence in both World War II and the Cold War have resonance because long struggles require a coherent and executable strategy that can be both articulated and sustained.

The problems encountered in the field of economic intelligence in both World War II and the Cold War have resonance because long struggles require a coherent and executable strategy that can be both articulated and sustained. Agency roles must be integrated and aligned to a common objective. A principal requirement is to reassess the production and role of economic intelligence in defense planning. In taking cues from the Eberstadt Report in the aftermath of World War II, the creation of a multiagency commission tasked with developing unity of economic effort could prove pivotal in accomplishing strategic and operational objectives in the future.

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**Notes**


17. Ibid.


25. Ibid.


27. Ibid.

28. Ibid., 4.

29. Ibid., 31.

30. Ibid., 92.


32. Ibid.


34. Ibid.

35. Ibid.


37. Ibid.


44. Lektzian and Sprecher, “Sanctions, Signals.”

45. Lawrence, Messages to the World, 40.


49. Ibid.