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Currency Warfare: The Weaponization and Targeting of Currency From the American
Revolution to the War Against ISIS

A Dissertation submitted in partial satisfaction
of the requirements for the degree of

Doctor of Philosophy

in

Political Science

by

Ricardo A. Crespo

March 2020

Dissertation Committee:

Dr. Marissa Brookes, Co-Chairperson

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The Dissertation of Ricardo A. Crespo is approved:

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ABSTRACT OF THE DISSERTATION

Currency Warfare: The Weaponization and Targeting of Currency From the
American Revolution to the War Against ISIS

by

Ricardo A. Crespo

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University of California, Riverside, March 2020
Dr. Marissa Brookes, Co-Chairperson
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Currency Warfare defined as the use of weaponized monetary or military force against an adversary's currency during armed conflicts is a common fixture of armed conflicts. However, the puzzle of why currency warfare is implemented in some armed conflicts but not others remains largely unexplored. This dissertation addresses this question by providing a theory of currency warfare implementation and argues that currency warfare occurs when three necessary variables come together: (1) a threat to national security; (2) a strategy of subversion; and (3) that the costs (measured in political, economic, military and ethical terms) are lower than the benefits of implementing currency warfare. I further argue that what links these three variables together in a causal chain are the perceptions held by those decision-makers empowered to make the decision of whether to implement currency warfare or to refrain from doing so.

I test my hypothesis by applying process-tracing to within-case analysis of positive and negative cases of currency warfare. I examine eight positive and negative cases from the American Revolution (1775-1783), Napoleon Bonaparte's war against Austria in 1809, The American decision to counterfeit Japanese currencies but not the German *Reichsmark* during the Second World War (1939-1945), The Suez War (1956) and the Middle East Crisis of 1958, the Persian Gulf War (1990-1991) and the ongoing ISIS War (2014- Present). The evidence indicates support for my proposed theory of currency warfare implementation providing for the first time a systematic framework by which to explain when and why currency warfare is implemented in some armed conflicts but not others.

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Chapter I: The Puzzle of Currency Warfare

In January of 2016 at the height of the American war against the Islamic State, American warplanes began bombing from the air the "cash storage sites" or banks which contained hundreds of millions of the Islamic State's currency reserves which they had acquired in the conquest of Northern Iraq in 2014. The strikes which were characterized as "extremely unusual" at the time and were part of the Obama Administration's new strategy to "degrade and ultimately destroy ISIL."¹ As of August 2017, the United States had reportedly conducted around thirty strikes against the Islamic State's currency storage sites. In addition to overt military force the United States for the first time acknowledged the waging of cyber warfare, which included going after the Islamic State's finances electronically, perhaps even targeting the Islamic State's cryptocurrency holdings in bitcoin. In no other war, before or since, has the targeting of currencies been so visible and an openly acknowledged element in a country's war-making strategy.²

This dissertation is about currency warfare which I define as the use of weaponized monetary or military force against an adversary's currency during an armed conflict, there is nothing "unusual" about it. For centuries political and military decision-makers have attacked currencies through various techniques including counterfeiting, introducing rival fiat currencies, refuting their enemy's currency, manipulating money markets, and applying military brute force for purposes of undermining or destroying the

¹ Somanader, Tanya, "President Obama Provides an Update on Our Strategy to Degrade and Destroy ISIL," July 6, 2015. www.obamawhitehouse.archives.gov. Last accessed December 17, 2019.

² Starr, Barbara, "First on CNN: U.S. bombs 'millions' in ISIS currency holdings," January 13, 2016. <http://www.cnn.com>. Last accessed February 12, 2016.; Obama, Barack, "Statement by the President," The White House: Office of the Press Secretary," September 10, 2014, Last accessed June 6, 2017. www.whitehouse.gov.

value of their enemy's currency and broader monetary power. As technology changes currency from its physical to its digital form, cyber-capabilities are now being used to target currencies either directly or through its supporting financial institutions. Recent and ongoing conflicts demonstrate the variety of instruments available to policy-makers in their conduct of currency warfare. During the Israeli-Hezbollah War of 2006, the Israeli Air Force bombed banks used by Hezbollah, a precursor to America's air campaign against the Islamic State's currency in 2014, and in 2017 it was discovered that Iran was counterfeiting the Yemeni currency, the Rial, for purposes of destabilizing the country.

Currency warfare is not a new phenomenon. Since antiquity currency warfare has been a constant feature of war. In the *History of the Peloponnesian War*, Thucydides documents how the Spartans attacked the Athenian silver mines that were used to create Athenian coins, thus manipulating the value of the Athenian currency. During the wars of the Italian Renaissance, the Duke of Milan counterfeited Venetian coins, a practice which was employed in greater instances during the eighteenth century. As paper currency was increasingly being issued, efforts to counterfeit it as part of a wider military strategy became standard, even by some of history's most renowned war leaders. William Pitt counterfeited French currency during the Seven Years War, as did Frederick the Great in his wars. During the American Revolution (1775-1783), the British High Command in North America waged currency warfare against the rebellious colonies by counterfeiting the colonial currencies, contributing to rampant hyperinflation. During the Wars of the French Revolution and the Napoleonic Wars, the British counterfeited the

French currency to destabilize the revolution and later Bonaparte. Napoleon's creativity for war was not only felt on the plains of Austerlitz but on the currency battlefield as well. Although believing that counterfeiting his enemy's currency was undignified Napoleon, nevertheless, waged currency warfare against the British and Austro-Hungarians by forging their currencies.³

During the first World War, the British forged the currencies of the Turkish and German Empires in her attempt to undermine their economies and ability to wage war. Germany sought to undermine the value of the Ruble by unloading its Russian currency reserves on the “Stockholm Market.”⁴ In the Spanish Civil War (1936-1939), Franco counterfeited Republican currencies in his attempt to seize control of that country. But it was in the Second World War that currency warfare reached new heights in scope and tactics. Practically all the great powers in that war incorporated currency warfare as part of their military strategies. In the Pacific theater, General MacArthur’s Southwest Pacific Area Command (SWPA) and the Office of Strategic Services counterfeited the Japanese currencies throughout the war for purposes of subverting the Japanese economy. As part of Operation Grenville, the British Special Operations Executive (SOE), later working with the Americans, overcame the objections of Britain’s financial leaders in London and

³ For a summary of currency warfare examples see Bloom, Murray Teigh, “Uncle Same” Bashful Counterfeiter,” (1988) *International Journal of Intelligence and Counterintelligence*, Vol. 2:3, PP 345-358; Cooley, John K., *Currency Wars: How Forged Money is the New Weapon of Mass Destruction*, (Skyhorse Publishing: New York, 2008); Darshan-Leitner, Nitsana And Samuel M. Katz, *Harpoon: Inside the Covert War Against Terrorism’s Money Masters*, (Hachette Books: New York, 2017); and Crespo, Ricardo A., Currency Warfare and Cyber Warfare: The Emerging Currency Battlefield of the 21st Century, *Comparative Strategy*, 37:3 (2018), 235-250. For a conservative estimate of currency warfare events, see Appendix A.

⁴ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton University Press: Princeton, 1995), 88

New Delhi to counterfeit Japanese currencies, send them into battle, and ultimately implement similar tactics against Nazi Germany. As part of its campaign to conquer Eastern Europe in 1944-1945, the Soviet Union imposed the ruble on its conquered territories and imposed harsh exchange rates vis-à-vis the ruble and their national currencies in their attempt to destroy their national will and identity.

One of the most horrific of all of the currency warfare episodes was the use of slave labor by the Nazis to manufacture British and American currencies, among others. Operation Bernhard proved to be so successful that its monetary impact on the United Kingdom was felt long after the war's conclusion. Nazi Germany was not the only member of the Axis to incorporate currency warfare as part of its campaigns of conquest. Japan was the first to wage currency warfare against China. In China (1937-1945) the Japanese deployed multiple forms of fiat currency to delegitimize the Yuan while also banning its use in occupied territory. By 1943 they were also implementing forged notes against the Chinese to undermine that currency.

Currency warfare was also a feature of the battlefields of the Cold War, and no state waged currency warfare as often, and in some cases as ruthlessly, as the United States. From Korea (1950-1953) to Vietnam (1965-1973) and Afghanistan (1980-1989), the United States deployed forged notes against its enemy currencies. President Eisenhower is responsible for the most famous and often cited example of the successful use of monetary power during the Suez Crisis (1956) in which the United States facilitated, if not originally orchestrated, a run on the British pound, forcing the British and French to abandon the invasion of Egypt. During the Gulf War, plans for inserting

propaganda currency notes against Saddam Hussein were halted after allies raised concerns over its potential to destabilize the regional economy. As currencies entered the digital age, and as the distinction between digital currencies and the financial institutions that enable their use became ever more indiscriminate, it was not long before offensive cyber-capabilities were deployed against them, a practice the Russians have engaged in more than once.

However, there are also the cases in which policy-makers restrained themselves from attacking their enemy's currency, even under conditions of total war. Within weeks of returning to the Admiralty, Winston Churchill raised the issue of counterfeiting the German Reichsmark, a suggestion which was denied, as were similar plans for forging the Italian Lira. Although the United States engaged in a massive counterfeiting campaign against the Japanese currencies, it did not do so against Nazi Germany or Italy. From 1940 through 1945, proposals for counterfeiting the German Reichsmark for purposes of causing hyperinflation and sowing doubt in the hearts and minds of German civilians and soldiers were repeatedly made, including by the Office of Strategic Services, but never implemented.⁵

In the years preceding the Second World War, there were, according to Jonathan Kirshner, numerous instances in which monetary coercion could have been implemented but were not. This applies to the Ruhr Crisis of 1923 and the Ethiopian War of 1935-

⁵ Schwan, C. Frederick, and Joseph E. *Boling's World War II Remembered: History in your hands-a numismatic Study*, (Port Clinton, Ohio: United States, 1995); and Cooley, John K., *Currency Wars: How Forged Money is the New Weapon of Mass Destruction*, (Skyhorse Publishing: New York, 2008), 259

1936. In 1953 The Eisenhower Administration contemplated counterfeiting the Iranian currency for purposes of undermining Prime Minister Mossadegh in the lead up to the coup against his government, but it appears the plan was never implemented. Less than a year and a half after Eisenhower's successful waging of currency warfare against the British, the United States did not use its monetary power during the 1958 Middle Eastern Crisis even though it deployed Marines to Lebanon and assisted the British in deploying soldiers to Jordan. More recently the United States again showed restraint in targeting through cyber-warfare capabilities the financial institutions of their adversaries as during the war against Serbia in 1995 and even against Saddam Hussein.

In 1940, the British Ambassador to the United States, Lord Lothian, explained to Secretary of the Treasury Henry Morgenthau Great Britain's reasons for not targeting the German currency, saying that it "was thought that this would be regarded by the world at large as particularly odious and dishonest method of warfare."⁶ The fear of Nazi retaliation also played a role, for while the loss of tanks and airplanes are regrettable, the destruction of currency can truly be lethal to a nation's ability to wage war. So the question remains, what is it about currency warfare, the weaponization of monetary instruments, that invokes such emotions in those who contemplate it? Why, even under conditions of total war, when cities are destroyed from the air, men and machinery destroyed, do decision-makers restrain themselves from targeting the 'sinews of war?' Perhaps Franklin Roosevelt put it best when discussing the puzzle of why currency warfare is so problematic. Remarking to John Steinbeck, the President said that "Killing

⁶ "Uncle Sam: Bashful Counterfeiter," 347

is all right, and you could attack religion with some impunity, but you were threatening something dearer than life to many people...”⁷Currency warfare is serious business.

The Research Question: When is Currency Warfare Implemented?

The task set out in this book is to address the puzzle of the variation in the decision to implement currency warfare during armed conflicts--why is it implemented in certain conflicts but not others? The puzzle is important because the use of currency (or monetary) power is often characterized as being a successful means by which to achieve foreign policy objectives, even serving as a substitute for military force. During war undermining an enemy's monetary power has the potential to deliver important military benefits such as undermining the enemy's ability to pay for soldiers and war materials. Moreover, the deeper psychological implications associated with the economic consequences of currency warfare, such as hyperinflation, impacts the enemy's morale and the legitimacy of their war leaders, and even the war itself. Therefore, with all the potential benefits of implementing currency warfare, why do leaders refrain from doing so?

Although currency warfare is a common feature of armed conflict, the lack of awareness on the topic has left a serious void in our understanding of this method of warfare and of the coercive use of international monetary power in general. In answering the question of why currency warfare is waged in some conflicts but not others, other important questions are raised which are helpful for understanding the nature of monetary power and how policy-makers conceptualize its use for purposes of foreign policy.

⁷ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton University Press: Princeton, 1995), 11

From the perspective of military strategy, questions arise as to how or whether currency warfare should be incorporated into a wider military strategy. How does waging currency warfare further the military and political objectives of the campaign? What techniques of currency warfare are better suited to undermine the enemy's currency and when? What are the potential benefits and costs associated with implementing currency warfare—will it assist in the achievement of peace or complicate the post-war environment? In other words, what is the proper role of currency warfare as part of a military strategy? To effectively answer these questions, military leaders should have a broader parameter of the costs and benefits measured by economic consequences alone and consider questions of strategy and politics to properly understand the forceful application of monetary power.

Political decision makers should consider the military-specific questions raised by currency warfare, but the political decision makers also have to examine the broader threat environment and if the benefits of currency warfare outweigh the potential costs. The costs, again, are not necessarily nor even primarily economic in nature. During the Suez Crisis (sometimes referred to as Suez War) of 1956, Eisenhower's cost/benefit analysis in targeting the British pound to coerce that country into abandoning its invasion of Egypt was measured in the political rift it would cause between these two allies. The decision to wage currency warfare, even beyond Eisenhower's anger at being deceived by the British, French, and Israelis, was prompted by his perception that the ongoing conflict could escalate into a wider, potentially nuclear confrontation with the Soviet Union.

Monetary power is relational, and having more of it is naturally a good thing in foreign affairs, as it increases a state's options in dealing with matters of foreign relations.⁸ But having monetary power alone says nothing about why, when, how it will be used. I will be guided by the following questions in answering the puzzle of currency warfare: What is the strategic motivation that guides the policy of targeting one's enemy's currency in war? Under what security conditions are decision makers likely to contemplate implementing such a strategy, and what are the implementation costs associated with weaponizing and targeting monetary instruments?

The study of currency warfare is vital to understanding the conduct of war beyond tanks and soldiers and to illuminate a theater of warfare that is overlooked in war studies. Weaponized monetary power illuminates the nature of money as a weapon of coercion during the most political of human actions—armed conflicts. The fact that currency, which facilitates trade and commerce, can be transformed from a instrument of prosperity to one of destruction speaks to monetary power's adaptability across diverse political context. Furthermore, understanding currency warfare helps bridge the gap between security studies and political economy, the former concerned with power, the latter with the accumulation and distribution of wealth. Furthermore, in an era when researchers and policy makers alike are advocating for the use of monetary power as a form of statecraft while simultaneously arguing that our financial power could be vulnerable to attack from would-be enemies, the study of currency warfare contributes to understanding the reasons for targeting currencies and reasons for restraint.

⁸ For a discussion of the relational aspect of monetary power see Andrews, David M. (Editor), *International Monetary Power*, (Ithaca: Cornell University Press, 2006).

From a military or national security perspective, the study of currency warfare pushes the understanding of conflict to go beyond the conception of war as between soldiers and traditional forms of warfare to view an old but not well understood theatre of war—the currency battlefield. For the most part monetary power is interpreted as a foundational necessity for successful war. Of this claim there is no doubt but elevating monetary power from a supporting role and transforming it to an offensive oriented weapon is to explore new possibilities in the pursuit of victory. It also inspires caution regarding how to protect a nation’s war finances. Finally, although this study does not address the assessment of the conditions under which currency warfare is successful or not, it establishes the foundation for that evaluation by first providing an answer as to the circumstances under which currency warfare will be implemented and what it hopes to achieve.

Monetary Power, Economic Warfare, and Currency Warfare

The study of currency warfare is found at the intersection of international monetary power, foreign policy, and armed conflict. As Benjamin Cohen notes, “there is no generally accepted theory of monetary power.”⁹ Furthermore, as Cohen laments, “little energy has gone into serious analysis of when the power of money might be actually used.”¹⁰ The study of monetary power, and its used as an instrument of statecraft, coercion, or during armed conflicts has been largely descriptive. Generally, monetary power is associated with the ability of states to “delay, aimed at avoiding the continuing

⁹ Cohen, Benjamin, *Currency Power*, (Princeton: Princeton University Press, 2015), 51

¹⁰ Cohen, Benjamin, *Currency Statecraft: Monetary Rivalry and Geopolitical Ambition*, (the University of Chicago Press: Chicago, 2019), 37

costs of adjustment; and the power to deflect, aimed at avoiding the transitional costs of adjustment.”¹¹ Monetary power is therefore understood in its ability to impose or alter monetary policy. For our purposes, I define monetary power as the ability to employ monetary instruments for purposes of altering the preferred policies of another actor.

By foreign policy I adopt Marijke Breuning’s definition as “the totality of a country’s policies towards and interactions with the environment beyond its borders.”¹² Foreign policy entails a focus on the decision-making process with an emphasis on choice as the dependent variable. In this study the dependent variable is the variation in the implementation of currency warfare, and we look at the decision-making process that results in the choice to implement or refrain from currency warfare.¹³ A further elucidation of foreign policy which I accept is provided by Benjamin Cohen when he writes that “the foreign policy of a state must ultimately be legitimized by the state’s national interest, and its national interest, however specifically defined, encompasses a set of general purposes that transcend the particular ambitions of domestic institutions,” and the ultimate national interest is that of “self-preservation—survival.”¹⁴ Because foreign policy is concerned with decisions by policy makers to use force, the concept of strategy will be used in this study as way of conceptually linking means with ends.

Finally, this study is focused on the application of and targeting of monetary power in armed conflicts, including war. Because the notion of declaring war is now

¹¹ Ibid, 75; But see also Andrews, David E., *International Monetary Power*, (Ithaca: Cornell University Press, 2006), 16.

¹² Breuning, Marijke, *Foreign Policy Analysis: A Comparative Introduction*, (New York: Palgrave Macmillan, 2007), 180

¹³ Dowty, Alan, *Middle East Crisis: U.S. Decision-Making in 1958, 1970, and 1973*, (Berkeley and Los Angeles: University of California Press, 1984), 3

¹⁴ Cohen, Benjamin, *American Foreign Economic Policy*, (New York: Harper & Row, Publishers, 1968), 3

outdated, social scientists often speak of armed conflict, which has been defined as “a contested incompatibility that concerns government or territory or both where the use of armed force between two parties results in 25 battle related deaths in a year.”¹⁵ An added benefit of studying currency warfare from the perspective of policy-makers engaged in war or making decisions during armed conflict is that it further distinguishes between monetary power being used for security and military purposes from its use for economic wealth creation most associated with peace-time currency manipulation.

Historically, the study of currency warfare has been sporadic and peripheral to the broader scholarship of international monetary power, which Jonathan Kirshner observes is “a neglected area of study.”¹⁶ More recently Benjamin Cohen identified the challenge facing the inquiry into monetary power, commenting that “to this day the extant literature remains thin at best” reflecting that “scholars like to talk about monetary power, but relatively few have taken the times to analyze the concept seriously, its meaning or sources, informal theoretical terms.”¹⁷ Fortunately for the study of currency warfare, there is a burgeoning, if still limited, research agenda in the relationship between monetary power and questions of national security. A representative sample of the important emerging research in the relationship between monetary power and national security include Rosella Zielinski’s *How States Pay for War* (2019) Benjamin Cohen’s *Currency Power* (2015), and Blackwill and Harris’s *War by other Means* (2017).

¹⁵ Pettersson, Therese, and Peter Wallensteen, “Armed Conflicts, 1946-2014,” *Journal of Peace Research* (2015), Vol. 52(4), 536-550, Page. 549

¹⁶ Kirshner, Jonathan, *Currency, and Coercion: The Political Economy of International Monetary Power*, (Princeton: Princeton University Press, 1995), 3.

¹⁷ Cohen, Benjamin, *Currency Power: Understanding Monetary Rivalry*, (Princeton: Princeton University Press, 2015), 3

Although these studies and others establish the significance of the relationship between currency power, geopolitics, and war, there is yet no study devoted specifically to explaining why and when currency power will be weaponized or when monetary power will be targeted as part of a coercive military strategy. Nor do we have as yet a study devoted specifically to understanding the weaponization of monetary power during war or armed conflicts. Potential explanations for this include the divergence between politics and power that began in the late eighteenth century, which scholars only recently have attempted to reconcile the broadly held belief that economic power is best or perhaps more properly understood as an instrument of statecraft that occurs before the outbreak of hostility; and finally the unorthodox nature of currency warfare which may seem foreign to the traditional weapons of military force.

The study of monetary power is generally approached at the macro-level of international affairs.— other words the relationship between monetary and state power, or as a foundational element in the projection and sustaining of military power. Economic warfare is mostly defined by the pursuit of aggregate wealth vis-à-vis the enemy, in which one side attempts to obtain or deny war making materials at the expense of the opponent.

The study of currency warfare builds on the insights and work of scholars in the fields of economic warfare, international monetary power, and national security studies, specifically the insight that monetary power can be used “to advance security-related or other non-economic goals” and builds on the tradition of understanding monetary power

as being “dominated by concerns for increase in relative or absolute wealth.”¹⁸ Rosella Zielinski has observed that “it is only recently that social scientists began to explore how states finance war,” and a similar observation holds for the study of weaponized monetary instruments.¹⁹

The concept of Economic Warfare gained prominence in the literature of economics and war during the Second World War. Economic warfare played an important role during the First World War, with military strategists like Corbett arguing that naval power should be used to undermine the Germany economy. But the idea of economic warfare, and of currency as a weapon, emerged as an area of study during the Second World War. In 1940 Paul Einzig defined economic warfare as “the measures taken to facilitate the pursuance of the war by strengthening the economic defense of our own country and its allies and by weakening those of the enemy.”²⁰ Other works like Brockway and Tagawa’s *Battles Without Bullets: The Story of Economic Warfare* (1939), Basch’s *The New Economic Warfare* (1941), Gordon and Dangerfield’s *The Hidden Weapon: The Story of Economic Warfare* (1947), and Wu’s *Economic Warfare* (1952) shared Einzig’s conceptualization of monetary power as being weaponized for achieving purely economic effects and for denial of wealth and resources to the enemy. Economic warfare was envisioned as a supporting element to war, not as a weapon to be integrated into broader military operations.

¹⁸ *Currency and Coercion*, 4

¹⁹ *How States Pay for War*, 2

²⁰ Einzig, Paul, *Economic Warfare*, (London: Macmillan and Co., Limited, 1940), 1-2.

More recent studies on economic warfare by O'Leary (1986) and Taillard 2012 represent an important advancement in the direction of viewing monetary power as an offensive weapon with different strategic motives. In *Economics and Modern Warfare*, Taillard writes of what he calls “economic combat” defined as “the use of applied economics for combat purposes” and argues that it can be understood as a “science.” Taillard’s goal is to show how past forms of economic warfare, which he divides into three categories (“supply manipulation, trade manipulation, and market manipulation”), can be studied to “to force enemy combatants to surrender without a single physical engagement and in many cases these missions can even be completed without the enemy being sure whether any outside intervention has occurred given the unseen and subtle use of the invisible fist of the market.”²¹ Taillard's important contribution is to show how different forms of economic power can be utilized for military ends, but there is no indication as to the decision making process by which leaders would choose to implement different economic forms of power for offensive military purposes.

Important work on the relationship between monetary power and military power and national security more broadly is identifying how a strong monetary foundation results in a state’s ability to wage war and project military power. Leading the way is Rosella Cappella Zielinski’s *How States Pay for Wars* and Paul R. Viotti's *The Dollar and National Security*, which have demonstrated that monetary power is an integral and vital aspect of military force, and a state's ability to finance a war, and the means by which they do so, are matters of great concern to war leaders. Thomas Wright in *All*

²¹ Taillard, Michael, *Economics, and Modern Warfare: The Invisible Fist of the Market*, (New York: Palgrave MacMillan, 2012), 1-3

Measures Short of War argues that as the post-Cold War world is coming to an end, great power rivalry will be contested using economic and financial power, which the United States is well endowed to wage successfully. Others like Captain Douglas Alan Cohn suggest that currency manipulation has the potential for creating conditions for armed conflict.²²Gille's Carbonnier's work on *Humanitarian Economics* examines how economics, including questions of war finance, informs the decision-making process and outcome of conflicts.

Another important strand of scholarship linking currency power and national security is the focus on currency or monetary statecraft that states employ to position their currency as an international one. Scholars like Benjamin Cohen in *Currency Power*, and Roberts, Armijo, and Katada's in *The Brics and Collective Financial Statecraft*, have begun to tackle the question of how states position their currency or financial power to achieve foreign policy objectives. Others such as Subacchi's *The People's Money* and Prasad's *Gaining Currency* explore the attempts and aspirations held by leaders to position their national currencies at the forefront of international monetary relations for purposes of employing monetary power to achieve foreign policy objectives. This area of study, that of currency statecraft, differs from economic statecraft, which examined how policy makers could use economic methods to advance foreign policy goals of which David A Baldwin's *Economic Statecraft* and Alan P. Dobson's *US Economic Statecraft for Survival 1933-1941* are leading texts in this field. Their insights on the political

²² Wright, Thomas J., *All Measures Short of War: The Contest for the 21st Century & The Future of American Power*, (New Haven: Yale University Press, 2017); Cohn, Douglas Alan, Capt., *WW4: How our dangerous world may lead to a new global war: Where it could start, How it might be fought, and why it would be devastating*, (Guildford: LP, an imprint of Rowman & Littlefield, 2016).

perception of the cost/benefit analysis of monetary power will be a constant presence in this book.

Within of the scholarship of international monetary power, financial power, and national security, there has long been a realization that these fields are related. An important benchmark for the study of monetary power and foreign policy was Benjamin Cohen's edited volume, *American Foreign Economic Policy* (1968) which was an important and successful step in reconciling political science with economics. However, Jonathan Kirshner's *Currency and Coercion* stands out as a book that deserves much more attention than it has received. *Currency and Coercion* demonstrate how "states can and have used international monetary relations as an instrument of coercive power."²³ Kirshner's insights are plentiful, but his strongest conceptual contribution is to recognize that monetary power can be used "to advance security-related or other non-economic goals," and as some of his historical examples illustrates, monetary power can be weaponized during war. Kirshner also demonstrates how monetary power can be efficient in achieving foreign policy objectives. His chapter on the Suez Crisis of 1956 is his strongest chapter in demonstrating the effectiveness of coercive monetary power.

With few exceptions, the idea that currency or monetary power can be weaponized as an instrument of war has attracted limited attention. Jodi Lis has characterized "currency as a weapon" writing that "hypothetically," weaponized currency "could be used to destabilize or even help to defeat a rival" under the "certain circumstances." Focusing on financial institutions, Paul Bracken writes that "financial

²³ Kirshner, Jonathan, *Currency, and Subversion: The Political Economy of International Monetary Power*, (Princeton: Princeton University Press, 1995), 1

warfare is being used increasingly to punish international actors" and highlights that "The United States has blocked the overseas bank accounts of North Korean, Iranian, and Russian companies involved in illicit activities."²⁴

Emily Gilbert's study of how the American military is conceptualizing money as a "weapon system" as part of its counterinsurgency strategy demonstrates how American military leaders have embraced the neo-liberal economic approach to development as being a strategy to defeat militants. Gilberts argues "that the characterization of money as a "weapons systems" denotes a different kind of warfare," suggesting that there is "something distinctive about the weaponization of money with respect to *how* war is being fought."²⁵ Gilbert's research on how some of America's top military leaders have conceptualized money as a weapon to be deployed to win the "hearts and minds" is an example of how ideas shape the use of force..

There are two fundamental differences between "money as a weapons system" and currency warfare. First, the purpose of "money as a weapons system" is to win "hearts and minds," whereas currency warfare is about undermining and subverting hearts and mind. One is concerned with building up the economy; the other is involved with tearing down the economy. From an economic angle, the former is concerned with building a financial market, and the latter is concerned with destroying it. "Money as a weapon system" and currency warfare highlight the idea motivating the use of monetary

²⁴ Bracken, Paul, "Financial Warfare," Foreign Policy Research Institute, Fall 2007, Page. 685

²⁵ Gilbert, Emily, Money as a "Weapons System" and the entrepreneurial way of war," Critical Military Studies (2015), Vol. 1:3, 202-219, Page. 202-203

power that gives it meaning. Currency power is inherently flexible and adaptable on the battlefield.

These works share certain observations that are indispensable for the study of currency warfare. First, the recognition that monetary power can be weaponized and be the object of a military operation is crucial for conceptually isolating the use of monetary power for purposes of security and military oriented foreign policy objectives. In this regard the effects of currency warfare (e.g. inflation, balance of payments crisis, deflation, etc) cannot be viewed as the end in itself but rather as a means to achieve a political and military objective. The second insight shared is that monetary and financial power are potentially effective ways to achieve coercive foreign policy objectives, but more research is needed to understand this form of conflict.

Although these studies are indispensable for the study of currency warfare, these studies remain mostly descriptive, mainly demonstrating how monetary techniques can be used for purposes of coercive foreign policy. Moreover, they often conflate the economic or fiscal effects of this set of tactics with actual strategy. A second shortcoming of the existing literature is the inherent neglect of the role that agency plays in the variation in the decision to wage currency warfare. Monetary power is almost always portrayed as a promising form of power to be used with little attention to which factors enable or constrain its use, including the strategy guiding the purpose of this form of power.

A Theory of Currency Warfare Implementation

There is currently no theory to explain the occurrence of currency warfare which can be implemented through a variety of monetary weapons including counterfeiting, fiat currencies, exchange rate manipulation, rhetoric, and military power. I build on the previous work on monetary power and war to explain variation in the decision to implement or refrain from waging currency warfare by proposing a *theory of currency warfare implementation*, which argues that three variables are individually necessary for currency warfare to be implemented. Specifically, I hypothesize that currency targeting campaigns are implemented only when there is a perception of a significant threat to national security (X_1), the strategic motivation is one of subversion (X_2), and the implementation costs of waging currency warfare are low (X_3). All three variables must be present for currency targeting to occur. Absent any one of these three variables, currency targeting will not occur.

What connects each of these variables to the outcome of using or not using currency targeting are the perceptions and cognitive processes of key political and military policymakers with the power to make decisions over the use of monetary power. These key decision makers are themselves constrained by the attitudes and misperceptions of their fellow decision-makers and the bureaucracies in which they are embedded. This dissertation therefore seeks not only to show that significant national security threat, a subversion strategy, and low costs are always present when currency targeting is used; it also seeks to show the causal mechanisms that link each variable to the actual decisions made.

The use of monetary power as part of a coercive military campaign is no simple proposition, given its potentially crippling impact on the enemy's economy and the potential for significant blowback effects both politically and economically. For this reason, a perception of a sufficiently high threat is needed for policy-makers to consider waging currency warfare. Threat perceptions serve as a catalyst for the consideration of currency warfare. Beginning with Thucydides, Peloponnesian War students of international relations learned that it was "the growth of Athenian power and the fear which this caused in Sparta"²⁶ that caused the war and that fear of tiny Melo's defection which conditioned the Athenians to destroy that island. As we shall see, there is a high threshold for considering the waging of currency warfare, which is often seen as unethical or an improper way to fight a war.²⁷

Second, the idea of "strategy" as an explanatory factor has not been applied to the coercive use of monetary power. Monetary power is highly flexible in its application, but without attributing a strategic motivation to its coercive use, monetary power becomes a guideless instrument of blunt force offering few lessons. With few of the exceptions previously noted, scholars of monetary power focus on the economic effects and treat economic outcomes as the ends in themselves. I propose that currency warfare is motivated by a strategy of subversion. A strategy can be understood as the application of means for achieving ends. In this case, policy-makers consider waging currency targeting when their goal is to subvert the enemy. It is the monetary and broader economic consequences that serve as the mechanism of subversion. Various forms of targeting a

²⁶ Thucydides, *History of the Peloponnesian War*, (New York: Penguin Books, 1972), 49

²⁷ *Ibid*, 400-408

currency – whether through counterfeiting it, introducing rival fiat currency, using harmful rhetoric, manipulating exchange rates, or using direct kinetic military force – has potential monetary consequences, which may include currency depreciation caused by inflation or hyper-inflation, the loss of foreign currency reserves, capital flight, and an overall balance of payments crisis.²⁸ However, such economic consequences matter not only for their direct effects but also, crucially, as a mechanism of subversion. As Rosella Zielinski has demonstrated, leaders care about the monetary and fiscal impact on their populations; therefore, increasing this hardship has the potential to disrupt the legitimacy of a war and the legitimacy of political leaders' governance. In this sense currency warfare has the potential not only to undermine an enemy's ability to pay for war but, more importantly, to undermine a state's sense of legitimacy and sovereignty.

Third, I hypothesize that policymakers consider the implementation costs of currency warfare through a cost/benefit analysis of the merits of targeting currencies in war evaluated along economic (specifically monetary blowback effects), military, political, and ethical considerations. Because monetary power exists in relational terms, manipulating the value of one state's currency will have an impact on that of the other state. Thus, like any other use of force, currency warfare is not suited to every situation, to every conflict, or to every enemy.

I expand beyond the potential monetary costs to include the realities of international affairs and decision making, which often are measured not materially but politically and even ethically. We will see that in addition to monetary considerations it is

²⁸ *Currency and Coercion*, 8-9

more often the political and ethical concerns which enable or restrain the decision to wage currency warfare.

My causal theory emphasizes the role of individual agency in the occurrence of currency warfare. By highlighting the role of decision makers, particularly the perceptions they have regarding whether monetary power should be strategically implemented in the context of the broader security environment as well as their opinions of the costs associated with waging currency warfare, I account for contingency, misperceptions, and diverse policy outcomes. Although bureaucracies' decisions constrain policymakers, ultimately, these decisions are made by individuals – in this case, influential individuals.

Methodology and Cases in Brief

This dissertation examines the puzzle of when and why states engage in currency warfare in some cases but not others by utilizing a structured focused research design (George and Bennet 2005; 69). A structured focused research design allows us to ask the same questions across multiple cases to establish congruence or the presence of the hypothesized explanatory variables. If all the explanatory variables are present in the positive cases of currency warfare but one is absent in the negative cases, this will give support to the claim that the three necessary conditions are indeed necessary. However, establishing congruence is only the first step. To establish causation, I implement a within-case analysis using narrative process-tracing techniques to establish the causal link between the three necessary variables. Doing so will allow me to test for the relevance of

the variables and to see if they are connected in any way. Within case analysis is the best method to test whether I am correct or wrong in explaining currency warfare.

Data collection included archival research at the National Archives in College Park, Maryland, the Army Heritage Center Archives at Carlisle, Pennsylvania, the Franklin Roosevelt Presidential Library located in Hyde Park, New York, and the Eisenhower Presidential Library in Abilene, Kansas as well as extensive work with the British National Archives and digital archival research with the Barack Obama Presidential Library, The Library of Congress, and the Massachusetts's Historical Society. In this process I obtained a rich collection of primary sources covering the different time periods of currency warfare explored in this study. Much of the material, especially on the Second World War has either remained hidden from the scholarly interest of historians or has never been part of a major academic study.

The primary and archival material is used to examine the featured conflicts in this dissertation: The British currency warfare campaign against the American rebels during the American Revolution (1775-1783), Napoleon's war against Austria in 1809, The American deliberation whether to counterfeit the Axis currencies in the Second World War (1939-1940), The Suez War of 1956 and the Middle East Crisis of 1958, and concludes with an examination of the American air campaign against the Islamic States currency reserves in the ISIS War (2014-Present) and the forged propaganda campaign of the Persian Gulf War in 1990-1991

The material collected has allowed me to assess whether the evidence gathered supports my hypothesis that currency warfare is initiated only when a severe national

security threat is present, there is a strategic motivation of subversion, and the implementation costs associated with currency warfare are ultimately perceived to be surmountable. Because currency warfare has a long history in the annals of war, I have selected cases spread across time and in different degrees of armed conflict, ranging from limited to total wars. By maximizing variation on background variables such as time period and geography, I am able to more confidently consider the generalizability of my causal theory (Slater and Ziblatt 2013). I use controlled historical comparisons, defined by Alexander George and Andrew Bennett as "the study of two or more instances of a well-specified phenomenon that resemble each other in every respect but one" (George and Bennett 2005; 151). By delving deep into the primary source material and evidence I am able to test against potential alternative explanations, specifically whether currency warfare is motivated by the pursuit of wealth (as is traditionally the case in currency manipulation), motivated by some desperation on the part of the combatants or in the case of the Second World War, did racist prejudices play a role in the decision to implement currency warfare. If evidence arises that one of these is the leading cause of currency warfare implementation it would put my proposed theory of currency warfare implementation into jeopardy.

Structure of the Dissertation

The focus of Chapter 2 is to engage in much-needed concept building of currency warfare and establish the theory of currency warfare implementation. I elaborate on the concept of currency warfare and on the currency targeting campaigns that involve the actual process of decision-makers' deliberations on the implementation of currency

warfare. From here I outline the theory of currency warfare implementation and its three necessary variables: perceived national security threats (X_1), a strategy of subversion (X_2), and low implementation costs (X_3).

Chapter 3 explores the role that threat perceptions plays in the British implementing currency warfare during the American Revolution (1775-1783) and Napoleon's War against Austria (1809). Using before and after techniques I focus on the changing threat environment as a causal factor in the decision to implement currency warfare by the British High Command and by the Emperor Napoleon in their respective wars. It is worth noting that with the revolution in paper money which occurred in the 18th Century that counterfeiting was quickly seized upon as a weapon of war.

Chapter 4 Examines the role of implementation costs by exploring the puzzle of American's decision to implement currency warfare against Japan by counterfeiting the numerous Japanese occupation currencies and Yen versus the decision to not do so against Nazi Germany or Italy. These cases present the ideal approximation of the controlled comparison approach. Although Franklin Roosevelt was enthusiastic about counterfeiting Germany currency as early as 1940, and it was ultimately implemented in the Pacific, why after a nearly five-year debate did currency warfare via counterfeiting not emerge in Europe? As the case demonstrates, the perceptions of crucial policymakers including Secretary of The Treasury Henry Morgenthau, Jr., and perhaps those of O.S.S Director William J. Donovan, believed that currency warfare in Europe was unethical and counter-productive. In the Pacific, Donovan's O.S.S waged maybe the largest currency warfare campaign in history with counterfeit currencies being deployed in Indo-China,

the Philippines, Malaysia and the Dutch East Indies, and against the Imperial Japanese Yen. General MacArthur's Southwest Pacific Area Command (SWPA) also waged currency warfare against Japanese occupied the Philippines in his quest to “return.” Towards the end of the war the decision appears to have been made, from the highest authorities to implement currency warfare against the Japanese yen itself.

Chapter 5 looks into the most successful and decisive case of currency warfare—Eisenhower’s decision to target the British Pound-Sterling during the Suez War of 1956. Eisenhower’s decision in 1956 is juxtaposed with the 1958 Middle East Crisis which did not see him implement currency warfare. Why, if the Suez War was such a great example of currency warfare in achieving Eisenhower’s foreign policy objectives of ending the British, French, and Israeli invasion of Egypt did Ike not repeat the policy in 1958? I argue that the answer rests with the strategic motivation which differed from 1956 to 1958.

Moreover, the American use of monetary power to wage currency warfare against the British has not been the subject of systematic scrutiny. The best chapter on the Suez Crisis is that by Jonathan Kirshner in *Currency and Coercion*, which focuses on determining whether monetary power was the decisive factor in forcing the British to abandon the invasion of Egypt. Kirshner's analysis is convincing in the affirmative. However, why, on November 5, nearly half-way through the war, did Eisenhower choose to wage currency warfare and not before? Here time-sequence serves an essential purpose for showing that on November 5, 1956, Eisenhower’s perception that the Suez War had inadvertently created a nuclear crisis with the Soviet Union, which was already in its own

crisis in Hungary, combined with an already hostile view of British imperialism and the belief that the political and monetary costs of targeting the pound were surmountable, explains why currency warfare was initiated on November 5.

Chapter 6 tackles the question of why, if Operation Point Blank, the American air campaign against the Islamic State's currency reserves was so successful did the United States wait over a year to implement currency warfare? Using a time-sequencing approach I show that it was not until the Fall/Winter of 2015/2016 that all three variables had properly aligned. Specifically, while the threat of ISIS was by late 2014 recognized and the United States had mastery of the air, it was not until late 2015 that a strategy was finally settled upon which called for currency warfare. President Obama's goal of "degrading and destroying ISIS" gained new force when Chuck Hagel was replaced by Ash Carter as Secretary of Defense contributing to a new measure of aggressiveness towards ISIS, which was earlier lacking. The ISIS War also indicates the role of ethical considerations in limiting particular airstrikes against ISIS currency. Although high effective at combating ISIS, concern over loss of life in air strikes was at times sufficient to call of a currency strike from the air.

The ISIS War is compared with the negative case of the Persian Gulf War (1990-1991) in which the United States restrained itself from deploying forged propaganda Iraqi Dinars because of the concern raised by its Arab coalition partners. The Gulf War cases shows once again the importance of ethical concerns in the decision to implement currency warfare especially when compared to the effects of counterfeiting Iraqi currency, more likely by the CIA, following the Gulf War. The counterfeiting of Saddam

Hussein's currency allowed him to engage in his own currency warfare against the Kurds by repudiating his own currency and issuing new currency without the possibility of currency coercion by the Kurds.

Chapter 7 summarizes the dissertation and the results of hypothesized theory of currency warfare implementation, which is that three variables – a perceived threat to national security, a strategy of subversion, and perceived low implementation costs – are necessary for the occurrence of currency warfare. Ultimately, currency warfare is the result of the perceptions held by key decision-makers tasked with implementing or refraining from engaging in currency warfare. In the background we will also see how bureaucratic powers also shape the decision. However, we must remember that bureaucracies are themselves composed of people with their own perceptions. Ultimately, the decision-makers perceptions of the threats faced allows for what is in times of peace unthinkable, to the permissible. For example, counterfeiting which is seen as a criminal activity which governments attempts to limit during war time, becomes a weapon of war when the threat arises. The perception that currency can be weaponized and targeted can only be understood by how decision-makers think of how currency warfare serves their need. By examining the role of strategy, we look at how decision-makers give meaning to the use and targeting of monetary power during armed conflicts and how they view the effects of currency warfare in achieving their political, security, and military objectives. Finally, any use of force entails a cost/benefit analysis which is ultimately subjective. Different actors will perceive the costs and benefits differently. Taken together it is the

perceptions of decision-makers of these three variables which explains the variation to implement currency warfare in some conflicts but not others.

Chapter 2: The Concept of Currency Warfare and A Theory of Currency

Warfare Implementation

The purpose of this chapter is to introduce the concept of currency warfare and present, for the first time, a theory of currency warfare implementation. As noted earlier in the introductory chapter, currency warfare is neither a rare occurrence nor an unusual form of economic warfare. Currency warfare is rather, a common feature of armed conflicts. In over thirty conflicts beginning since the mid-eighteenth-century currency warfare has been debated and often implemented. And yet currency warfare has been neglected by scholars of monetary power and national security studies. A few scholars which have examined the use of monetary for non-economic ends and have labeled its use as a successful means to conduct coercive foreign policy, have not provided a theory to explain its use nor have they approached it in a systematic manner. As a result, we are left with largely descriptive studies and idiosyncratic cases lacking in systematic analysis to explain when currency warfare is implemented. Furthermore, the question remains. If currency warfare is so effective, why is currency warfare implemented in some conflicts but not in others?

My guiding assumption in tackling this question is that to properly understand currency warfare's implementation we must approach the topic from the perspective of foreign policy and security studies which seek to explain the decision-making process regarding the use of force. I therefore, for the first time, apply a systematic study and theory to the answer of why currency warfare is implemented in some conflicts but not

others by focusing on the role of national security threats, the role of strategy, and the cost-benefit analysis associated with any decision to use force.

By approaching the study of currency warfare from a political and security-oriented perspective I am able to rescue currency warfare from a purely economic analysis which limits the story of monetary power to what Jonathan Kirshner described as “focused principally on questions of efficiency, cooperation, and distribution.”²⁹I therefore draw from the three pre-mentioned literatures to formulate a theory of currency warfare implementation. I also identify and emphasize the role of individual agency in linking the three explanatory variables under one causal narrative to explain the variation in the decisions to implement currency warfare or not. Of course, other factors like bureaucracies and other organizations play a role in shaping the debate over currency warfare, but it is my contention that the decision to use force ultimately comes down to a specific set of individuals who are entrusted with the responsibility to decide the viability of currency warfare. The decision, ultimately, rests with individuals not with organizations. For this reason, the causal mechanism, the link which links these the three explanatory variables rests with the decision-makers perceptions of those variables. Only by examining the variation in the implementation of currency warfare be adequately explained.

This chapter proceeds in the following manner. First, the concept of currency warfare is introduced, and its properties identified. The development of the term currency warfare was necessary to describe this particular form of economic warfare and

²⁹ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton University Press: Princeton, 1995), 3

differentiate it from other concepts which may sound similar but are rather different (e.g. currency wars, financial warfare, monetary power, monetary diplomacy, etc.). Part II presents the theory of currency warfare implementation arguing that the three explanatory variables (national security threats, strategy of subversion, and low implementation costs) are all necessary in explaining currency warfare's occurrence or not. I then explain the role which the decision-makers perceptions in linking the three variables and ultimately in explaining when currency warfare is implemented. Part III concludes the chapter with a discussion of the sources, cases, and methodology used to test for my theory of currency warfare implementation.

Before proceeding it is important to say what this dissertation does not seek to do. First, it does not address the question of currency warfare's effectiveness at achieving its strategic goals. In other words, I do not ask if currency warfare 'works.' Asking this question would require an entirely different set of questions and lines of inquiry to assess currency warfare's effectiveness. Although it must be said that currency warfare would not be implemented if the decision makers thought it would not contribute to their ultimate political and military objectives.

Second, although I emphasize the role of individual agency in this study, in particular the perceptions held by policy-makers tasked with the decision to implement currency warfare or not, it is not my principal goal to discover how those perceptions were formed. As other scholars such as Elizabeth Saunders in her *Leaders at War* and Andrew Bennett's *Condemned to Repetition* demonstrate, identifying how ideas are shaped constitutes an entirely different research question than when a particular policy,

like currency warfare, is implemented. However, that does not mean that this dissertation ignores the origins of individuals perceptions about currency warfare. As this study demonstrates the role of history in general and an individuals experiences and historical analogies play the decisive role in how perceptions explain the implementation of currency warfare or not.

Part I: The Concept of Currency Warfare

Currency warfare is defined as the use of weaponized monetary or military force against an adversary's currency during an armed conflict. Fundamental to understanding the concept of currency warfare is to differentiate the phenomena from other, similar sounding, but very different concepts of "currency war" and "currency conflict." The term "currency war" describes the scenario where countries seek to gain a trade advantage over one another by altering their exchange rates, usually by devaluating their currencies, making their exports less expensive.³⁰ Like Currency War, Currency Conflicts "occur when countries seek an advantage in international trade by positioning their currencies at a level lower than justified by fundamental economic forces and market outcomes."³¹

Although both currency war(s) and currency conflict are correct in pointing out that exchange rate manipulation can and does result in economic conflict between states

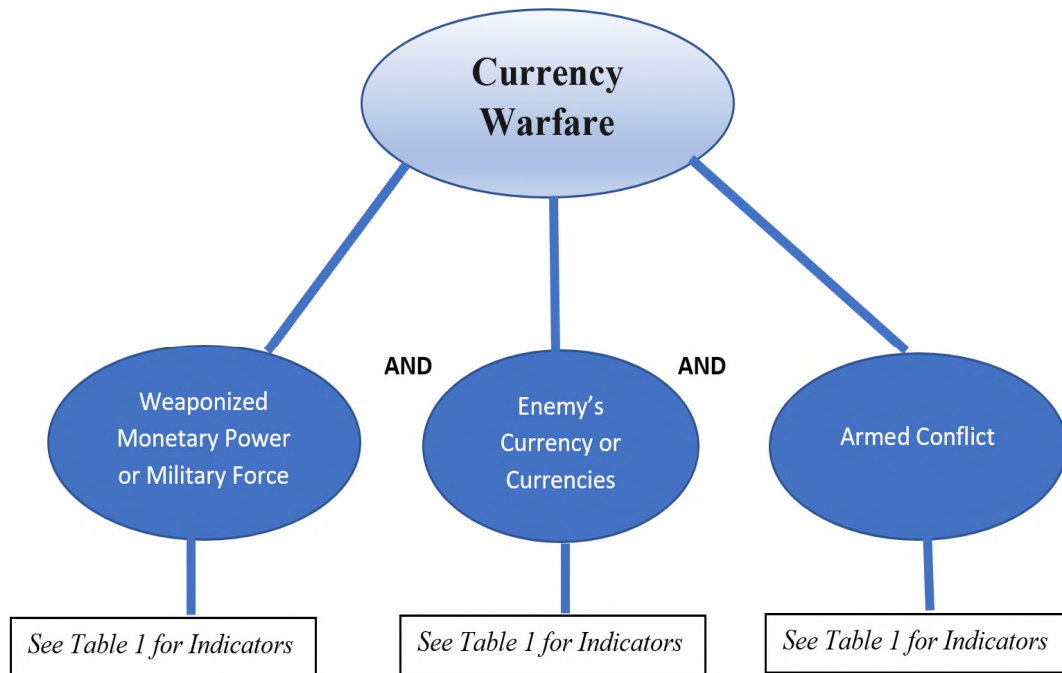
³⁰ See Liaquat Ahamed's piece in Foreign Affairs for a historical example of currency wars. Ahamed, Liaquat, "Currency Wars, Then and Now: How Policymakers Can Avoid the Perils of the 1930's," *Foreign Affairs*. Vol. 90, No. 2 (March/April 2011), pp 02-103. The concept of currency war is also similar to the idea of currency manipulation in which currencies "are undervalued and thus boos their international competitiveness and trade surpluses." See Bergsten, C Fred and Joseph E. Gagnon, "Currency Manipulation, the US Economy, and the Global Economic Order, *Policy Brief*, Peterson Institute for international Economics, No. PB 12-25, Dec. 2012, Page. 2.

³¹ Bergsten, C. Fred and Joseph E. Gagnon, *Currency Conflict and Trade Policy: A New Strategy for the United States*, (Washington, DC: Peterson Institute for International Economics, June 2017), Page. 2

both of these terms are actually describing is currency and trade competition during periods of peace in which states compete for aggregate trade advantages. Currency warfare, on the other hand, refers to the weaponization and attacking of an enemy's currency for purposes of achieving a military or political objective during an armed conflict. The political environment which differentiates these concepts is nothing less than the difference between using monetary power during periods of and periods of war, and not for gaining trade advantages but for inflicting harm on the enemy.

Having differentiated currency warfare from other similar sounding but very different concepts we must now go a step further in operationalizing the qualities which constitute currency warfare. By the essence of currency warfare, I mean breaking the term down into its component parts. Currency Warfare is comprised of (1) weaponized monetary and military force, (2) what an enemy's currency is, and finally the use of this particular form of warfare during (2) armed conflicts. For purposes of assembling the universe of currency warfare cases all three of the component parts must be present in order for currency warfare to be coded as being present or not.

Figure 1. The Concept and Operationalization of Currency Warfare



Weaponized Monetary or Military Force Indicators

Currencies are fragile things in terms of their physical and psychological terms. For this reason, currency the physical manifestation of money which is used as a means of economic exchange can be attacked from a wide variety of weaponized monetary instruments and military force. Weaponized monetary power is the physical transformation of abstract conception of wealth into tangible assets which can be deployed in pursuit of statecraft or more specifically, the security and military objectives of a state.³²

³² In terms of the weaponized forms of monetary power I build on the insights of those who have come especially Jonathan Kirshner in *Currency and Coercion* (1995) who highlights that counterfeiting, fiat currency, rhetoric and other forms of monetary power represent the multiple ways to engage in currency

Counterfeiting: Counterfeiting currency is by far the most common form of weaponized monetary power used in currency warfare. Counterfeiting currency can be defined as “the production of spurious coin and paper money, the forgery or alteration of existing bills, and the uttering and passing of bogus coin and money.”³³ Counterfeiting currency is a weapon combatants often turn to because as long as the state can acquire the necessary paper and skillful artists, it is a weapon that can be manufactured without concern for external factors such as one’s own currency reserve deposits, nor a country’s position in the wider global financial system. This is not to say that counterfeiting currency is a simple task. Counterfeiting currency requires that the fabricated illegal notes be done sufficiently well to elude widespread recognition by the common eye, but not so good, that government authorities are not unaware. In this sense, counterfeiting must be known to be occurring to have its destabilizing effect.

Fiat (Paper) Money: Fiat money, or paper money is a historically a common form of weaponized monetary power especially in wars of conquest. Fiat money can be introduced as the invading forces advance, declaring national currencies to be void and illegitimate. By declaring old currencies illegal and void and establishing rival sovereign currency, invaders issue new currency to establish their own legitimacy and deny to their adversary. Intent of the currency is important, as is different from military script, or currency used by the armed forces for purposes commercial exchange. Military script is

manipulation. I introduce concepts of currency refusion and currency repudiation to further define certain tactics which not only manipulate the value of currency but more important are tactics and weapons of currency warfare.

³³ Watson, Alan D., Counterfeiting in North Carolina: A Reassessment,” *The North Carolina Historical Review*, Vol. 70 No. 2. April (2002), 182.

not seen as a weapon but as a means of exchange for its armed forces and as a way of protecting one's own currency.

Foreign Exchange Rate Manipulation: Foreign exchange rate manipulation means actions taken by a government to artificially influence the value of an opponent's currency. It must be said that all weapons associated with currency warfare are used to undermine the value of an enemy's currency (although, as we shall, this is the means of subversion not the end itself of currency warfare). Exchange rate manipulation is viewed here in a more traditional sense of currency manipulation, using the traditional money markets to manipulate the enemy's currency either through altering one's own exchange rate, or unloading currency reserves on the international money markets to drive down the value of a specific currency. Exchange rate manipulation is largely a weapon of the greater monetary powers, but it is a single strike weapon. Unlike the other weapons which can be used continuously once, a government unloads its currency reserves to target another currency it no longer has the monetary ammunition to continue the attack.

Rhetoric: Rhetoric can also be weaponized to attack an opponent's currency. Rhetoric can be weaponized through the use of spoken or written language which would seek to cast doubt on a currency's value. For example, the use of newspapers to report the forging of currency or rumors can be forms of rhetoric to attack currency.

Currency Refusion: One way to attack a currency value and legitimacy is to simply refuse to accept it as legitimate form payment. This can often occur through legal decree banning the use of certain currency in economic transactions. For example, a state

seeking to establish a sovereign nation may issue its own currency, but its adversary may not recognize the new currency thus harming its acceptability and therefore value.

Currency Repudiation: Currency repudiation is the sovereign right to declare illegal or void existing currency in circulation and the issuing of new legal currency. This is different from currency substitution in which a government chooses to use another sovereign state's currency as its own because its own currency lacks credibility and value. When this happens, old existing currency notes will become worthless as they are not recognized as legal tender. This form of currency warfare gives the sovereign state an advantage, usually over its rebellious factions, and a critical way of targeting its enemy's finances.

Cyber-Power: As currencies become more digital in nature and as societies rely more and more on its financial institutions to convey one's currency to another, the use of cyber-power or capabilities will be used to target currencies. Cyber power, or cyber-warfare capabilities come in the form of malware, hacking, or any action used to undermine access to a people's currency. Cyber-Power may be used by the armed forces or by clandestine entities as both American cyber-warfare against the Islamic State have shown and Russian' use of cyber-capabilities to target its enemy's financial institutions during the Georgian War (2008) and the Ukrainian War (2014-Present). Cyber-operations against currencies at times blur the line between financial warfare and its emphasis on institutions and currency itself. But as currencies and monetary transactions are increasingly been conducted digitally this type of weapon will be used to target an enemy's currency on a greater occurrence.

Military Power: Military power has been “defined as the ability to perform specific combat missions” through the use of air, land, and sea power. Land power constitutes those “ground forces” like soldiers and tanks, or other assets used “exert control over centers of authority and influence.”³⁴ Sea power is the use of naval assets such as warships and other naval fighting assets (e.g. marines) which “can project military power ashore.” By air power I mean the use of air assets such as fighter planes and bombers to operate over a given battlefield or theatre of operations, in pursuit of the military and/or political objective.

Military power has a long tradition of being applied in the waging of economic warfare. Naval power, for example, has often been conceived and deployed to undermine an enemy’s commerce, to interjecting the arrival of strategic resources or capital to cripple the enemy’s war aim. Air power, in turn, has been used to attack important economic targets by penetrating deep into enemy territory and attacking important war-making resources like oil, or targeting key economic infrastructure such as bridges, factories, roads, and others. More recently, cyber-power has been used to target economic centers of gravity like financial institutions or electrical grid systems.

For currency warfare to be present only one of these forms of power is needed to have been considered or actually used. However, often multiple types of weaponized monetary power or military force are implemented simultaneously. For example, counterfeiting and currency refusion have been used to undermine the continental dollar during the American Revolution, and during the Second World War counterfeit notes

³⁴ Echevarria III, Antulio J., *Military Strategy: A Very Short Introduction*, (Oxford University Press, New York, 2017), 7

were dropped by military aircraft over Japan. As a result, a single actor may have different opportunities available to them to wage currency warfare.

Attacking the Enemy's Currency

In currency warfare the application of weaponized monetary or military force is always directed against an enemy's currency or currencies. There is no standard definition of currency, and the term itself is often defined by its roles in the functioning of money.³⁵ We can perhaps define currency as the physical manifestation of money serving as a means of exchange, unit of account, and store of value. Anything can serve as a currency, but historically currency has circulated in coin, specie, in paper money, banknotes, and increasingly in digital or electronic forms known as cryptocurrency.

Currencies also differ in their degree of value and prestige. Susan Strange identified four "types of international money" which included neutral, top, master, and negotiated currencies which characterized the manner in which currencies are preferred by the market and adopted or forced upon states and peoples.³⁶ Building on Strange's insight, Benjamin Cohen has introduced The Currency Pyramid to classify the hierarchical nature of currency and categorize currencies into seven categories ranging

³⁵ For example, Native American tribes in North America "used polished cylindrical shells" known as by the Algonquian as "wampumpeag." Lynch, Jack, "The Golden Age of Counterfeiting: Cashing in on Colonial Currency," *Colonial Williamsburg Journal*, summer 2007.

³⁶ Benjamin Cohen writes that in attempting to provide a typology of the world's leading types of international currency Susan Strange "distinguished four types of international money: neutral currencies, top currencies, master currencies, and negotiated currencies. *Neutral currencies* are moneys that appeal to market actors for strictly economic reasons (stable value, network externalities, and the like). Add dominance by the issuing country in related structures and issue-areas, and a money may be described as a *top currency*. *Master currencies* derive from formal dependency relationships, such as colonial ties, and rely on a degree of coercion. *Negotiated currencies*, by contrast, rely more on persuasion and result from diplomatic bargaining or informal understanding to promote or sustain foreign use." Cohen, Benjamin, *Currency Power: Understanding Monetary Rivalry*, (Princeton University Press: Princeton, NJ, 2015), 15-16

from “the top” or “the most esteemed” and most valuable of international currencies down to practically worthless “pseudo-currencies.”³⁷

Ultimately what matters for purposes of currency warfare is that the object of which force is being applied to is the physical essence of money being used by the enemy. Furthermore, because currency or rather the value of currency is inherently fragile it can be undermined and attacked using the multiple forms of weaponized monetary or military means outlined above. It is up to the attacker to decide which form of force is best suited and available to implement currency warfare.

³⁷ Benjamin Cohen’s Currency Pyramid includes Top Currencies which are “the most esteemed of international currencies—those whose use dominates for most if not all types of cross-border purposes and whose popularity is more or less universal, not limited to any particular geographic region.” Second are “Patrician Currency” whose “various cross-border purposes, while substantial, is something less than dominant and/or whose popularity, while widespread, is something less than universal.” “Elite Currency are currencies that although used internationally are “of insufficient weight to carry much direct influence beyond their own national frontiers.” Fourth are Plebian currency with “more modest moneys of very limited international use” and which usually belong to “smaller industrial states.” Fifth are “Permeated Currencies” are “moneys whose competitiveness is effectively compromised even at home, through what economists call currency substitution—adopting by residents of a popular foreign currency as a preferred alternative to the national currency.” Quasi-Currency “retain nominal sovereignty but are largely rejected in practice for most purposes” and finally Pseudo-Currency “where currencies exist in name only” in which other currencies are “preferred legal tender. Cohen, Benjamin, *Currency Power: Understanding Monetary Rivalry*, (Princeton University Press: Princeton, NJ, 2015), 16-19

Table 1. Operationalizing Currency Warfare.

Operationalizing Currency Warfare		
<p>Weaponized Monetary Power: (Need Just One)</p> <ol style="list-style-type: none"> 1. Counterfeiting 2. Fiat (Paper) Currency 3. Foreign Exchange Manipulation 4. Rhetoric 5. Currency Refusion 6. Currency Repudiation 7. Cyber Strikes <p>Military Power:</p> <ol style="list-style-type: none"> 1. Air, Land, Naval Power 	<p>Currency Targeted: (Need Just One)</p> <ol style="list-style-type: none"> 1. National Currency 2. Currency Reserves 3. Banknote 4. Electronic (Crypto-Currency) 	<p>Types of Armed Conflict: (Just One Needed)</p> <ol style="list-style-type: none"> 1. Interstate Conflict 2. Intrastate Conflict 3. Internationalized Intrastate armed conflicts 4. Extra-state armed conflicts 5. Non-state armed conflicts 6. Armed Interventions Short of War

Currency Warfare and Armed Conflicts

The idea of an armed conflict although ubiquitous and of central concern for the study of politics is a rather elusive terms, but one prominent definition of armed conflict is that of “a contested incompatibility that concerns government or territory or both, where the use of armed force between two parties result in at least 25 battle-related deaths.”³⁸ However, the 25 battlefield death rule seems rather arbitrary. I therefore define an armed conflict as an engagement between two entities, of which at least one of them is a government, over disputed questions of territory or political nature, which results in the use of armed force. Naturally this definition encompasses war. The typology of armed conflict is diverse in intensity, range, duration, deaths, destruction, political purposes, and exist during periods of existential threats to more limited contest between groups. In a

³⁸ Williams, Paul D., (Editor), *Security Studies: An Introduction*, (Routledge: New York, NY, 2008), 157

broader sense, armed conflicts constitute a period of war differing in degree, scope, descriptiveness, and the actors involved. The realm of armed conflicts includes:

1. Interstate armed conflict/war between two or more states.
2. Intrastate armed conflicts between a state an internal opposition group or groups which include civil wars, secessionist conflicts and fought over control of an entire state's territory or part of its territory.
3. Internationalized Intrastate armed conflicts which "occur between the government of a state and internal opposition groups but with additional intervention from other states in the form of troops."
4. Extra-state armed conflicts "occurs between a state and a non-state group outside that state's territory."
5. Non-state armed conflicts in which "organized, collective armed violence occurs but where a recognized government is not one of the parties."³⁹

These types of armed conflicts can also be understood in terms of scale. Armed conflicts may be considered "minor armed conflicts," "intermediate armed conflicts," and "war" and maybe fought for limited objectives, out in the open, or they maybe secret or covert wars where armed force is used in the shadows or not openly acknowledged.⁴⁰ They maybe regional wars or total world wars that plagued the twentieth century. Armed conflict manifest itself in many ways, but always destructive (although again to varying degrees) and always represent a different political environment and actions which define

³⁹ Ibid, 158. I use the "Type of armed conflict" typology as presented in Paul Williams *Security Studies: An Introduction*.

⁴⁰ Ibid, 158. I again embrace the "scales of armed conflict" as presented by Williams in *Security Studies: An Introduction*. For an excellent analysis of secret or cover wars see Carson, Austin, *Secret Wars: Covert Conflict in International Politics*, (Princeton University Press: Princeton, NJ, 2018)

a period of peace from those of armed conflict. As this study will show currency warfare has occurred at all levels, degrees, and types of armed conflict making it a common feature of war and armed conflict.

Part II: Hypothesizing About Currency Warfare Implementation

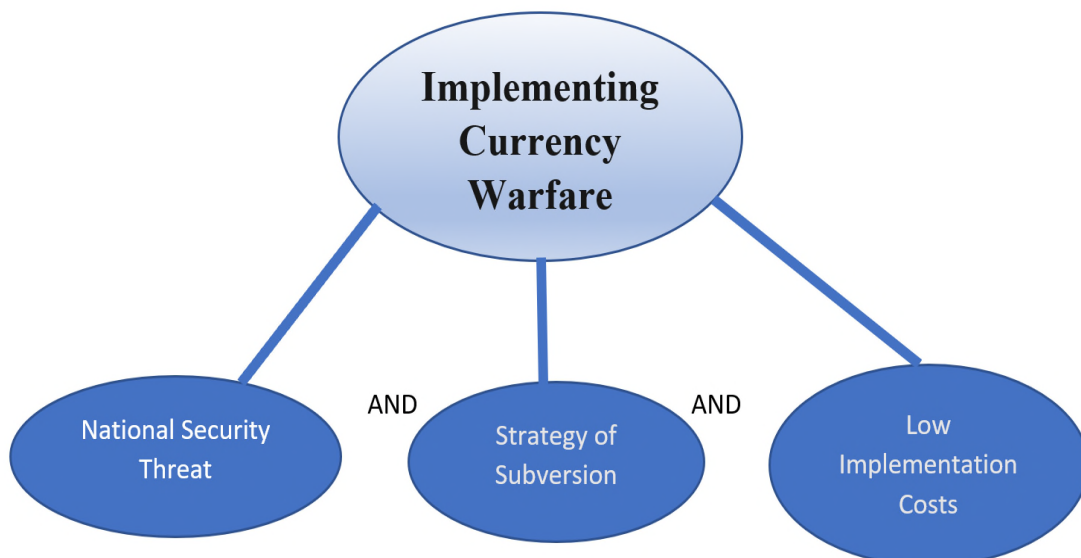
Having defined the concept of currency warfare, this section introduces in detail the theory of currency warfare implementation. Drawing on three strands of literature which have contributed to explaining when force is used (or not) this section will present in full the how the three necessary explanatory variables, those of a (1) threat to national security; (2) a strategy of subversion; and the (3) low implementation costs are all necessary to explain the implementation of currency warfare.

Furthermore, I argue that what links these three variables into a causal chain are the *perceptions* of each of the three variables held by individual decision-makers who are tasked with deciding on whether currency warfare should be implemented or not. I argue that the implementation of currency warfare is explained when decision-makers perceive that a threat to national security has risen to the degree requiring action, that to confront that threat, a strategy of subversion is required, and that a cost/benefit analysis results in the perception that the benefits outweigh any potential costs associated with weaponizing and targeting an enemy's currency.

The decision to use force is a complex process resulting in constant reflection and debate. To explain why currency warfare is implemented in some conflicts but not others, requires that we place the concept into the broader world of foreign policy and national security, and not just that of economics or specifically of finance and monetary policy.

Currency warfare is a policy which states may resort to during armed conflicts which means that to find the story behind its implementation, or lack thereof, we must examine those variables which shape and guide the decision making process in the minds of those tasked with selecting to weaponize and target currency as a policy of coercion. The strategic framework to explain currency warfare draws on the literatures of national security threats, strategic studies, and the cost/benefit analysis which together explain when a particular form of force and policy are implemented. The strategic framework, I argue, which explains the occurrence of currency warfare is that policy makers must perceive that a threat to national security is present to such a degree that it requires action. That to respond to that threat requires a strategy of subversion, and that the costs associated with implementing currency warfare are less than the benefits attributed with implementing such a policy. In other words, all three variables are necessary to explain when currency warfare is implemented or not.

Figure 2. A Theory of Currency Warfare Implementation



Variable 1: Threat to National Security and Currency Warfare

The decision to use force is always conditioned by perceived degree of risk, at a specific time, to specific interest by another state or non-state actor. Richard Ullman has defined threats as:

“A threat to national security is an action or sequence of events that (1) threatens drastically and over a relatively brief span of time to degrade the quality of life for the inhabitants of the state, or (2) threatens significantly to narrow the range of policy choices available to the government of a state or to private nongovernmental entities (persons, groups, corporations) within the state.”⁴¹

When a security threat emerges, the consequences are to discipline the decision-makers attention to addressing and remedying the emerging challenge. Herbert Tillema correctly observed that “a threat to national security is common justification for the resort to overt military intervention” but that ultimately “what matters, of course, are the threats perceived and what decision-makers take as legitimation, rather than the “real” nature of situations or the proper justification of force.”⁴² For this reason other scholars have emphasized the role of “threat perceptions” which can be defined as “an anticipation on the part of an observer, the decision maker, of impending harm—usually of military, strategic, or economic kind—to the state.”⁴³ Others have argued that security threats are “objective” and that “given the balance of forces, any sensible political leader could use

⁴¹ Terriff, Terry, and Stuart Croft, Lucy James and Patrick Morgan, *Security Studies Today*, (Polity Press: Malden, MA, 1999), 21

⁴² Tillema, Herbert K., *Appeal to Force: American Military Intervention in the Era of Containment*, (Thomas, Y. Crowell Company, New York, 1973), 22.

⁴³ David Pion-Berlin is quoting Cohen, R. (1979) *Threat Perception in International Crisis*. Madison: University of Wisconsin, Press. Pion-Berlin writes “Threat perception can best be understood as “an anticipation on the part of an observer, the decision maker, of impending harm—usually of a military , strategic or economic kind—to the state.” Pion-Berlin, David, “The National Security Doctrine, Military Threat Perception, and the “Dirty War” in Argentina, *Comparative Political Studies*, (1988) 21:382, Page, 384

the same equation and arrive at the same results.”⁴⁴ Others argue that the attention must be placed on the individual’s threat perception which are “personal constructs” shaping the decision to use force.⁴⁵

It is therefore “useful” at least “in principle” to “identify national security interests” and to “weigh them both absolutely and relative to others.” As Hans Morgenthau once commented “To establish a hierarchical order, an order of priorities, among all possible objectives of a nation’s foreign policy must be the first step in framing a rational foreign policy.”⁴⁶ Fair enough. But as Richard Haas correctly observes, “ In reality, though, such a list is of little use” because concepts like national security have been overused and have been the victim of conceptual overstretch. Having said that, policy-makers do prioritize national interest, but ultimately, when they are in danger or what exactly constitutes a national interest is found in the hearts and minds of the decision- makers. In other words, their own perceptions of those interest and threats.⁴⁷

Ultimately, the decision to use force (including weaponized monetary power) is determined by whether a specific threat threshold is reached requiring the use of force. This entails both realization that threats are themselves interpreted through the lens of individuals but is also a rationale response strategic response to a given threat. Ultimately, the decision to use military, economic and monetary, or diplomatic force “is

⁴⁴ Ibid, 384. Pion-Berlin presents a thorough review of existing discussion on the nature of perceived security threats. The question of whether perceptions or objective threats is at the heart of understanding the use of force including how policy makers view the decision to weaponize and target an enemy’s currency in response to that threat.

⁴⁵ Ibid, 384. Here Pion-Berlin is quoting from Knorr (1976) *Historical Dimensions of National Security Problems*. Kansas City: University Press of Kansas.

⁴⁶ Haass, Richard N., *Intervention: The Use of American Military Force in the Post-Cold War World, Revised Edition*, (Brooking Institution Press: Washington D.C., 1999), 69

⁴⁷ Ibid, 69

driven by governments making strategic decisions based on the gravity and urgency of the problems they face,” and which tools are best suited to remedying the threat.⁴⁸ Thus, understanding the security environment in which decision-makers are operating is an important factor in understanding the use of particular forms of force. Perceptions of threats therefore establish the security conditions for which currency warfare can be considered and implemented but also may serve as an instrument of restraint in which gauging if a specific threat level has been reached to either support or limit the implementation of currency warfare.

To understand the decision to implement currency warfare or not, we must look to the security threats which give rise to its contemplation. The challenge, however, is that although threats to national security are often invoked as a reason for the use of force, including monetary force, there is no clearly defined definition of what constitutes a threat to national security. One popular definition defines national security as “a fundamental value in the foreign policy of states secured by a variety of tools of statecraft including military action, diplomacy, economic resources, and international agreements and alliances.”⁴⁹ Keith Shimko argues that to understand foreign policy we must examine “*interests*” and “assessing the nature and magnitude of *threats* to these interest, and evaluating the relative effectiveness of the various *tools of influence* available to policy makers in defending/promoting these interests.”⁵⁰ A more succinct definition of national

⁴⁸ Pion-Berlin, David, *Military Missions in Democratic Latin America*, (Palgrave MacMillan: New York, 2016), Pg. 7

⁴⁹ Lamy, Steven L., John Baylis, Steve Smith, Patricia Owens, *Introduction to Global Politics, 2nd Edition*, (Oxford University Press: New York, NY, 2013), 482

⁵⁰ Shimko, Keith, *The Foreign Policy Puzzle: Interests, Threats, and Tools*, (Oxford University Press: New York, NY, 2017), xvi.

security is provided by Jonathan Kirshner when he writes that “National security refers to organized political violence that speaks to the vital interest of at least one state.”⁵¹ Defining what constitutes a threat to national security, as we have just seen, is no easy task. But we can agree that in order to determine what decision makers perceived as threats we must consider a state’s specific interest and the entities that posing a perceived threat to those interests.

The idea of what constitutes a state’s interests has in recent years expanded to go beyond what Martha Finnemore identified over twenty years ago as “some combination of power, security, and wealth.”⁵² More recently, Paul Viotti correctly argues “A great divide separates those who see security as dealing exclusively with threats from state and nonstate actors and those who see security more broadly as including challenges to the welfare of people.”⁵³ Some of these emerging security concerns include questions of inequality, poverty, health care, “and other human-security issues.”⁵⁴ The idea that national security can be too narrowly understood through military capabilities of varying states is not all that new. Writing in the late 1980’s Zbigniew Brzezinski, President Carter’s National Security Advisor argued that national security must go beyond “the narrow sense of military security” and must include “wider considerations, including political statecraft, economic strength, technological innovation, ideological vitality, and

⁵¹ Kirshner, Jonathan (Editor), *Globalization and National Security*, (Routledge: New York, NY, 2006), Page. 2

⁵² Finnemore, Martha, *National Interests in International Society*, (Cornell University Press: Ithaca, NY 1996), 1

⁵³ Viotti, Paul, *US National Security: New Threats, Old Realities*, (Cambria Press: Amherst, New York. 2016), 2

⁵⁴ *Ibid*, 2

others.”⁵⁵ The insights of these scholars, and those who argue that security can be too narrowly defined and that many contemporary issues such as terrorism, food inequality, climate change are often more related than we might think deserve have done much to understand the idea of national security.

From the preceding discussion it seems clear that to understand the implementation of particular forms of force or warfare (like currency warfare) we must take into account not only the perception of threats held by individual policy-makers but also attempt, if we are to understand what leads to currency warfare being discussed as a possible instrument to remedy a threat, to establish an “operational code” for evaluating “the standard for determining a threat serious enough” to justify the use of force broadly and that of currency warfare specifically.

Operationalizing A Threat to National Security

Building on the insights of previous scholars I argue that currency warfare will be considered by policy-makers when a sufficient threat to national security, expressed through military, economic, or ideational interest is perceived be of such risk to constitute a significant harm to international interest and/or posing an existential threat to the integrity of the state. In other words, without policy-makers believing that the threats faced pose a specific degree of gravity even when they are considering currency warfare as means to subvert the enemy or that the actual costs implementation costs are low, currency warfare will not be enacted.

⁵⁵ Brzezinski, Zbigniew, *In Quest of National Security*, (Westview Press: Boulder, CO, 1988), 1

To operationalize what constitutes a sufficient threat to national security we must differentiate between the degree of threat, what is being threatened and where. Threats to national security are measured along three categories: *military, economic, and ideational*.

1. A national security threat measured in military terms examines the size, quality, and intent of a potential or actual opponent's armed forces.
2. A national security threat measured in economic terms means that a specific economic factor whether it be access to raw materials, markets, trade, or an important infrastructure or monetary variable which will inhibit or minimize the economic well-being of a state or its allies serves as cause for concern.
3. A national security threat may not just be either expressed in military or economic terms but also in terms of ideas. An ideational threat may include a rival political ideology juxtaposed and hostile to one's own which may ultimately pose a threat to one's own state's well-being or that of your allies. At its highest levels this can be an ideological war between two competing ideologies.

The three categories mentioned above are also to be examined along geographical parameters. Not every region of the world will be equally important to an individual's state's national interest. Some regions are more significant than others depending on an individual state's military, economic, and ideational interest. But conceptually we can define a region as being significant if it is a geographic region in which vital interests are viewed to be in danger or which threaten the immediate integrity of one's own state, which rises to the level of an existential threat. We can therefore identify:

1. An *existential threat* in which the “sovereignty and territorial integrity of the nation itself” is at risk or,
2. A *vital threat* to a region in which a nation’s military, economic, or ideational interest are threatened away from their shores but still seen as important to the security of one’s own nation.

Of course, these degrees of threats and regions may sometimes overlap. For example, during the Cold War Latin America posed a vital region to the United States with which the deployment of Soviet nuclear missiles to Cuba in 1962 elevated a specific country in the region, Cuba, to the level of an existential threat. However, by differentiating between threats to the immediate territorial integrity of a country and those to interest away from one’s shores provides a conceptual measurement of how to differentiate sufficient threats from those threats that do not reach the level requiring action. To put it another way, threats that are neither existential nor pose a challenge to vital interest are not sufficiently significant to consider currency warfare as an option.

Finally, we must ask what actors may pose a threat to vital interest or pose an existential threat? Two types of actors may pose a sufficiently high threat to warrant consideration of currency warfare another--*state* or a *non-state actors*.

1. Traditionally, security threats originated from other *states*. Sovereign states are those territories unified comprising a political community and under the administration of a government. Competition between states has defined international relations for centuries as states competed with one another over

territory, ideas, economic resources. For states, the ultimate goal is security, which are threatened principally by other states.

2. *Non-State actors* on the other hand are those entities not “subject to direct government control.”⁵⁶ Non-state actors include terrorist organizations, secessionist groups, or groups seeking to overthrow governments. At times non-state actors may aspire to become their own unique state, such as the Islamic State of Iraq and Syria. These groups may engage in activities which may pose a significant threat to strategic interest raising the prospect of military action.

It is not a simple task to identify exactly when a threat emerges or forces a consideration of specific policies which would be unthinkable in peace time. However, as I show in chapter three, using before and after techniques we can show how changes in the threat environment not only create the environment in which currency warfare is considered but may also serve as the final variable in explaining its implementation.

Variable 2: Strategy and Subversion

Scholars of currency and military power have neglected the role of strategy in explaining the occurrence of currency warfare. However, like other types of warfare, currency warfare cannot fully be understood, nor its implementation explained without considering the ideas that govern its use or non-use. Different forms of warfare whether it is naval, air, land, or cyber warfare, need a set of ideas to guide how to use the specific military means available with securing their operational military and political ends. Julian

⁵⁶ Nau, Henry R., *Perspective on International Relations: Power, Institutions, Ideas, 3rd Edition*, (CQ Press: Washington D.C., 2012), G-9.

S. Corbett argued in his *Principles of Maritime Strategy* that naval power could be used to undermine an enemy's trade and indirectly harm its finances. Giulio Douhet in his *The command of the Air* argued that air power should be directed against the enemy's civilian population so as to put pressure on the enemy's government and coerce them to capitulating. Heinz Guderian, Patton, and others grappled with the proper strategy to guide the use of tanks, a new weapon to emerge out of the Great War (1914-1918). Should tanks be used in support of the infantry or should be the primary means to break the enemy's opposing armed forces? Ideas giving meaning and guidance to not only how a particular form of force should be used but more importantly why it should be used? Depending on the strategy embraced currency warfare may or may not be applicable as a policy of coercion and war.

Once a threat to national security has materialized decision-makers now have to address the questions of how to best confront those threats by establishing the political and military objectives of the campaign and evaluating which means available are best suited to achieving those objectives. In other words, decision-makers now have to consider the matter of *strategy*, the second pillar in our story of the implementation of currency warfare.

Depending on the context of the security environment not every means of warfare is equally well suited, or even desirable. Decision-makers (both political and military) as Miyamoto Musashi long ago argued that "it is simply not possible to get good results

without the necessary respect for one's tools or one's weapons."⁵⁷ In other words decision-makers must know *when* and *why* currency warfare is a suitable policy for their objectives, and to understand the occurrence of warfare we must explore for what ends currency warfare attempts to achieve. What I argue is that currency warfare is motivated and guided by *a strategy of subversion*.

A Strategy of Subversion

A Strategy of subversion or the implementation of overt or covert force for purposes of harming an adversary's decision-making powers by undermining its authority and legitimacy as a sovereign entity by attacking its government, military, or people. A strategy of subversion can very well be said to be one of undermining subverting sovereignty and attacking an opponent's currency may achieve this rather well because of the role that currency has as not only serving as a utilitarian function for states and its leaders to finance its policies but also as a conveyor of legitimacy between a state or entity's leadership and its people.⁵⁸ Perhaps in a larger sense all attempts at influence through the use of force undermines an enemy's sovereignty (whether territorial or individual) but it seems that targeting an enemy's currency strikes at the very essence of state sovereignty and as we shall see decision-makers have understood currency warfare to serve this exact purpose.

⁵⁷ Kaufman, Stephen F., and Hanshi 10th Dan, *Musashi's Book of Five Rings: The Definitive Interpretation of Miyamoto Misashi's Classic Book of Strategy*, (Tuttle Publishing: Rutland, 1994), 9

⁵⁸ In this definition of a strategy of subversion, I build of the concept of state sovereignty to identify what a strategy of subversion looks like. In this sense, once a strategy has been conceived decision-makers will look for the means to achieve the ends of the strategy. I relied on Krasner, Stephen D., "Sovereignty," *Foreign Policy*, No. 122 (Jan.-Feb. 2001), pp. 20-22+24+26+28-29; and Dar, Arshid Iqbal, "The Evolution of State Sovereignty: A Historical Overview," *international Journal of Humanities and Social Science Invention ISSN (Online): 2319-7722, ISSN (Print): 2319-7714*, Vol. 6, Issue 8 August 2017.

Currency Warfare and Strategy

When scholars of monetary power have focused on strategy, the focus has been at how monetary power serves a state's security at the level of grand strategy. Paul Viotti writes that:

“Defense establishments and the armed forces they organize, train, and equip, and deploy depend upon the security of capital and capital flows that have become increasingly globalized. Military capabilities thus are closely tied notionally to the size of the economic base from which they are drawn but also the viability of global convertibility and exchange arrangements. We miss at our peril the potential for disruption of capital flows that can undermine U.S. economic security as well as the ability both to deploy military units, sustain their operations worldwide, and to maintain the network of U.S. diplomatic missions and the programs they administer abroad.”⁵⁹

Carla Norrlof writing about the relationship between U.S. trade deficits and its international power as a hegemon argues that “the United States benefits from running persistent trade deficits as a result of its special position in the international system...A series of size advantages cut across trade, money, and security: the size of the American market, the role of the dollar, and American military power interact to make a trade deficit policy rewarding an buffer the United States from the extreme consequences that a sustained deficit policy would otherwise have.”⁶⁰ Monetary power is undoubtedly an important pillar of a state's ability to project power and act as an autonomous entity. But by viewing monetary power as an important structural pillar of grand strategy or casting monetary power in a supporting role (albeit an important one) we still “do not explain the conditions under which a powerful state will or will not refrain from translating its

⁵⁹ Viotti, Paul R., *The Dollar and National Security: The Monetary Component of Hard Power*, (Stanford: Stanford Security Studies, 2014), xv.

⁶⁰ Norrlof, Carla, *America's Global Advantage: US Hegemony and International Cooperation*, (Cambridge: Cambridge University Press, 2010), 3

monetary power into monetary statecraft.”⁶¹To understand how monetary power can be translated into an instrument of statecraft we must look to strategy.

Strategy has been defined in multiple ways. B.H. Liddell Hart defined strategy as “dealing with the way that forces are directed in the service of policy.”⁶²Artulio J. Echevarria II defines military strategy as “the practice of reducing an adversary’s physical capacity and willingness to fight, and continuing to do so until one’s aims are achieved.”⁶³ Stressing the importance of differentiating context in which strategy is develop, historian Michael Howard writes, with a degree of irritation, that the concept of strategy “is now generally used to describe the use of available resources to gain any objective, from winning at bridge to selling soap.” Howards argues, correctly, that when discussing strategy in armed conflict scholars and presumably decision makers should be referring to strategy in the “traditional sense” concerned with the use of “force” in order “to impose their will on other units; whether to compel them to do some things, to deter them from doing others, or if need be to destroy them as independent communities altogether.”⁶⁴

Colin S. Gray perhaps the most prolific writers on strategy in recent decades declares that “Basically, strategy enables a person, institution or state to connect its political purposes with the means that can be reasonably be made available.” Gray continues, “Strategy enables a political community, or state, to use its (military) assets in

⁶¹ Cohen, Benjamin, *Currency Statecraft: Monetary Rivalry and Geopolitical Ambition*, (University of Chicago Press: Chicago, 2019), 37

⁶² Hart, B.H. Liddell, *Strategy*, Frederick A. Praeger, (New York: 1967), 351

⁶³ Echevarria II, Artulio J., *Military Strategy: A Very Short Introduction*, (Oxford University Press: New York, 2017), 1

⁶⁴ Howard, Michael, *The Causes of War, 2nd Edition*, (Temple Smith: London, 1983), 36

the service of its policy wishes,” or more straightforwardly, strategy is about “ends and means.”⁶⁵ Building on the work of these scholars we can define strategy as the intellectual effort during armed conflicts to establish an idea linking means with the political and military ends desired.

At the highest levels of strategy, the political and military objective is, in the words of Liddell Hart to establish a better state of peace—even if only from your own point of view.”⁶⁶ In *On War*, Clausewitz famously wrote that “war is a mere continuation of policy by other means” which he meant that “war is the means, and the means must always include the object in our conception.”⁶⁷ However the political and/or military objectives are defined policy makers must develop a strategy by which to achieve those objectives. Clausewitz maintained that in order to achieve those ends, decision-makers must “damage” the enemy.⁶⁸ Clausewitz focus on causing ‘damage’ indicates that in order to achieve the political and military goals there must be an object upon which force is directed in order to cause harm, which if done sufficiently will encourage the enemy to capitulate and submit to one own will. But how and what kind of damage can be inflicted and with what kinds of force?

At its most basic form, those concerned with strategy divided strategy into “three essential elements” of “*ends* (objectives)+*ways*(courses of action)+*means*(resources). What links these three elements is what Colin Gray describes as a strategy bridge in which strategists “who hold the bridge are tasked with the generally inordinately complex

⁶⁵ Gray, Colin, S., *The Future of Strategy*, (Polity: Cambridge, 2016), 20.

⁶⁶ Hart, B.H. Liddell, *Strategy*, Frederick A. Praeger, (New York: 1967), 351

⁶⁷ Clausewitz, Carl Von, *On War*, (Barnes and Noble: New York, 2004), 18

⁶⁸ *Ibid*, 26

and difficult mission of translating political purposes, or policy, into feasible military and other, plans,” and the “task of turning one currency—military (or economic, or diplomatic, and so forth) power—into quite another (desired political consequences).”⁶⁹

Decision-makers have found it helpful to distinguish between four levels of strategy: (1) grand strategy; (2) strategic; (3) operational, and (4) tactical.⁷⁰ At the level of grand strategy is where “the most basic but most consequential decisions are made” which include the decisions to wage war or participate in an armed conflict, and “what it wants for peace.”⁷¹ At the strategic level the questions are those of what type of forces will be available but “the approximate forces that will be made available” to conduct operations. At the operational level the question is “how to achieve the strategic ends of the war with the forces allotted” and which “plans are made for the actual employment of land, sea, and air forces” and we must add monetary forces are to be used. Finally, at the tactical level is “where opposing forces physically meet” and in which the “objectives are unambiguous—like taking a specific hill with a company, meeting and sinking an enemy ship, or fighting an aerial battle with an opposing fighter” and in targeting an enemy’s currency.⁷²

Strategy is therefore a causal variable in the understanding of any form of force or type of warfare. Without a strategy currency warfare would simply not be enacted because strategy is what gives not only motivation but also guidance and the conceptual green light to its implementation. In exploring the role of strategy in explaining the

⁶⁹ Gray, Colin S., *The Strategy Bridge: Theory for Practice*, (Oxford University Press: Oxford, 2016), 7

⁷⁰ Warden III, Col. John A, *The Air Campaign: Planning for Combat*, (Pergamon-Brassey: New York, 1989), 1

⁷¹ *Ibid*, 1

⁷² *Ibid*, 2

occurrence of currency warfare we will largely be focusing on the ends, ways, and means but also largely focused on the operational, strategy, and tactic levels of strategy (although the political ends of war may be consistent with the desired strategic ends at the operational level of currency warfare.

A Strategy of Subversion as a Cause of Currency Warfare

Currency Warfare is motivated by a strategy of subversion which I define as the implementation of overt or covert force for purposes of harming an adversary's decision-making powers by undermining its authority and legitimacy as a sovereign entity as by attacking its government, military, or people.

The idea of subversion is not new, but its use has been descriptive not causal in explaining the use of force.⁷³ In Latin America, enemies of the state were routinely labeled as subversives or of having committed "subversive acts" which thought the "transformation of existing order" or As Argentine military President General Jorge Videla argued "anyone who opposes the Argentine way of life."⁷⁴ More recently Honig and Yahel have written about "subversive activity" and "methods of "subversive conquest" such as "meddling" in "internal politics," or "assisting different insurgent groups" or "assassinations" can be used to implement "subversive conquest" of other

⁷³ To take just one of how subversion has been referred to, especially in covert operations and in Latin America see Nutter, John Jacomb, *The CIA's Black Ops: Covert Action, Foreign Policy, and Democracy*, (Prometheus Books: Amherst, 2000),39

⁷⁴ Pion-Berlin, David, *The Ideology of State Terror: Economic Doctrine and Political Repression in Argentina and Peru*, (Lynne Rienner Publishers: Boulder, 1989), 4; For how some in Latin America described guerrilla warfare see Samuel' Fitch's *The Armed Forces and Democracy in Latin America* where quoting from "two Argentine exponents" they Argentinians said "The guerrilla is part of the problem, but not all [of it]. [The subversion] was much more global, [with] spiritual, cultural, economic, and psychosocial components; the military part was the guerrilla. [Subversion] was deeply rooted in the culture. Killing guerrillas was not het same as eradicating the subversion." Fitch, J Samuel, *The Armed Forces and Democracy in Latin America*, (The Johns Hopkins University Press: Baltimore, 1998), 16.

countries.⁷⁵ Honig and Yahel's work makes an important contribution at the numerous tactics of which a strategy of subversion can be implemented and how phases which subversion can develop" of which an initial stage can be "undermining the economy of the victim state." But subversion here, as in other cases, is descriptive and not causal.⁷⁶ What Honig and Yahel describe are the ways in which subversion, or rather the effects of subversion, can be seen. Subversion is not treated as a strategy but as a description of the effects of subversion.

A handful of pioneers have provided insights into the strategic motivation driving currency warfare which helps support the idea that currency warfare is motivated by a strategy of subversion. Jonathan Kirshner wrote in *Currency and Coercion* that when it comes to disrupting a particular monetary system, two forms can be identified, "strategic and subversive."⁷⁷ Kirshner presented subversion in descriptive terms saying that "subversive disruption simply aims to destroy an existing international monetary regime, to weaken its leader or participate states, for any number of reasons."⁷⁸ As Kirshner himself acknowledged systemic is "defined by the ends: effect on given international monetary regime, whether regional or global."⁷⁹ The problem here is that Kirshner confuses strategy with ends. Disrupting a monetary system, or a currency, is never an ends in itself but rather *way* of achieving a larger political purposes.

⁷⁵ Honig, Arthur, and Ido Yahel, "The Art of "Subversive Conquest": How States take over sovereign Territories Without using Military Force," *Comparative Strategy*, 36:4, (2017), 293-308, 293

⁷⁶ Ibid, 297

⁷⁷ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton University Press: Princeton, 1995), 171

⁷⁸ Ibid, 171

⁷⁹ Ibid, 170

Kirshner however comes closer to identifying a strategy motivating currency warfare in his discussion of the Japanese currency warfare campaign against China during the Sino-Japanese War of 1937-1945, in which the Japanese introduced competing fiat Chinese currency which “were designed to undermine the legitimacy of National Chinese rule, and break down that country into autonomous regions dependent on Japan.”⁸⁰ Kirshner insight here is that fiat paper money could be weaponized and implemented to undermine an enemy’s morale is important, but in this impressive study of monetary power, the idea of a strategy of subversion is limited to a single case and a single tactic of currency warfare.

Michael Taillard in his magisterial *Economics and Modern Warfare*, perhaps the best recent treatment of economic warfare as a whole, writes that in regard to counterfeiting currency such a tactic “has long been established as a practice to undermine the value of currency and the legitimacy of government during time of conflict.”⁸¹ Taillard briefly mentions such practices as occurring during the American Revolution and provides mini-case studies of the counterfeiting of the Soviet backed Afghan currency known as the Afghani (AFN) during the 1980’s, and mentions the more well known German counterfeiting of British pounds during the Second World War. Similar to Kirshner, Taillard comes very close to attributing, in this case to counterfeiting, a strategic rationale, but appears to view the effects of counterfeiting (e.g. altering the value of a currency and undermining of a government’s legitimacy) as an end

⁸⁰ Ibid, 59

⁸¹ Taillard, Michael, *Economics and Modern Warfare: The Invisible Fist of the Market*, (Palgrave MacMillan: New York, 2012, 130

in itself. Undermining the value of an enemy's currency is the *mechanism* by which a government's legitimacy is undermined, not the end itself.

My conceptualization of a strategy of subversion as being a causal variable in explaining the implementation of currency warfare builds on the valuable insights and work of Kirshner and Taillard. What needs to be done is to not only understand strategy as a causal variable behind the implementation currency warfare but also put it into the wider decision-making process, and test for its causal validity and presence across space and time. What also needs to be done is to elaborate on the strategy of subversion itself and see how currency warfare can be guided by different levels of subversion as outlined by policy makers. Finally, how exactly does undermining the value of an enemy's currency result in a government's loss of legitimacy and authority? To go back to our earlier typology of means, ways, and ends, we have the means (weaponized monetary or military power) we have the ends (the undermining of a government's legitimacy) but the *ways* are what needs to be understood. By manipulating the value of an enemy's currency, a mechanism is put into effect which because of the relationship between a government and its people, expressed through the psychological and utility functions of currency, the government's legitimacy is potentially undermined.

Clausewitz's Trilogy and Currency Warfare

Clausewitz trinity of the Government, The Military, and the People serves to identify how a strategy of subversion is both motivated and understood, and ultimately how it would operate and succeed (although we are not concerned here with this last point). Clausewitz understood that armed conflicts cannot solely be understood nor

separated from the political objectives and the ultimate support of the people.⁸² Currency and a nation's finances have long been established as serving not only its monetary role as a means of exchange but as a means of creating a shared sense of identity—a nation.⁸³

During periods of armed conflict, a country's currency and overall finances become not only a fundamental aspect of fighting an armed conflict, and consequently surviving one, the ability to deflect the monetary costs of war from the people is of vital importance to leaders.⁸⁴ Furthermore, because currency is a link between the government which issues it, and the people who use it, its undermining and subsequent monetary impact on the people would cause significant schisms and ultimate loss of legitimacy by the government in the people's eyes because they are not able to protect them from the economic consequences of war.

A Strategy of Subversion strikes at the very heart of the Clausewitzian trilogy because currency is a means not only of paying for war or of maintaining national service, it is a direct emotional link between the government and its policies and the people (including the armed forces). Furthermore, currencies don't have to be national currencies to be targeted to be driven by the same strategic motivation. As we shall see, the Islamic State of Iraq and Syria (ISIS) recent attempt to carve out an empire used all sorts of national currency and crypto currency, in addition to issuing its own Islamic Dinar. All these currencies served to turn ISIS, or at least attempt to, into a legitimate

⁸² John Mark Mattox does an excellent job of breaking down The Clausewitzian Trinity in Mattox, John Mark, "The Clausewitzian Trilogy in the Information Age: A Just War Approach," *Journal of Military Ethics*, (2008) 7:3, 202-2014, 205

⁸³ See Helleiner, Eric, *The Making of National Money: Territorial Currencies in Historical Perspective*, (Cornell University Press: Ithaca, 2003) and Gilbert, Emily and Eric Hellenier (editors), *Nation-States and Money: The Past, Present, and Future of National Currencies*, (Routledge: New York, 1999).

⁸⁴ Zielinski, Rosella Capella, *How States Pay for Wars*, (Cornell University Press: Ithaca, 2016).

state by using those currency reserves to not only pay for the armed forces but also for public works and social services. Once the United States began to destroy those currency reserves many of its soldiers began to walk away questioning the Islamic State's legitimacy and ultimate authority over them. In the ISIS war the contracting of the monetary supply resulted in rapid hyper inflationary effects crippling the ISIS economy and ability to pay for its desired policies. But the economic effects of successful currency warfare (e.g. inflation, deflation, balance of payments crisis, depreciation, increased debt and loss of living standards) are not the ends of currency warfare but simply the way in which a strategy of subversion links the means of currency warfare with the ends.

Operationalizing a Strategy of Subversion

A strategy of subversion which seeks to undermine the legitimacy and authority to implement policy does not have to be understood in absolute terms. By this I mean a strategy of subversion can be understood in operating in two forms of intensity:

Total subversion which means the complete subverting of the enemy's regime usually occurs in total wars or those wars that are seen as posing an existential threat or wars of conquest. In this level of subversion, resemble the goals of a what military thinkers call (1) decapitation or efforts to kill or to overthrow top leaders in the hope that their successors will be more willing to stop the fighting or to (2) "inflict sufficient destruction on the opponent's military command and control system that effective prosecution of a coordinated war effort becomes impossible."⁸⁵

⁸⁵ Cimballa, Stephen J. *Coercive Military Strategy*, (Texas A&M University Press: College Station, 1998)
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Limited Subversion in which the goal is not to completely subvert the enemy's regime but seeks to undermine either the military only or the immediate head of state or existing political leaders. We will see total subversion during the American Revolution, the Second World War, and the War on ISIS, and limited subversion during the Suez War of 1956 when the United States sought to end Britain's military invasion of Egypt and sought to bring down, or at least put significant pressure on Anthony Eden's government without collapsing Parliament or Great Britain. During the Persian Gulf War (1990-1991) propaganda currency notes were initially conceived to persuade Iraqi soldiers to leave the fight maybe even toppling Saddam Hussein, but certainly not necessarily turning Iraq into a democracy. Currency warfare is shaped by strategies of subversion because they strike at the most important center of gravity during an armed conflict, the opponent's government's legitimacy. By undermining an enemy's currency or currency reserves, currency warfare strikes at the very center of the Clausewitzian Trilogy operating as a weapon of mass effect.

A Strategy of Subversion therefore can be implemented with total or limited levels of intensity. Ultimately the nature of the threat and the cost and benefit analysis of implementing such a strategy will play a role shaping the strategy of subversion. Finally, a strategy of subversion, as with strategy in general, is one of the causal variables which is necessary but not sufficient on its own to explain the implementation of currency warfare. As we have seen currency warfare is considered when there is a sufficient threat which results in a debate over strategy. When policy-makers view a strategy of subversion as a strategy to achieve their political and military objectives currency warfare

becomes a viable policy. The next step is evaluating if currency warfare is if its implementation costs will serve the attainment of the political objectives or detract from it. We now turn to that final variable, implementation costs.

Variable 3: Implementation Cost and Currency Warfare

Winston Churchill once remarked that “Always remember, however sure you are that you can easily win, that there would not be a war if the other man did not think he also had a chance.”⁸⁶What Churchill was referring to was that every decision regarding the use of force--- from the initial decision to enter into an armed conflict to the formulation of strategy, the setting of objectives, and what types of weapons to employ, all undergo a cost-benefit analysis of their utility in pursuit of the political-military objectives.⁸⁷

A prudent decision-maker must always ask if the means and strategies considered, will not only succeed in achieving its stated goals, but if in achieving success may result in harming other political and military objectives in the process. This, of course, is not an easy task. Decision-makers operate in real-time in which the counterfactual *what if*, of their decisions is ever present, but ultimately, unknowable. As David Baldwin has correctly asserted “To Pretend that the costs or benefits of influence attempts can be

⁸⁶ Reed, William and David H. Clark, “War Initiators and War Winners: The Consequences of Linking Theories of Democratic War Success,” *The Journal of Conflict Resolution*, Vol. 44, No. 3 (Jun. 2000), pp. 378-395, 378

⁸⁷ Although this study examines the individual decision makers in regard to the decision to implement currency warfare or not, scholars of the cost/benefit analysis of war have identified numerous units of analysis in which to study the evaluation of the costs and benefits of initiation war. Kjell Hasuken identified “governments, political parties, various interest groups, politicians, intelligence communities, soldiers, taxpayers, independent observers, people on each side of the war, stakeholders and third parties” as all responding to the differently to the cost benefit analysis of enacting war.” Hausken, Kjell, “Cost Benefit Analysis of War,” *International Journal of Conflict Management*, Vol. 27, No. 4, (2016), pp. 454-469, 466

calculated with great precision by even the most rational of decision makers would be false and misleading.”⁸⁸What *we can* say is that decision-makers, once they make the decision to use force, and implement a specific type of warfare, like currency warfare, have done so because they perceive the benefits to outweigh the costs. In other words, decision-makers judgment on whether currency warfare should be implemented depends on their perception that the *implementation costs* are low.

By *implementation costs* I mean the ultimate judgment based on the evaluation of the costs incurred in implementing a desired strategy or type of force measured against principal benefit of successfully achieving the desired policy objective. For purposes of conceptual simplicity, decision-makers face two juxtaposed choices in regards to implementing currency warfare: (1) they can either perceive the implementation costs associated with implementing currency warfare to be *high*, and therefore, not worth implementing or (2) they can perceive the implementation costs associated with currency warfare to be *low* and greenlight its application.

The question of course is, among what parameters do decision-makers evaluate the implementation costs associated with implementing currency warfare? David Baldwin argued in his study on the costs associated with economic warfare that “The costs of using economic statecraft, like the cost of any other kind of influence attempt, may be political, military, or psychological as well as economic.”⁸⁹ Jonathan Kirshner, argues that “The limitations on economic instruments of power come in three overlapping

⁸⁸ Baldwin, David A., *Economic Statecraft*, (Princeton University Press: Princeton, 1985), 128.

⁸⁹ *Ibid*, 128

forms: feedback, circumvention, and defense.”⁹⁰ Kirshner defines feedback effects as “the effects cause self-limitation on the part of home states, resulting from the fear that the use of a particular type of economic power to change a target’s behavior may undermine other policy goals.”⁹¹ By while circumvention and defense, Kirshner “the methods by which target states can avoid the negative effect of a sanction” and “the techniques by which target states protect themselves from the potential use of sanctions.”⁹² Others scholars have argued that particular kinds of strategy that does “damage to US reputation, respects diplomatic relationships, and reduces the chance that our actions will create more enemies than friends” is of prime significance to the American public.”⁹³

As these authors demonstrate, there is a wide and often inter-related set of considerations which decision-makers consider when deciding to enact a particular strategy or use of a specific form of force. Furthermore, by building on the insights of these scholar which examines the costs and benefits of implementing currency warfare to go beyond economic considerations and include military, political, and ethical questions we not only expand, but also more properly identify potential reasons for limiting the implementation of currency warfare. The cost/benefit analysis associated with implementing currency warfare can be analyzed by examining the four following criteria: (1) Military; (2) Economic; (3) Political; and (4) Ethical.

⁹⁰ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton University Press: Princeton, 1995), 25

⁹¹ Ibid, 25

⁹² Ibid, 25

⁹³ Englund, Scott H., At what Costs? United States’ Counter-Terrorism Strategy, Reputation, and Public Opinion,” *Perspectives on Terrorism*, Vol. 9. No. 3 (June 2015), pp. 39-55, 52

Military: Does implementing currency warfare advance the military objectives consistent with nature of the security threat or does it detract from achieving the broader mission by needed resources for other military expenditures, or undermine the ultimate political objectives of securing a better peace? Is currency warfare suitable to achieving the task or is another option available?⁹⁴ Furthermore, from a military perspective decision makers may ask if the enemy has the resources to defend effectively against a currency warfare campaign and absorb and circumvent such an attack rendering the implementation unlikely to succeed and thus a misappropriation of resources and effort. Circumventing or defending from a currency attack may consider the enemy's ability to repudiate and reissue its own currency and potentially nullifying the use of counterfeit, fiat currency, or other forms of currency manipulation. Defending a currency may consider currency reserves to uphold a specific value or if the targeted state itself is defended by other supporting or allied states.

Economic: Building on Kirshner's insight, the economic concerns associated with implementing currency warfare are those of potential feedback effects in which targeting an enemy's currency may result in consequences which undermine the targeting state's and decision makers' objectives. For example, could counterfeiting currency cause havoc beyond the immediate targeted states economy? Could currency manipulation undermine one's own economy or those of your allies?

⁹⁴ I am influenced here by the work of David-Pion-Berlin on assessing "pragmatic view of military missions" when he writes that "The utility of military deployment should always be assessed in comparison to some alternative, assuming one is present." Pion-Berlin, David, *Military Missions in Democratic Latin America*, (Palgrave MacMillan: New York, 2016), 26-27

Political: Historically, decision-makers have been hesitant to implement currency warfare because of its perceived cost to reputation. This is particularly true of counterfeiting currency, which is often seen as a rather sinister, criminal like endeavor. Also, by targeting currency for manipulation such policies may cause wider problems not only at home but between allies also. There may also be concerns that engaging in currency warfare may open a Pandora 's Box to other state's implementing similar currency warfare campaigns which can destabilize one's own country or result in a more difficult post-war settlement.

Ethical: "For as long as men and women have talked about war, they have talked about it in terms of right and wrong," Michael Walzer observes.⁹⁵ Decision-makers whether civilian or military have often considered the ethical and moral questions raised not only by war but by how to conduct war. Indeed, a long tradition of understanding war in terms of right or wrong has guided policy-makers for thousands of years. In the west, this tradition has been known as Just War Tradition which differentiates between *jus ad bellum* (justice for war) and *jus in bello* (justice in war). Simply put, policy-makers will interpret their conduct during war in terms of right or wrong. What constitutes right or wrong is determined by how policy-makers view their ethical and moral world, which itself is rather difficult to pinpoint.

For measuring the potential ethical questions raised by currency warfare and if they have a restraining influence, it is best to consider general sentiments rather than specific actions (although, admittedly this can often seem as splitting hairs). Ethical and

⁹⁵ Walzer, Michael, *Just and Unjust War: A Moral Argument with Historical Illustrations*, 4th Edition (Basic Books: New York, 2006), 3

moral sentiments include: (1) questions about discrimination, that is, whether currency warfare would directly harm civilians or non-combatants; (2) questions of proportionality, in other words is the immediate implementation of currency warfare disproportional to potential military gains; (3) does currency warfare in anyway conflict with established moral codes of civilization (i.e. religious sentiments); (4) could currency warfare play a role in undermining a just peace by making reconstruction or post-war settlements even more difficult and cause unnecessary harm; and finally (5) could weaponizing currency be seen as a direct violation legal standards or proper norms of how to conduct warfare? Again, these are general sentiments which inform the ethics of warfare and which manifest themselves in many ways.

What is important to emphasize here that for purposes of explain the potential restrictions on the initiation of currency warfare *only one* of these four criteria need to be considered high for the implementation costs to be high.

Table 2. Third Level Indicators of the Explanatory Variables

Threat to National Security	Strategy of Subversion	Low Implementation Costs
<p>Three Parameters: (Only One Necessary)</p> <ol style="list-style-type: none"> 1. Military 2. Economic 3. Ideational <p><u>And</u></p> <p>Degree of Threat (To One's Territory or in Another Region)</p> <ol style="list-style-type: none"> 1. Existential 2. Vital Threat 	<p>Language seeking to Undermine an Enemy's: (Only One Needed)</p> <ol style="list-style-type: none"> 1. Legitimacy 2. Authority 3. Morale <p><u>And</u></p> <p>By Targeting: (Only One Needed)</p> <ol style="list-style-type: none"> 1. Head of State 2. Government 3. State Sovereignty 4. Military 5. People <p><u>And</u></p> <p>Degree of Subversion: (Only One Needed)</p> <ol style="list-style-type: none"> 1. Total 2. Limited <p><u>And</u></p> <p>Once Strategy Established link with Targeting Currency: Causing Inflation, Deflation, Balance of Payments Crisis, Contracting Money Supply, Disrupting Economy, using currency to cause harm etc.</p>	<p>Cost/Benefit Analysis Evaluated Along: (Only One Need)</p> <ol style="list-style-type: none"> 1. Military <ul style="list-style-type: none"> - Resources Needed - Accomplish Military Mission - Resource Better Allocated - Ability of Enemy to Withstand Attack 2. Economic <ul style="list-style-type: none"> - Monetary Blowback Effects - Overall Harm to Economy 3. Political <ul style="list-style-type: none"> - Reputation 4. Ethical <ul style="list-style-type: none"> - Debate over Right and Wrong - Unnecessary Harm to Non-Combatants - Harm Prospects for Peace

The Causal Mechanism: Individual Leaders and Their Perceptions

What causes the three proposed explanatory variables to come together into an interwoven narrative that explains when currency warfare is implemented? Whose perceptions of threats, whose strategy, and whose analysis of the costs and benefits of targeting an enemy's currency actually explains the implementation of currency warfare? To answer this question, we must look to the key decision makers and the perceptions they held in order to explain the implementation no of currency warfare. Ultimately, the decision to use force is a human one. While other factors such as the international structure of the security environment, domestic politics, and bureaucracies may influence the conditions in which decision-makers operate they cannot by themselves explain or

predict when a particular policy will be implemented or not. Furthermore, to explain the variation in the decision to implement currency warfare or not we must look to how decision-makers perceived the degree to which potential interest were indeed threatened or not, the conceptualization of currency being used as a weapon or as a legitimate military target to attack, and ultimately the costs and benefits of such a policy. These questions are best understood, therefore, not through impersonal structural conditions but by examining those key individuals who were in a position to decide on currency warfare. In other words, to explain whether currency warfare is implemented or not, we must look to the perceptions of those decision-makers who bare the ultimate responsibility for its implementation.

By decision-maker I mean the individual or individuals who are tasked, at the highest levels, with the decision to implement a particular policy or not. They are the ones who decide if currency warfare should be implemented or not, and these decisions are ultimately based on their *perceptions* of the merits of attacking an enemy's currency or not. Specifically, a decision-maker is either civilian or military individual authorized to make the decision. This list includes presidents, prime-ministers, key cabinet members, and military commanders. Depending on the context either one of these individuals may be the key decision-maker regarding the implementation of currency warfare.

By perceptions I mean cognitive process in which our minds process the senses to understand the world. ⁹⁶ For decision-makers the role of history, their own historical

⁹⁶ Scholars of foreign policy differ on the definition of perception. My definition is inspired by Valerie Hudson's understanding of perception when she writes that "It is through our senses that our minds make contact with the world around it...If we label those sensory inputs perception, then we perceive more than we notice. The mind apparently builds "filter" that helps it decide which sensory inputs are worthy of more

experiences, and analogies explain how perceptions inform the decision to weaponize and attack an enemy's currency during armed conflicts. It is the perceptions of the threat environment, the strategy to pursue, and the implementation costs which determine if currency warfare is implemented or not.

Of course, the decision to use force is a complex process in which multiple factors, organizations, beliefs inform the ultimate decision to use a particular form of force or restrain its use. Scholars of foreign policy, diplomacy, and the armed forces in general have argued (and not incorrectly) that the role of organizations and bureaucracies are important in shaping and explaining how the ultimate decision regarding the use of force was made.⁹⁷ Other scholars have argued the decision-makers at the highest levels are often influenced by political factors such as domestic legislative and popular support for war or for a particular form of force to be used that minimizes, presumably one's own casualties in pursuit of those objectives.

While these insights are important, the ultimate decision to use force comes down to those individuals empowered, entrusted, made responsible for making those decisions. The decision to use force is neither based on a mathematical formula, nor simply on group dynamics. (although this certainly contributes to how a decision comes about). No, the decision to use force is ultimately based on an *individual's* reading, understanding,

detailed processing, which processing we would call cognition." Hudson, Valerie, M. *Foreign Policy Analysis: Classic and Contemporary Theory, 2nd Edition*, (Rowman & Littlefield: Lanham, 2014), pp. 42-43

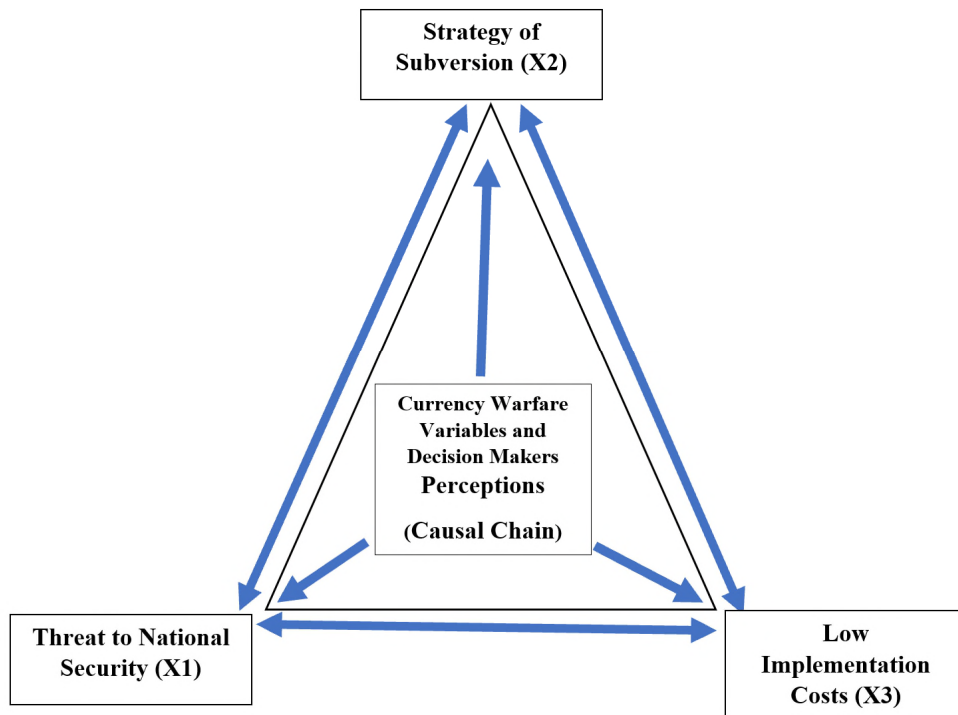
⁹⁷ See Allison, Graham, and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis, 2nd Edition*, (Longman: New York, 1999) and Peifer, Douglas Carl, *Choosing War: Presidential Decisions in the Maine, Lusitania, and Panay Incidents*, (Oxford University Press: New York, 2016).

deliberations which ultimately merge into the perceptions of whether force should be used, why it should be used, and if its use is ultimately worth it.

For these reasons, the study of currency warfare is best explored by understanding those decision makers who are tasked with deciding on its implementation. As one scholar put it “Foreign policy is the product of human agency, that is, individuals in leadership positions identifying foreign policy issues, making judgments about them and then acting upon that information.” Military historians have echoed this insight. Kimberly Kagan has argued that to understand “the course of a particular battle, linking the causes and effects of its component events...” it is best to examine “the eye of command” focusing on the key decision makers (in this case military commanders) who made the big decisions and shaped the course of combat.⁹⁸ Ultimately, agencies, bureaucracies, organizations which may have their own culture and set of beliefs, and which are themselves the product of *ideas* which have been formed over time will share or inform the key political and military leaders of their views and advice. It is, however, the individual leader who must consider and filter them through their own ideas and experiences to make the decision on the use of force.

⁹⁸ Kagan, Kimberly, *The Eye of Command*, (The University of Michigan Press: Ann Arbor, 2009), 3

Figure 3. The Causal Mechanism of Currency Warfare Implementation



Historical Lessons as Perception Formation and Currency Warfare

Although this dissertation is not directly focused on how decision-makers *develop* their perceptions of when and why currency warfare should be implemented, it does not ignore the origins of how those perceptions are formed and how they directly impact the decision to implement currency warfare. Building on Robert Jervis's *Perceptions and Misperceptions in International Politics* scholars of cognitive decision making have long advanced the argument that decision-makers use a number of cognitive tools to simplify the decision-making process, of which the use of history plays a vital role.⁹⁹ Although

⁹⁹ For example, Derek Beach argues that decision-makers are susceptible to "four sources of misperception" which include "(1) The tendency to categorize and stereotype; (2) The tendency to simply causal inference; (3) The tendency to sue historical analogies to understand new situations; (4) The

studies of how history informs and educates decision-makers is often focused on the ‘big questions’ of war and peace. Jervis’s insight that “previous international events provide the statesman with range of imaginable situations and allow him to detect patterns and causal links that can help him under his world” apply to the story of currency warfare as well.¹⁰⁰ I argue that for policy-makers their historical knowledge and outlook play *the* central role in the shaping of perceptions regarding the weaponization of monetary force for purposes of war. Ultimately, the role of historical learning and use of past-analogies are critical to the story of why decision-makers implement currency warfare.

For example, it will be clearly evident that decision-makers’ experience with monetary power in their previous political or private roles informed them about how to view currency as weapons in war. Whether it was Governor Tryon or Dunmore who as Royal Governors of their Colonies in the 1760’s and into the 1770’s were not only tasked with preventing the counterfeiting of their currencies but also tasked with bringing those perpetrators to justice, experienced firsthand how counterfeiting could undermine not only the colonial economy but also provide a real danger for governing and their own legitimacy. These lessons would serve well during the American Revolution.

Napoleon Bonaparte also learned from his own experience with currency and how it could have been used to further his political and military campaigns at times reflecting on how he had counterfeited his enemy’s currency, especially the Austro-Hungarian notes, future conflicts may have been limited or unnecessary. Napoleon was not the first

tendency to ignore information and avoid situations that produce dissonance with existing beliefs and images.” Beach, Derek, *Analyzing foreign Policy*, (Palgrave MacMillan: New York, 2012), 114

¹⁰⁰ Jervis, Robert, *Perceptions and Misperceptions in International Politics*, (Princeton University Press: Princeton, 1976), 217

nor the last to attribute the use of currency power to bringing about a quick resolution to a conflict. The evidence that history informs the development of perceptions was clearly evident in William Donovan's correspondence with Franklin Roosevelt when, as part of his advocacy for counterfeiting the Italian Lira, Donovan' provided a historical essay showing evidence of its prior use. Early perceptions against counterfeiting the Reichsmark during Second World War where formed not only the world of finance but in its initial discussions regarding its ethical application and its effectiveness.

Eisenhower own perceptions about Anthony Eden's actions in Egypt confirmed his own biases against the British Empire and how its presence in the Middle East threatened American interest in the region. His own experience as Supreme Allied Commander in Europe during the Second World War and his observation of the delicate nature of currency politics and its relationship to sovereignty in all likelihood, informed his decision to manipulate the British pound-sterling during the Suez War of 1956.

During the War on ISIS American war planners learned from the Israeli use of airpower against Hezbollah in Lebanon for informing implementing currency warfare from the air during Operation Point Blank against the Islamic State's currency reserves at the height of the American war against ISIS.¹⁰¹ Organizations also have historical memories and draw on their past experiences. It should not be surprising that the Central Intelligence Agency learned from its immediate Predecessor the Office of Strategic Services that counterfeiting was a viable weapon to cripple the enemy's economy and

¹⁰¹See Darshan-Leitner, Nitsana And Samuel M. Katz, *Harpoon: Inside the Covert War Against Terrorism's Money Masters*, (Hachette Books: New York, 2017) for the history of Israel's air campaign against Hezbollah's money.

bring about psychological harm to their enemy's. In practically every war since World War II the United States has considered or implemented counterfeiting as a means to wage currency warfare against its adversaries. As we will see, the role of history is central in linking the three variables (threat to national security, strategy of subversion, and low implementation costs) and ultimately explaining when and why currency warfare is implemented or not.

Potential Alternative Explanations?

One of the benefits of applying process-tracing to within-case study analysis is that it allows for the possibility of identifying potential alternative explanations to one's own proposed theoretical explanation. Could there be alternative explanations to understanding the variance in the decision to implement currency warfare? In addition to testing my own theory of currency warfare explanation I also test for some powerful potential alternative which may call into question my theory.

Alternative Explanation #1 Currency Warfare is Explained by Traditional Currency Manipulation: Perhaps the strongest potential alternative explanation to explaining currency warfare is that currency warfare is about gaining trade advantages or about aggregate wealth creation. This explanation is based on the tradition motivation behind currency manipulation in which states devalue their exchange rates vis-à-vis other currencies to gain a trade advantage. However, this explanation does not hold up to explaining the weaponization of currencies. Two significant authorities on currency warfare, Napoleon Bonaparte and William j. Donovan argued that currency warfare was about subversion and the destruction of the enemy's currency not about wealth creation.

During the Second World War William Donovan would argue to Franklin Roosevelt that currency warfare was motivated by a strategy of subversion not simply acquiring the necessary war resources and denying them to the enemy. Furthermore, the motivation behind currency manipulation in the traditional sense aims to gain a trade advantage not to destroy the value of other currencies. Such an outcome would be, naturally, counterproductive to trade. Even during cases where counterfeit currency was used to purchase supplies behind enemy lines, this was simply an added benefit, a means by which to infiltrate the counterfeit note into enemy territory. Currency warfare is motivated by a strategy of subversion, not of aggregate wealth creation.

Alternative Explanation #2 Currency Warfare is the result of Desperate Leaders:

In Targeting Civilians, Antony Downes argued that when wars bog down causing greater number of casualties on one's own side, that out of desperation leaders may decide to target civilians as a way to bring the conflict to an end. Because currency warfare has the potential to cause significant harm to the civilian population could it be motivated by desperation? I answer no. On the contrary, currency warfare is usually one of the first forms of warfare to be considered because its misperceived notion that it could bring the end to an armed conflict sooner rather than later. AS the case studies show, currency warfare was often debated at the initial stages of armed conflicts not after years of combat. Furthermore, in certain cases, such as the Second World War, and in particular 1944-1945 when allied casualties were perhaps at their highest, the United States still refused to engage in currency warfare by counterfeiting the Nazi *Reichsmark*. Desperation theory does not explain why currency warfare is initiated or not.

Alternative Explanation #3 Currency Warfare is a product of the Distribution of Power at the International Level: One of the enduring questions of international relations is to what degree do systemic structural explanations explain the behavior of states and leaders? To take one example, “systemic theories explain international politics in terms of structural variables, most notably the number of poles or great power states in the system and the distribution of power—primarily—military power—among them.”¹⁰²Can the distribution of monetary power explain why leaders implement currency warfare? Certainly, the higher one is on the currency pyramid, or the degree to which one’s currency is internationalized offers states greater possibilities, autonomy, and defense against potential monetary retaliation. However, although the balance of power may explain why certain states and their leaders have the ability to implement currency warfare, say through manipulating the exchange rate of another currency, it actually tells us nothing as to when and why leaders may convert that abstract monetary power into actual weapons of statecraft.

Also, currency warfare has been, and is practiced, by powers of varying monetary strength and hierarchical placement on the monetary totem pole. Currency warfare can be implemented by pseudo-state groups like ISIS to rebels in Yemen to Superpowers like the United States. Finally, structural explanations may contribute to understanding if currency warfare is effective but again, not when or why it will be implemented.

Alternative Explanation #4 Currency Warfare is motivated by Racism: The question of racism is unique to the American decision to implement currency warfare

¹⁰² Bennett, Andrew, *Condemned to Repetition? The Rise, Fall, and Reprise of Soviet-Russian Military Interventionism, 1973-1996*, (MIT Press: Cambridge, Mass, 1999), 41

against Japan but not against Germany. Scholars like John Dower have presented powerful accounts of the role of racism in the origins and conduct of the Second World War. Could racism against the Japanese explain why the United States implemented currency warfare in the Pacific but in Europe? The answer is now. Analyzing the archival material indicates that racism was not a principal focus of concern regarding the decision to implement currency warfare against Japan but not against Nazi Germany.

In both theatres of operation, the Office of Strategic Services argued, passionately at times, for implementing currency warfare both against Germany and Italy in Europe and against Japan in the Asia-Pacific theatre. Also, although the racism aspect was clearly found in other sources, I have identified no direct pronouncements that currency warfare was viable because Japanese were racially inferior. In Europe, where racism was at the very essence of the war, the U.S. Treasury Secretary Henry Morgenthau, himself Jewish and an ardent anti-Nazi saw currency warfare as unwarranted on ethical grounds. Finally, as preparations began to invade Japan, practically identical questions were raised by Treasury official about the ethics of counterfeiting Japanese national currency. Finally, although racism may have been an implied element in the decision-making process, it would be rather difficult to clearly identify, and it would only serve as another potential ethical indicator in regard to the implementation costs. Racism, therefore, does not seem to have played a significant role in the decision-making process to target Japanese currency but not German or Italian currency. Finally, the fact that currency warfare has been a consistent feature of wars that have not been largely defined by its

ethnic or racist elements seems to indicate that if racism was a factor it was only an intervening one in a particular conflict not as a causal explanation overall.

Case Selection and Methodology

This dissertation hypothesizes that currency warfare is implemented when three necessary variables are present: a threat to national security, a strategy of subversion, and low implementation costs. To test causal claims made by a theory of currency warfare implementation I analyze eight currency warfare cases—both positive and negative which are “matched into pairs of highly similar cases with different outcomes” and use a variety of qualitative methodological approaches to evaluate my hypothesis.

Chapter three explores the role that a threat to national security plays in the implementation of currency warfare. Testing for the presence of a national security threat is not simple, but by dividing two armed conflicts—The American Revolution 1775-183 and French-Austro-Hungarian War or the War of the 5th Coalition (1809) into before and after cases, I was able to isolate (with the other variables being present) how changes in the security environment served as an critical explanatory variable In the decision to implement currency warfare or not.

Chapter four analyzes the behavior of the United States which implemented currency warfare against Japan in Asia and the Pacific but restrained itself in Europe against the Nazi’s and Italians. This chapter therefore compares two identical cases which differ in only one variable—the implementation cost. Thus, we have the same leaders, in the same war, with the same organizations, but with different perceptions of the implementation costs in Europe versus in the Asia-Pacific theater.

Chapter five explores Eisenhower's decision to engage in exchange rate manipulation of the British Pound during the Suez War of 1956 but his refusal to do so in the 1958 Middle Eastern Conflict which did not see Eisenhower resort to currency warfare. These two conflicts were separated by only a year, in the same region (The Middle East) and the same state actors (Great Britain, Egypt, the United States) and with the same threat—Soviet penetration and increasing influence in the region. Yet, as this case shows the variation in the decision to implement currency warfare in one case but not the other rested on the strategic motivation—going from one of subversion in 1956 to one of maintaining the status quo in 1958.

Chapter six compares the positive case of the American air campaign against the Islamic State's currency reserves (Operation Point Blank) and the decision to not deploy counterfeit propaganda currency during the Persian Gulf War (1990-1991). Using time-sequencing techniques I am able to show that it was not until 2015 when all three explanatory variables became present that we saw currency warfare be implemented. Specifically, it shows how the absence of strategy in the first year of the war prevented currency warfare from being implemented. I also explore subsequent cases in the 2000's when the CIA implemented currency warfare against Saddam Hussein because of misperceptions of the type of harm that could happen (which was the reason that currency warfare was not implemented during the Persian Gulf War). Throughout the study, there are also brief descriptions of cases which highlight the extent of which currency warfare has been implemented since the Seven Years War through the War on ISIS and the ongoing Yemeni Civil War.

Each of the cases establishes the presence of the three explanatory variables (e.g. threat to national security, a strategy of subversion, and low implementation costs). This form of testing, known as congruence testing, is important in identifying the relevance of the variables associated with the examined phenomena but it does have limitations, specifically that “it does not allow one to check for omitted variables or spurious correlations.”

Building on the works of George and Benner (2005) and Brookes (2019) I implement a narrative-process tracing technique to within-case analysis to all of the cases. Narrative process tracing to within-case analysis allows the research to “identify the intervening causal process—the causal chain and causal mechanisms—between an independent variable (or variables) and the outcome of the dependent variable (George and Bennet 2005, 2006; Brookes 2019). Process-tracing techniques therefore allow researchers to not only link the explanatory variables to the outcome, but also potentially capture alternative explanations not originally exposed in the theory of Strategic Currency Warfare. Ultimately, across-case comparisons serve an important role in establishing congruence of the explanatory variables of theory of currency warfare implementation “but only within-case analysis can confirm or falsify the theoretical framework proposed” in this dissertation.

Data Sources and Currency Warfare

For purposes of creating an original data set of currency warfare events and for developing complete case narratives which allow for variation in the dependent variable and for the fullest opportunity to test for the accuracy of my theory of currency warfare

implementation this study has relied on primary and secondary sources and a variety of qualitative methodology. Between 2016 and 2019 I collected information from numerous archival centers beginning with the Douglas MacArthur Memorial Archive in Norfolk, Virginia which gave me the first material on the decision to counterfeit Japanese currency during the Second World War. With generous grants from the Department of Political Science at the University of California, Riverside and its Center for Ideas I made numerous visits to the National Archives facility in College Park, Maryland to examine the vast and largely underexplored Office of Strategic Services archives (RG 266) which discovered unused and never before published materials shining important light on the deliberations within the American Government and Armed forces about the merits of waging currency warfare against the Axis. The Army Archives located at Carlisle, Pennsylvania allowed me access to its William Donovan collection who was the legendary leader of the OSS which only added to the richness of material information gathered and only fostered my excitement at exploring the debates at the highest levels of the American government and military over the decision to wage currency warfare against Japan but not against Germany or Italy during the Second World War.

Within the United States I also spent time at the Franklin Roosevelt Presidential Library located in Hyde Park, NY, where I not only found more direct evidence linking President Roosevelt with Currency Warfare and early discussions regarding the targeting of the Italian Libra, but their impressive digitization efforts allowed me to access Secretary of the Treasury Henry Morgenthau's diary which provide a rich glimpse at the

debates held regarding currency warfare at the highest level of the US government during the Second World War.

I also visited the Dwight Eisenhower Presidential Library located at Abilene, Kansas and have worked with the Obama Digital Library to collect primary sources on how American presidents have played a role in shaping and leading the currency warfare efforts. It was during these visits that I learned a vital lesson in presidential leadership which generally seeks to avoid placing one's signature on sensitive documents, but thanks to careful preservation and openness from our former presidents I was able to locate invaluable information not only for the chapters on the Second World War but also on the Eisenhower Middle East chapter and the ISIS chapter in which President Obama openly and routinely identified how currency warfare played a role in his strategy to defeat the so-called Caliphate. Beyond the United States I worked with the British National Archives to identify and locate large quantities of primary material examining the British role debate to wage currency warfare which played a great role in the American debate over the same question. To once again see some of the great titans of the 20th Century like Winston Churchill discussing currency warfare was thrilling.

For the most recent case of currency warfare, the American led air campaign against ISIS currency reserves, which I began as the war was in progress, and therefore offering me an opportunity to test my theory in real-time and with conditions outside of my control, I relied on the primary documents as much as possible focusing on President Obama and his administrations' official record on the conduct of the war. The U.S. military press releases and briefings have been incredibly helpful in putting together a

story of Operation Point Blank, which has yet to be told anywhere else. For the work on the Persian Gulf War I relied on the *Seeds of Victory* which chronicled the propaganda war against Saddam Hussein in 1990-1991. Having discovered that the Persian Gulf War Archives are a mess, *Seeds of Victory* provided the opportunity to identify an overlooked case and test theory or SCW.

Beginning with my chronologically older cases those of the American Revolution and the Napoleonic Wars, I relied on primary sources found within the letters and written collected works of the American founding fathers like John Adams and George Washington but also from the works of Colonial Governors, specifically, William Tyron who historians have identified as being a leader in the currency warfare campaign against the continental dollars and other currencies. I was thankful to discover a series of letters published long ago and translated into English of Napoleon Bonaparte's letters and direction on the waging of currency warfare against Austria-Hungary. To see this man's brilliance for war applied to currency warfare was down-right exhilarating and the fact that the documents supported my theory of currency warfare implementation only made it more enjoyable.

This dissertation will show that I benefit immensely from those few pioneers who have examined monetary power as an instrument of war or statecraft. Works by Jonathan Kirshner, especially *Currency and Coercion* and the more popular minded book *Currency Wars* by Cooley were helpful in establishing a foundation for the universe of cases. I also used numerous secondary and scholarly sources located on JSTOR, Google Scholar, and electronic databases and previously published books, not only to put

together a data set of over thirty currency warfare events but identifying over a hundred instances in which currency warfare was the focus of deliberation and in many cases, ultimately implemented. We now turn to those stories.

Chapter 3: Changing Threat Environments and Currency Warfare during the American Revolution and Napoleonic Wars

During the American Revolution (1775-1783) the British High Command in North America implemented currency warfare against the Continental Congress's Continental Dollar and the paper currencies emitted by the rebellious colonial governments. British political and military leaders such as Governor William Tryon of New York, Lord Dunmore of Virginia along with General Howe and the British army waged currency warfare by refusing to accept rebel currency and therefore denying the currency legitimacy, a propaganda campaign against the value of the currencies, and most significantly, a large scale effort to counterfeit the rebel currencies. Of these tactics counterfeiting currency was the most widespread and the most effective at contributing to the demise of the Continental Dollar in 1780 and of causing monetary havoc in the colonies and the rebel war effort overall.

However, Great Britain was not the only country to wage currency warfare by counterfeiting their enemy's currency during this period. It seemed as if other states and other prominent leaders had also detected the potential advantages of weaponizing currency and turning currency markets into battlefields. The late sixteenth and early seventeenth centuries had witnessed governments and banking institutions development and the maturity of the policy of emitting paper money and therefore expanding the money supply and credit, beyond specie (hard currency) for purposes of facilitating commercial transactions, taxation, and for the financing of war. It should not be surprising that this same age of monetary ingenuity also experienced what must be

regarded as the first great wave of currency warfare by counterfeiting in the history of armed conflict.¹⁰³

All the great war leaders and all of the great wars of beginning in the mid-eighteenth century through the Napoleonic Wars engaged in counterfeiting their enemy's currencies as a tactic of war. During the Seven Years War (French and Indian Wars) 1756-1763 William Pitt counterfeited the French Franc, and Frederick the Great did the same in his campaigns in Central Europe. The British implemented currency warfare by counterfeiting in all of its wars against France including the wars of the French Revolution and against Napoleon himself. Napoleon Bonaparte, which will be the subject of our second case study in this chapter, deployed his imagination and his martial genius to envision the destruction of his adversaries by destroying their currency and contracting their credit supply by counterfeiting his enemy's currencies. Following his victory at Austerlitz (1805) Napoleon would wage currency warfare against Austria, Great Britain and Russia. As Napoleon and his *Grande Armée* marched into Russia in 1812 counterfeited Russian Rubles were part of his arsenal.

This chapter is concerned with explaining *why* the British implemented currency warfare against its rebellious colonies during the American Revolution and *why* Napoleon did so against the Austrian Empire in 1806. What makes these cases fascinating is that counterfeiting much more than today was seen as a treasonous,

¹⁰³ Glaser, Lynn, *Counterfeiting in America: The History of an American Way to Wealth*, (New York: Clarkson N. Potter, Inc., 1968), 7-8. Glaser writes that "Beginning in England in the middle of the seventeenth century, a new, sophisticated form of money was being introduced. Instead of coin having to contain its full value in bullion, small coins that did not contain its full value were accepted at first...By the end of the century in England and America this principle had been extended to the point where it was possible to issue paper money."

criminal, and uncivilized act. In an age when honor meant a great deal the question arises as to what would make these governments and these leaders William Tryon, General Howe and Napoleon go from prosecuting counterfeiters or viewing the task as a criminal act to embracing their craft as a policy of war? Furthermore, exploring these two cases presents an opportunity to test for my proposed theoretical framework of explaining when and why decision-makers decide to implement currency warfare during armed conflicts.

Methodology

In this chapter I test for how changes in threat to national security explains the implementation of currency warfare. To test for how changes in the threat environment contributes to an explanation of why states wage currency warfare I implement a “before-after research design.” A “before-after research design” allows the researcher to achieve “control” by “dividing a single longitudinal case into two sub-cases” treating an “event or a choice” which has occurred at “some point in time” and “creating the approximation of an experimental intervention.” As Georg and Bennet argue “This permits the investigation to identify a “before-after” configuration within the sequential development of a longitudinal case (George and Bennet, 2005, 166).” The key to the implementation of a successful before-after research design is that “only one variable can change at the moment that divides the longitudinal case neatly in tow.”

Both of the cases, the British counterfeiting campaign during the American Revolution and Napoleon’s conflict with the Austrian Empire during the War of the Second Coalition overcome this obstacle. During both of these cases, all the explanatory variables argued here, those of a strategy of subversion and the low implementation costs

where low prior to the official outbreak of hostilities. The only change in variation was the threat environment in which these leaders found themselves in which had a profound change on the permissibility of the impermissible—that of sanctioning counterfeiting.

Explaining the Timing of the British Currency Warfare Campaign

In order to understand the shift which occurred in the minds of British decision-makers in North America in regards to implementing a counterfeiting campaign against the rebel governments, a practice which was seen as immoral, treasonous, and criminal to a policy which was accepted as a political and military tactic we must look to how the roles of Royal policy-makers in the colonies changed in that crucial year of 1775. I do this by tracing the trajectories of two royal governors William Tryon of New York and Lord Dunmore of Virginia who have been identified as being two leaders in the counterfeiting campaign against the rebels. Both of these men were governors before the outbreak of war and as colonial governors they prosecuted counterfeiters vigorously. Furthermore, as Colonial Governors they had firsthand experience in understanding the impact that counterfeiting had on their limited colonial currency in circulation and the difficulties in governing when their money supply was minimal. These governors had faced the challenges resulting from Parliament's powers of regulation over the money supply in the colonies, which after the Currency Act of 1764 was passed and which extended an earlier version of 1751 to all the colonies and forbade them from emitting paper currency thus limiting the money supply, contracting the economy, and creating real political and economic hardships for themselves and the colonies. Ultimately, what caused the British to employ counterfeiting as a weapon of war was the cognitive changes

in their perceptions of what was permissible during war from what was their duty during peace. The fundamental change in their policy of prosecuting counterfeiters to sanctioning them can only be explained by the outbreak of war in 1775.

Since the end of the Seven Years War, known as the French and Indian War in North America Parliament and its King George III had enacted policies which attempted to raise revenue to repay Britain's war debts and continued military costs and to subvert the colonists growing sense of independence. Ultimately, the imperial crisis of the 1760's and 1770's which exploded on the fields of Lexington and Concord in April of 1775 revolved around the question of whether the colonies would continue to be nearly autonomous entities with the powers of sovereignty over their internal affairs or, whether this power remained with Parliament and the Crown. The numerous acts following the French and Indian War in 1763 which attempted to impose Imperial power on the colonies like the Sugar Act (1764), The Stamp Act (1765), The Tea Act (1773), and the Coercive Act (1774) and others sought to remind the colonists that they were under British tutelage and that ultimate authority reigned in Parliament and the Court of St. James by imposing taxes "without representation" and declaring that Parliament had authority to regulate the political affairs of the colonies.

Of these acts, the Currency Act (1764) played an important role as a consistent reminder that the colonies did not enjoy the same freedoms as their countrymen in England by the continuing regulation of their money supply through the prevention of the colonies from emitting paper money. As we shall see the question of the money supply in the colonies, or rather, its limited supply and the Colonial legislatures inability to enact

monetary policies to deal with the contracted money supply was at the forefront of the debate over sovereignty with the Parliament. The currency question impacted every individual, home, and government in the colonies. There simply was not enough hard money in circulation for commercial exchange to prosper and collecting taxes when there was no money to be earned or acquired (literally) created a political challenge also.

Much like Greece, Spain, and Portugal were unable to address their economic and political challenges while facing a severe economic crisis during the Great Recession (2008-2012) because they had abandoned their monetary sovereignty and embraced the EURO, colonists could also not deal with continuing economic crisis, and they had never had a choice in the matter. The currency question would plague Governors, Parliament, and Colonists alike but also provide lessons for Royal wartime governors who understood that a crippled confidence in money and no legal tender in circulation had a profound psychological impact on the colonies. From the Parliaments' perspective regulating money was part of a broader effort to reinforce Parliamentary power in the colonies and subvert the colonial aspirations for autonomy and later independence. As war loomed closer Parliament and Imperial officials in the colonies would work to subvert the colonial legislatures and their leaders advocating for independence.

From a cost/benefit analysis Parliament and the King largely believed that in regulating the money supply of the colonies they were preventing financial harm to merchants in London and also served to limit inflation. From their perspective their monetary policy and financial institutions had matured to make Great Britain the leading financial power in Europe and the royal navy, guarding the sea lanes would protect its

economic interest abroad. As the war appeared on the horizon the King and Parliament implemented economic warfare against the colonies, especially Boston, closing its harbor while continuing to deny the legislatures the ability to create their own money, a vital aspect of a sovereign state. The policy of continuing to deny the colonists the sovereign power to emit their own currency was simply continued during the war by refusing to accept its legal tender and accelerating its demise by counterfeiting them. Thus, the only factor to change in British Colonial policy was that prior to 1775 the threat had not reached the level of war whereas afterward, honorable men who had fought counterfeiters decided the severity of the moment required them to do so.

Before and After: Napoleon and Waging of Currency Warfare Against Austria

Napoleon Bonaparte embraced currency warfare as part of his wars against the Great European powers. Although more famous for his Berlin Decree (1806) in which he attempted to starve Great Britain out of the war by imposing a continental blockade on the island nation, Napoleon also had a clear understanding of how not just trade but undermining his enemy's currency more directly could play in winning the war.

As with the British counterfeiting campaign case study, the year 1806 offers an opportunity to implement a before-after research design because it overcomes the principal obstacle of that approach—that all variables and factors have to be the same except one. We therefore have the same principle decision-maker, Napoleon himself facing off against the same enemy as before, Austria, and with a clear expression of his words that he planned to counterfeit the currency of Austria to subvert its ability to wage war and he had the Austrian notes fabricated prior to the renewed conflict in 1806.

Following Napoleon's victory at Austerlitz in which he destroyed the Austrian and Russian armies Napoleon entered Vienna and a peace treaty was quickly signed. In the process, Napoleon's agents confiscated Austrian currency plates and brought them to Paris where they were immediately put to work creating large quantities of Austrian paper-notes. Napoleon regarded the plan as crucial for success in a conflict he knew would continue eventually, saying that had he destroyed the Austrian currency last time, there would be no future war (check quote). When war broke out in 1806, The War of the Second Coalition, Napoleon put his fabricated Austrian paper notes into circulation. Although it remains unclear its effect on the Austrian ability to wage war or what problems it caused its government, it is clear that Napoleon only implemented the fabricated Austrian notes *after* war was initiated and not before. Once again, we see how changes in the threat environment contributed to the implementation of currency warfare via counterfeiting.

Chapter Outline

This chapter begins with the situation in the American colonies and its relationship to Parliament and the King as it related to the question of sovereign monetary policy largely through the experiences of William Tryon and Lord Dunmore, two Royal Governors. I spend considerable effort at describing and documenting how these two governors understood and grappled with the monetary situation in their states of North Carolina, and Virginia, respectively, and how the lessons they drew from the governorships informed their ultimate decision to implement currency warfare via counterfeiting once war broke out. The second part, what constitutes the after 1775

juncture of the study is concerned with examining how the two governors, their Tory allies, and military leaders implemented currency warfare and how it was motivated by a strategy of subversion followed by an analysis of the potential discussion and challenges they faced regarding the political and economic costs of deploying counterfeit currency.

The second case of this chapter examines Napoleon's counterfeiting campaign against Austria. Using the Emperor's own words and analysis I demonstrate how Napoleon had already formulated a strategy and how the costs of deploying the counterfeit Austrian notes were considered negligible, but that he was waiting for an actual breakout or renewing of hostilities before implementing currency warfare.

Case I, Part I: The Monetary Situation in the Colonies 1607-1775 -- Currency, Counterfeiting and the Run up to Revolution

From the very beginning of the English presence in North America Colonial Governors faced three significant challenges to their monetary policies and sovereignty: The first, was the lack of specie or hard currency circulating in the colonies; Second, the act of counterfeiting the currency acceptable as legal tender, and third, the increasing Parliamentary prerogative to exercise its sovereign authority over its colonies by regulating the colonies ability to issue paper money prioritizing London merchants over colonial interest. Taken together, from the beginning of the imperial enterprise which began at Jamestown, Virginia in 1607 and the founding of the Plymouth Plantation in 1620, the colonies faced a continued shortage of currency which restricted commerce which impaired commercial exchange and which also impacted all those living in North America, regardless of social standing or class, to financial hardship. Furthermore, the

fact that the colonial monetary challenges were also the result of Parliament's exercise of its right to regulate the Colonial monetary policy was a consistent and increasing reminder that the colonists lacked the sovereign authority to implement their own monetary policy.

The colonial experience during this time was not all that different from what the countries of Spain, Greece, Portugal and others faced during the Great Recession of 2008-2012 in which the inability to increase the money supply in those countries (because they had elected to surrender their sovereign currencies to the supranational EURO) negatively impacted governments ability to deal with challenges of the recession. The difference was that the colonists never had the option to opt out or into the Parliamentary prerogative to regulate money. The lack of choice over monetary sovereignty would play an important role in the separate of the colonies from Great Britain.

The early settlers "brought into the colonies little or no money, since they were poor men and needed other forms of capital."¹⁰⁴ It would take time before commerce between the colonies and the broader English and global centers of commerce would be established bringing in hard money (e.g. gold and silver coinage) and so in the first years tobacco and wampum (beads) which was "the common Indian currency" which was quickly adopted as an official currency by the early migrants.¹⁰⁵ As historian Charles

¹⁰⁴ Bullock, Charles J., *Essays on the Monetary History of the United States*, (New York: The MacMillan Company, 1900), 7.

¹⁰⁵ *Ibid*, 7

Bullock observed “thus commenced In this country the quest for cheaper substitutes for metallic money.”¹⁰⁶

The use of wampum as a means of exchange existed until 1661 (in New Amsterdam), but the increasing manufacturing of wampum by the European settlers and the Indian practice of counterfeiting the currency had depreciated its value forcing Massachusetts to prevent the payment of taxes in wampum.¹⁰⁷ Aggravating the monetary situation was the diversity in the types of currency used in the colonies. In North Carolina for example the coin used was not exclusively of British origins and the economy ran on “silver shillings and half crowns, and gold guineas and sovereigns” with “the principal coin of the Western world” being the “Spanish silver milled dollar, peso, or piece of eight.”¹⁰⁸ Added to this was also coins from France, Portugal, Germany and Scandinavian currencies.¹⁰⁹ This undoubtedly created a challenge in the local economy by having multiple exchange rates with multiple currencies all at once and all accepted as legal tender. However, although a century into the colonial experience more specie was circulating in the colonies the colonial governments still faced an acute shortage of currency which was only made problematic during times of crisis, especially war.

The issuing of paper-money was a relatively new financial strategy in paying for war. It was only in the 1650’s when William Potter published his “The Key of Wealth, or a new way of Improving of Trade,” that discussions in England began to center around

¹⁰⁶ Ibid, 7

¹⁰⁷ Ibid, 8

¹⁰⁸ Watson, Alan D., “Counterfeiting in Colonial North Carolina: A Reassessment,” *The North Carolina Historical Review*, Vol. 79, No. 2 (April 2002), PP 182-197, Pg. 183

¹⁰⁹ Ibid, 182

the issue of creating paper money for commercial transactions.¹¹⁰In the colonies paper money began to circulate in Massachusetts sometime before 1652 and John Winthrop, the Governor of Connecticut considered the idea in 1661.¹¹¹

In 1690 Massachusetts would issue its first series of paper currency to pay for war, and this would not be the first time would a government in North America increase the money supply through quantitative easing for purposes of financing and waging of war through the practice of issuing and producing paper money.¹¹²When in 1712 North Carolina found itself in the Tuscarora War, the government issued £4,000 of “interest-bearing bills of credit to meet the expenses of an impoverished government.”¹¹³In response to Queen Anne’s War the legislatures of New Hampshire, Rhode Island, Connecticut, New ¹¹⁴York, New Jersey, and North Carolina had all voted to create bills of credit to pay for war.¹¹⁵The temptation to finance war through the creation of paper money convinced even the most conservative of colonies on the matter, Virginia, to follow suit. And in 1755 issued its first denominations of paper currency.¹¹⁶The addiction to cheaper money created by the legislature inevitably resulted in depreciation and there never seemed to be enough money in circulation to meet the perceived demands. On the eve of the Seven Years War of 1756-1763 (The French and Indian War in North

¹¹⁰ Bullock, Charles J., *Essays on the Monetary History of the United States*, (New York: The MacMillan Company, 1900), 30.

¹¹¹ *Ibid*, 31

¹¹² Watson, Alan D., “Counterfeiting in Colonial North Carolina: A Reassessment,” *The North Carolina Historical Review*, Vol. 79, No. 2 (April 2002), PP 182-197, Pg. 183

¹¹³ *Ibid*, 183

¹¹⁴ Bullock, Charles J., *Essays on the Monetary History of the United States*, (New York: The MacMillan Company, 1900), 30.

¹¹⁵ *Ibid*, 33

¹¹⁶ *Ibid*, 34

America) depreciation of the colonial currencies was widespread bringing “intense hardships.”¹¹⁷In addition to the depreciation of currency, the expansion of the money supply by the creation of paper money was also viewed as having a negative influence on the morals of the people. Massachusetts Governor Hutchinson in his history of the colony would write that “the morals of the people depreciate with the currency”¹¹⁸and corrupt practices was on the rise.

By the mid-eighteenth century Parliament had intervened to assist its New England Colonies through means of a grant in order to recompense the colonies for their expenditure during King George’s War (1744-1748) helping Massachusetts in redeeming its currency at a rate of “7 ½ shillings of paper for one shilling of specie.”¹¹⁹However, the democratization of monetary policy in which the legislature, elected by people of the colonies often confronted the Governor who was appointed by the King over the issue of paper currency. Colonial governors were often instructed to avoid adhering to their legislatures demands for more paper money (a practice begun in 1720), which could mean that the legislature would refuse to pay the Governor’s salary.¹²⁰

¹¹⁷ According to Bullock, “Depreciation commenced at an early date, and tended to increase as time went on. In New England sterling exchange was 133 in 1702, a rate corresponding exactly to the rating of the dollar at 6s. In 1713, it rose to 150, and had reached 550 by the year 1740. The climax was reached in Massachusetts and Connecticut in 1749 and 1750, when exchange was quoted at 1100, indicating a depreciation of nearly 9:1. In Rhode Island, the old tenor bills finally sank to 23 for 1. In the Middle Colonies the depreciation never reached such figures. In Pennsylvania exchange once reached 180, while the par of exchange for specie was not higher than 166 ½. In Maryland exchange rose from 133 to 250. In North and South Carolina, the paper currencies finally sank to one-tenth the value of sterling.” Ibid, 39-40

¹¹⁸ Ibid, 41

¹¹⁹ Ibid, 41

¹²⁰ Ibid, 43. Massachusetts for example was required to pay the salary of the Governor even though the appointment was made by the king. Also, see Bullock note 1 on page 43 for the date of the first set of instructions to limit the legislatures ability to pass legislation creating paper money.

In 1751, no doubt frustrated by the colonist's financial troubles and their impropriety but guided more by the impact their depreciated currency was having on London's merchants, Parliament passed the Currency Act of 1751 which prohibited New England colonies from issuing paper-money. To many colonists the act was surely interpreted as another attempt by Parliament to restrict their liberty and sovereignty as British subjects. Surely, his majesty's subjects in England did not face similar "destructive" practices to "the liberties and properties" of his subjects in North America, many undoubtedly believed.¹²¹ However, within a few years Britain would once more find herself at war and North America would be an important theater of the war putting Great Britain against her traditional enemy, France, in a war that would span the world and which decide the ownership and fate of North America. The British colonies in North America would fight for their King helping defeat France and capturing Quebec with General Wolfe and thus ending France's empire in Canada. But the monetary concerns during wartime are different than during times of peace. The colonies, with the endorsement by the Parliament would issue new paper money emissions to finance the war against France.¹²²

The Imperial Crisis and the Role of Currency and Counterfeiting 1764-1775

The war against France in North America and its successful conclusion resulted in Great Britain becoming the dominant power on the continent adding Canada to its vast possessions. The war had been won by defeating the French armies (which the colonist

¹²¹ Ibid, 45

¹²² To take one example, North Carolina, "issued bills of credit or treasury notes on eight occasions from 1754 through 1761 to finance the military effort. Watson, Alan D., "Counterfeiting in Colonial North Carolina: A Reassessment," *The North Carolina Historical Review*, Vol. 79, No. 2 (April 2002), PP 182-197, Pg. 184

played a crucial role) and in the ability to finance its military campaigns. However, the war also shackled Britain with an immense debt, and it seemed quite natural to many in Parliament and the nation that their colonies should share not only in the commemoration of their victory but in the payment of its costs. It came to be that at Britain's hour of victory it would enact policies which would, in the end, serve as the catalyst for the loss of its American colonies.

Of the policies enacted by Parliament those concerning the taxation of the colonies have received the most attention. These being the Sugar Act (1764), the Stamp Act (1765), the Townsend Act (1767), and the Tea Act of (1773) have received the most attention as being a source of resentment against the Crown. However, the Currency Act of 1764 also played an important role in angering and reminding the colonist of their subordination to Parliament. Although direct taxation against the colonies had never been enforced and this was certainly important in bringing about increasing hostility against Parliament, we must remember that Parliament had been regulating the colonial monetary policy since practically the beginning and had been the source of much frustration and anger.

What the Currency Act of 1764 did was to extend the existing Currency Act of 1751 (which had only been directed at New England states) to all of the colonies. The act was therefore another in a long line of acts by Parliament to deny Colonists their rights as Englishman in their monetary affairs. As one colonist in Philadelphia put it, "the Inhabitants will be reduced to the necessity of primitives Times in this Place, of going to Market for the Provisions of their Families with Rum Sugar Melasses Ozenbrigs &c &c

instead of money.”¹²³The colonies were in an uproar. Had they not also gone into debt to pay for war? Had New York not loaned Sir Jeffrey Amherst £ 150,000 to fight in Canada?¹²⁴ And now, the Parliament was reducing the amount of money in circulation, which could only mean that they would be unable to pay their debts and becoming poorer, at the expense of merchants in London? A movement began almost immediately for repeal of the Currency Act (1764) and although at times it seemed Parliament would be flexible, ultimately it did not. The inability of Parliament to see the dangers of restricting and contracting the flow of money in the colonies would contribute to the growing sentiment in favor of independence. In 1766 while he interviewed by Parliament regarding the Colonies recalcitrance against Parliament Benjamin Franklin responded by laying the costs at the colonies “impatience and disrespect towards Parliament” being the “prohibition of making paper money.”¹²⁵

Governors Tryon and Dunmore and Counterfeiting Before the Revolution

In regard to the monetary situation facing the colonies in the years leading up to the revolution colonial governors found themselves in a thankless and ultimately futile position. Governors were not only restricted in the exercise of monetary sovereignty in their colonies but failure to follow the law to letter would be politically and financially catastrophic for them. Parliament, knowing that Governors would be hard-pressed to ignore their colonial legislatures in their efforts to pass legislation creating and

¹²³ Morgan, Edmund S., and Helen Morgan, *The Stamp Act Crisis: Prologue to Revolution*, (New York: The University of North Carolina Press, 1962), 48

¹²⁴ Christie, Ian R., and Benjamin W. Labaree, *Empire or Independence 1760-1776: A British-American dialogue on the coming of the American Revolution*, (New York: W.W. Norton & Company, 1976), Page. 43

¹²⁵ *Essays on the Monetary History of the United States*, 59

sanctioning of the emission of paper money made it not only illegal but also “threatened any governor who violated it with severe penalties, including a fine of £ 1,000 sterling, immediate dismissal, and lifetime exclusion from places of public trust.”¹²⁶ There were exceptions to the rule, and some governors, including Governor Tryon as Governor of North Carolina, during times of crisis had to ignore the Currency Act and its threats in order to serve the colony. During the military expedition against the Regulators in North Carolina, Governor William Tryon (who as we shall see led the counterfeiting campaign against the Continental Congress) would ignore the provisions of the Currency Act (1764) to “emit paper money” to pay for the campaign. Parliament would ultimately approve of Tryon’s actions.¹²⁷

But still, Governors had their hands tied when it came to expanding capital in their colonies. Furthermore, governors faced another problem to their money supply in which they could exercise their prerogative, and which had the support of their legislatures—that problem was counterfeiting. Counterfeiting, which Alan Watson defined as “the production of spurious coin and paper money, the forgery or alteration of existing bills, and the uttering or passing of bogus coin and currency” was as old as the beginning of history and had emerged rather quickly in the early colonial period.¹²⁸

As was mentioned earlier, early colonists had adopted wampum (beads) as a currency and had been in circulation until 1661 (in New Amsterdam) when but the increasing manufacturing of wampum by the European settlers and the Indian practice of

¹²⁶ Greene, Jack P., and Richard M. Jellison, “The Currency Act of 1764 in Imperial-Colonial Relations, 1764-1776, *The William and Mary Quarterly*, Vol. 18, No. 4 (Oct. 1961), pp. 485-518), Page. 489

¹²⁷ Watson, Alan D., “Counterfeiting in Colonial North Carolina: A Reassessment,” *The North Carolina Historical Review*, Vol. 79, No. 2 (April 2002), PP 182-197, Pg. 184

¹²⁸ *Ibid*, 182

counterfeiting the currency had depreciated its value forcing Massachusetts to prevent the payment of taxes in wampum.¹²⁹

In Virginia, “unscrupulous traders would dye the less valuable white shells to look like more valuable blue-black shells.”¹³⁰ By the mid-seventeenth century metallic coins began to appear in the colonies but they were often debased by “clippers” those who would cut the edges of coins and by the end of the century such coins had been reduced in value by nearly half their weight.¹³¹ Counterfeiting currency has always been an illegal activity and understood to be a treasonous act.

Lord Dunmore and Counterfeiting Before the Revolution

Out of all the Colonial and Royalist Governors of the revolution no one was as reviled and vilified as Lord Dunmore the Governor of Virginia. At the beginning of the war George Washington considered Dunmore “the most formidable Enemy America has” and after promising slaves their freedom in return for fighting against their masters was labeled an “Arch Traitor to the Rights of Humanity.”¹³² A Scotsman by birth, John Murray the 4th Earl of Dunmore would serve briefly as Governor of New York in 1770 and within a year be appointed Governor of Virginia. He was loyal to King George III

¹²⁹ Ibid, 8

¹³⁰ Lynch, Jack, “The Golden Age of Counterfeiting: Cashing in on Colonial Currency,” *Colonial Williamsburg Journal*, Summer 2007. Online Source: <https://www.history.org/Foundation/journal/Summer07/counterfeit.cfm> (last accessed: August 31, 2019). See also, Scott, Kenneth, “Counterfeiting in Colonial Virginia,” *The Virginia Magazine of History and Biography*, Vol. 61, No. 1 (Jan. 1953), pp. 3-33

¹³¹ Ibid, “The Golden Age of Counterfeiting.”

<https://www.history.org/Foundation/journal/Summer07/counterfeit.cfm> (Last accessed: August 31, 2019).

¹³² David, James Corbett, *Dunmore’s New World: The Extraordinary Life of a Royal Governor in Revolutionary America—with Jacobites, Counterfeiters, Land Schemes, Shipwrecks, Scalping, Indian Politics, Runaway Salves, and Two Illegal Royal Weddings*, (Charlottesville: University of Virginia Press, 2013), 2

and a shrewd observer of colonial politics. As his biographer James Corbett David would observe “Dunmore learned quickly in both New York and Virginia that royal power was only effective in so far as it appealed to local interest.”¹³³

Dunmore understood, that to a significant degree, his legitimacy and power as governor rested on the handling of the colonies monetary policy. This was no easy task as his powers, and that of his colony, were limited by the Currency Act (1764) which as we have seen denied Virginia the monetary sovereignty to address its financial and socio-political needs. Although Dunmore could do little imperial monetary policy the expansion of the money supply in Virginia, he could and attempted to protect the existing currency in circulation from counterfeiters. Although Dunmore faced “the limits of state power” which hindered his ability to prosecute the transgressors he undoubtedly viewed counterfeiting as an illegal and rather wicked act propelling him to act.

Dunmore first challenge was in January of 1773 when Robert Carter Nichols, the Treasurer of Virginia, discovered “several very ingenious” forged five-pound notes which the colony had produced between 1769 and 1771.¹³⁴ It soon became evident that counterfeited pound notes were everywhere in Virginia and “that the marketplace was also flooded with counterfeit coins in the form of half-pistoles, pistoles, and Spanish Dollars.”¹³⁵ Although forged notes were historically easy to identify because of their poor quality, these notes were according to Dunmore “Masterly” in their similarity to the legal currency, and it had taken considerable effort to identify the fraudulent currency

¹³³ Ibid, 5

¹³⁴ Ibid, 46. The quote is attributed to Treasurer Robert Carter Nicholas as well as the description of the currency that was counterfeited.

¹³⁵ Ibid, 46

notes.¹³⁶The revelation that the currency in circulation was severely compromised and that the counterfeit currencies were difficult to distinguish from the real money in circulation produced immediate panic with payments in cash being suspended, gambling on horse races declining by half, and in March, just two months after the discovery of the counterfeit notes, “the circulation of money had nearly ceased.”¹³⁷

Dunmore faced a problem. “The emission of money was among the most basic power of government” and unsanctioned notes in circulation resulted in inflation and also undermined consumer confidence. Counterfeiting was a direct affront to the Colony and Governor of Virginia, and it was also an act of treason.¹³⁸Dunmore acted quickly calling for an emergency session of the General Assembly in early March (1773), but being advised that the forgers which were operating in remote southwestern Virginia and could soon leave Dunmore instead called for the leading legal authorities in the colony and consulted with the Speaker of the House Peyton Randolph, the Attorney General John Randolph, and the Treasurer Nicholas. Dunmore issued arrest warrants for those individuals implicated in the counterfeiting scheme.¹³⁹ In February the individuals were captured red-handed and the officials “the agents seized the five men, their equipment, and a large quantity of finished product” which they shipped to Williamsburg.¹⁴⁰

¹³⁶ Ibid, 47. “The fraudulence of most counterfeit currency in colonial America was easily detectable, but these forgeries had been produced in “so Masterly a Manner,” Dunmore wrote, that they were all but indistinguishable from the real thing. Nicholas admitted that it had taken a committee of experts, including himself, two full days of close examination to “fix any certain Criteria to distinguish the good from the forged bills.””

¹³⁷ Ibid, 47

¹³⁸ Ibid, 47- 48

¹³⁹ Ibid, 48

¹⁴⁰ Ibid, 48

The decision to send the alleged counterfeiters to Williamsburg is itself illustrative of the challenge Governor Dunmore faced regarding the currency question in Virginia. On the one hand Dunmore had to prosecute the counterfeiters for they constituted a treasonous and direct assault on his authority, but on the other hand, counterfeiters enjoyed considerable “sympathy” in “cash-poor regions like southwestern Virginia.” At times counterfeiting was seen as a form of civil disobedience against an oppressive government and counterfeiters were often released or assisted in escaping jail in the areas of Virginia where government authority was weak.¹⁴¹ John Ford and later his son were able to escape their captors even though they were constantly under guard, and Dunmore had charges brought against the guards.¹⁴²

Although Dunmore had done all he could to bring the counterfeiters to Justice, the Virginia Assembly “criticized Dunmore for failing to secure grand jury indictments in Pittsylvania before bring the prisoners to Williamsburg.” The issue wasn’t so much the governor’s lack of aggressiveness against the alleged counterfeiters but that he had brought them to Williamsburg instead of trying them in Pittsylvania as was the custom at the time and to be tried by a jury of their peers. Dunmore was caught in an impossible situation and his actions which are justifiable from the perspective of carrying out justice was seen as another attempt by Royal authorities to usurp the rights of Englishmen in the colonies. During this crisis the Assembly voted to “reestablish a Committee of Correspondence” with other colonies so that “various Rumours [original spelling] and

¹⁴¹ Ibid, 48

¹⁴² Ibid, 49

Reports of proceedings tending to deprive them [Virginians] of their ancient, legal, and constitutional rights” could be observed.¹⁴³

Whatever thoughts and lessons Dunmore gained from his experience in tracking down and prosecuting counterfeiters in 1773 was either not recorded, or more likely, has been lost history. But several lessons Dunmore must have learned. First, was the very difficult task of being Governor in a democratic society where interest of the legislature were directly linked to their constituencies and not necessarily to establishment of strong government and oversight from London. More important for subsequent events he learned that counterfeit currency struck directly at the essence of governance and its consequences undermined the legitimacy and ability to handle the economy and govern. Ultimately, counterfeiting currency could prove to cause significant distress and problems for any government and this lesson which Dunmore learned from first-hand experience no doubt influences his decision to forge Continental and Virginia currency in the early stages of the American revolution.

William Tryon and Counterfeiting Before the War

William Tryon was an Englishmen who came from “distinguished” and old family in England.¹⁴⁴ The able, likeable, if perhaps vain man would have been regulated to that family of Colonial Governors and administrators that time has forgotten if it was not for his role in waging currency warfare against the rebellious colonies. More so than Dunmore, who he would replace as Governor of New York in 1771, William Tryon had

¹⁴³ Ibid, 50

¹⁴⁴ Nelson, Paul David, *William Tryon and the Course of Empire: A Life in British Imperial Service*, (Chapel Hill: North Carolina Press, 1990), Page. 2.

more experience in navigating the troublesome monetary policies of Parliament towards the colonies and of the threat posed by counterfeiting.

As governor of North Carolina Tryon had to confront the pressures from the Assembly to both act as a liaison with the King in regard to the shortage of currency in the colony and to the threat posed by counterfeiting. In January of 1768 the Assembly had written a petition to the King expressing their wish that currency could be emitted in North Carolina so that they would be able to conduct trade and pay their internal taxes.¹⁴⁵ That same petition was accompanied on the same day by a letter to William Tryon, dated January 16, 1768, pleading with the Governor to work on their behalf with the king and bring their troubles currency situation to his attention and redress. The letter read:

“As a Committee of Both Houses of Assembly We request the Favor of your Excellency, to forward our Petition and the Resolves herewith delivered, in order to the same being presented to His Majesty for the Royal License for Emitting of Currency.

We also beg leave to request of your Excellency that you will be pealed more particularly to state the distresses of this Colony, partly occasioned by Counterfeit Money, and for want of sufficiency of good proper currency or other medium of Trade among us.”¹⁴⁶

Governor Tryon was true to his word and understood the plight of his colony by the twin effects of a regulated monetary supply and counterfeiting. The Assembly had in February also declared that:

“Resolved that the Committee likewise request His Excellency in case of obtaining leave for such Emission, in order to prevent Counterfeits for the future that he will be pealed to order proper Paper, Copper Plates, Presses and other

¹⁴⁵ Powell, William S. (Editor), *The Correspondence of William Tryon and Other Selected Papers, Volume II, 1768-1818*, (Raleigh: Division of Archives and History; Department of Cultural Resources, 1981), 18

¹⁴⁶ Powell, William S. (Editor), *The Correspondence of William Tryon and Other Selected Papers, Volume II, 1768-1818*, (Raleigh: Division of Archives and History; Department of Cultural Resources, 1981), 17

Materials necessary for stamping the same, and draw on the Public treasures for expense thereof.”¹⁴⁷

To the Board of Trade Tryon wrote a lengthy exposition on the monetary challenges facing North Carolina which included the difficulty of many North Carolinians in paying taxes because there simply wasn't sufficient money available for them to acquire. Creditors were also at a loss because those in debted to them could “raise Cash to discharge their obligations.”¹⁴⁸

Furthermore, counterfeiting was creating considerable hardship. Tryon wrote that “The Mischiefs that arise from the Counterfeited Proclamation Bills, now fraudulently circulating in the Country (the Evils of which I pointed out in my Speech at the last Session of Assembly) would cease, if a new currency were to be Emitted, and issued, as the remainder of Proclamation Money now out, would be immediately called in.”¹⁴⁹In other words, the existing money in circulation was so suspect in its legitimacy that an entirely new issue would have to be issued. The Governor's sincere attempts to gain Parliament and the King's permission to emit new currency was ultimately declined, his efforts having failed, even though his arguments were sound from a political and monetary perspective.¹⁵⁰

Tryon however understood very clear the impact counterfeiting was having on North Carolina's economy. As the letter to The Board of Trade mentioned, Tryon had a

¹⁴⁷ Letter from William Tryon to Messrs. Drummond and Co. Dated Newbern the 2d. February 1768. Ibid, 26

¹⁴⁸ Letter from William Tryon to the Board of Trade. Dated February 2m 1768. Ibid, 26

¹⁴⁹ Ibid, 26-27

¹⁵⁰ William Tryon to the Assembly, November 15, 1768. Ibid, 237

clear understanding that the “Evil” of counterfeiting produced. As he said to the Assembly in December of 1676:

“The Counterfeit Bills now circulating among us, tending to the most ruinous Consequences to this Government, obliges me to apply to you for some Redress, proportioned to the Evil: It evidently depreciates the small Remainder of Currency in the Country, deprives the Creditor of his just Debts, would the Credit of the Public, and what is of further Consequence, too frequently extends to the impoverishing of Families in the Exchange of their Property for these (inelligible) Bills, too artfully resembling the True for common Discernment to detect them [original spelling].”¹⁵¹

Tryon’s attempts to curtail counterfeiting appeared to have failed. In 1770 the Governor once again issued a proclamation against counterfeiting but to no avail.¹⁵² Governor Tryon would ultimately lead an expedition against the “Regulators” in the western part of North Carolina for they had in essence declared an insurrection maintaining that they would not follow the government’s commands as they were facing an acute shortage of capital and would not work against the counterfeiters. The irony, as we saw earlier, is that in order to fund the expedition the governor had to issue paper-money (which the Parliament later sanctioned) in order to fight the insurgents thus expanding the money supply which the King had been against and which Tryon had argued would minimize the incentives for counterfeiting. Tryon and the North Carolina Assembly also made it clear that further counterfeiting would be a serious offense declaring that counterfeiting would result in a death sentence without the benefit of

¹⁵¹ Tryon, William, “The Speech of His Excellency William Tryon, Esq: His Majesty’s Captain-General and Governor in Chief, in and over the Province of North Carolina: To the General Assembly, held at Newbern, the Fifth Day of December, One Thousand Seven Hundred and Sixty-Seven,” *The American Revolution in North Carolina* as researched by Zach Payne, Western Carolina University. <https://americanrevolutionnc.wordpress.com/gov-tryon/> (Last Accessed September 1, 2019).

¹⁵² Scott, Kenneth, Counterfeiting in North Carolina, *The North Carolina Historical Review*, Vol. 34, No. 4 (October 1957)

clergy. Serious business indeed.¹⁵³The counterfeiting issue would plague Tryon throughout his tenure as Governor of North Carolina until his departure for New York towards the end of 1771.

During his tenure as Governor of North Carolina William Tryon gained and accumulated a considerable knowledge of the monetary challenges facing his colony and how the regulatory measures prescribed by the Currency Act of 1764 had created conditions not favorable to commerce, the administration of governance and also its influence on incentivizing counterfeiting, especially in cash-strapped regions of his colony. More significantly, he learned that the link between a government's monetary affair and its legitimacy are intricately related and that counterfeiting currency posed a direct challenge to the economic and political well-being of North Carolina. It is no surprise that having endured a currency counterfeiting crisis, which largely resulted in his launching a military expedition against the “insurgents” who produced or protected the counterfeiters that he would later use that tactic against the rebellious colonies. Ultimately, what changed Governor Tryon's prerogative from enforcing the laws against counterfeiting and waging war against those who encouraged it, to becoming a counterfeiter himself during war was the change in the type of threat he and the British faced. Once the revolution began and independent colonial governments were established and began (quickly) emitting their own currency it was not unfathomable that Royalist governors and their Tory allies knowing the destructive nature of counterfeiting currency

¹⁵³ Ibid, 479

had on a government would quickly wage a counterfeiting campaign against them. It is to that story that we now turn

Case I, Part II: 1775 and the Beginning of Currency Warfare

As 1774 turned to 1775 it remained British policy and the law to prosecute those who counterfeited currency. By the end of 1775 and into 1776 this was no longer the case, and British officials such as Governor Tryon and Dunmore, General Howe and others would hire known criminals to implement their counterfeiting campaign against the rebels and their governments. What explains this shift in policy and what made high ranking officials embrace such a policy that was seen as treasonous and criminal just months before? The answer rests in the shift from peacetime responsibilities to confronting the necessities of war.¹⁵⁴ As King George said of the time “The die is now cast...The colonies must either submit or triumph. We must not retreat.”¹⁵⁵ Lord North echoing his monarchs sentiments ruminated after the shots fired at Lexington and Concord wrote that the crisis in North America had “now grown to such a height that it must be treated as a foreign war.”¹⁵⁶ The coming of war served to make what is once inconceivable or at least impermissible, to one that was permissible and a viable weapon of war—counterfeiting currency.

By 1774 everyone across both sides of the Atlantic knew that war was if not a certainty highly probable with colonists storing weapons, gun powder and other war materials, along with increased training and organization of their militias to defend their

¹⁵⁴ Atkinson, Rick, *The British are Coming: The War for America, Lexington to Princeton, 1775-1777*, (New York: Henry Holt and Company, 2019), 313. Atkinson writes about Henry Dawkins and others who were known counterfeiters in which he was detained and placed in “leg irons in New York’s city hall.”

¹⁵⁵ *The British are Coming*, 15

¹⁵⁶ *Ibid*, 165

rights. This in turn had resulted in a British policy of sending expeditionary forces across New England in attempts to find and capture these war materials. By early 1775 colonists had seized a fort in Maine (check sources), and spies within the patriots reported back that a large cache of weapons was being assembled in Concord. General Gage decided to act and on April 19, 1775 an expeditionary force set out from Boston towards Lexington and Concord with orders to capture those supplies. By the end of the day everything had changed. Although there were still some who sought a peaceful solution (e.g. John Dickinson of Pennsylvania) the events at Lexington and Concord issued in a state of war between the colonies and Great Britain.

In London the growing imperial crisis was seen as an existential threat to the British Empire. The war in Great Britain was interpreted by many as a war against the very essence of the British Empire itself “which threatened [ed] a general subversion of every system, religious or civil, hitherto respected by mankind” seen as a “holy war” against principles which threatened to bring down civilization itself.¹⁵⁷ Adam Smith for example expressed the sentiments of not so few Englishmen when he said that “expectation of a rupture with the colonies...has struck the people of Great Britain with more terror than they have ever felt for a Spanish armada, or a French invasion.”¹⁵⁸

George the III declared the colonies to be in a state of “open rebellion” and the British decided on a carrot and stick policy of dispatching a large military force but also a peace delegation headed by the brothers, General and Admiral Howe. George III would

¹⁵⁷ O’Shaughnessy, Andrew Jackson, *The Men Who Lost America: British Leadership, the American Revolution, and the Fate of Empire*, Yale University Press, New Haven and London, United States of America, 2013, Page. 4.

¹⁵⁸ *Ibid*, 4

ultimately order the sending of the largest British expeditionary force in British history until D-Day in 1944. Thousands of Soldiers, British and Hessian alike, and a powerful armada would sail to the Colonies and subdue the rebellion either through force or through more diplomatic efforts at reconciliation, although the King favored the former.

Although in London the rebellion was understood to be an existential threat to the Empire in the colonies Royal Governors and loyalists faced a more immediate problem that of being surrounded by rebels. To Governors Dunmore and Tryon, the rebellion was a real matter of fact thing which impacted their lives immediately turning them into war governors overnight.

In Williamsburg, Virginia Lord Dunmore even before hearing of the events in Lexington and Concord ordered on April 21, 1775 the seizure of the gun powder stores in the town. Dunmore concern was the decision by the patriots to arm their militias and presumably wanting to not let the gunpowder fall into their hands ordered their seizure. Militiamen where outraged at Dunmore's orders and began marching on the Colonial capital. Dunmore sent his family to the offshore HMS Fowey a British man-of-war. Dunmore recognized that "Drums are beating and Men in uniform dresses with Arms are continually in the Streets, which my authority is no longer able to prevent" Dunmore wrote to London and on June 8, 1775 left Williamsburg permanently.¹⁵⁹

Dunmore, his family, and other loyalists set up residence in with the British fleet anchored of the shores of Virginia and there he remained "unlike other governors" the Governor "chose to remain in America as resistance turned into revolution." From the

¹⁵⁹ *Dunmore New World*, 94

“Floating Town” composed of two hundred ships, Dunmore would wage war against the rebels and would work to “disrupt patriot operations” in the months and years ahead.¹⁶⁰ By 1776 Dunmore had been forced out of Virginia entirely and had sailed to New York to confer with General’s Howe and we must assume with Tryon. We do not know if it was during this conference in New York that Dunmore began his own currency war against the rebels, or before, but it would be odd if they did not discuss the matter considering his own history with counterfeiting and the fact that New York was becoming the center of operations for the currency warfare campaign against the rebels

In New York William Tryon had a smoother transition from peace to war. New York City was generally well disposed towards the King and union and throughout the war would serve as a major base for the loyalist cause. However, Tryon also knew that he needed to arm the loyalist especially as armed patriots could threaten the loyalist in neighboring countries, and order that General Howe refused. General Howe’s reasoning was that major military operations were planned for the summer of 1776 and he had limited resources to assist the loyalist at this time. Rather he advised Tryon to prepare his loyalist for when the British Army actually landed in New York the following year.¹⁶¹

In the interim, Tryon worked diligently to undermine the rebel war effort. Tryon “urged propaganda efforts against his enemies” and “organized an extensive secret service network along the eastern seaboard of America.” He made, like Dunmore of the coast of Virginia, his headquarters on board a warship the *HMS Duchess of Gordon*

¹⁶⁰ Ibid, 95

¹⁶¹ Nelson, Paul David, *William Tryon and the Course of Empire: A Life in British Imperial Service*, (Chapel Hill: The University of North Carolina Press, 1990_, 136-137

which “became a center for British communications and underground activities.”¹⁶²It was from his base of operations on *HMS Duchess of Gordon* that Tryon began the waging of currency warfare against the patriots by counterfeiting their money.¹⁶³ Tryon’s experience as governor of North Carolina and his years dealing with the currency question and combating counterfeiters had made him one of the Empire’s leading experts on the question of currency in the colonies. Tryon first-hand experience in tackling the effects of counterfeiting and being on the receiving end of what counterfeiting could accomplish in terms of undermining commercial transactions, confidence in the currency and its paralyzing effects, the shortages of circulating currency and ultimately, its impact on the perceived legitimacy of government all equipped him with the intellectual appetite to use this weapon against the enemy’s of the crown.

Even before the momentous decision of separation from Great Britain and Independence was voted on in Philadelphia in the early days of July 1776, British loyalist in the colonies began consorting with General Gage about the “idea of forging the Continental currency.”¹⁶⁴ In January of 1776, the British forty-four gun warship, *H.M.S. Phoenix* began counterfeiting “the thirty dollar bill of the emission of 10 May 1775.”¹⁶⁵In June of 1776 Governor Tryon anchored of New York on board his “maritime headquarters” the *Duchess of Gordon* “supervised a counterfeiting operation” of

¹⁶² Ibid, 137

¹⁶³ Ibid, 138

¹⁶⁴ Scott, Kenneth, *Counterfeiting in Colonial America*, Oxford University Press, New York, United States of America, 1956, Page. 252. Scott writes that “The British government soon conceived the idea of forging the Continental currency, perhaps at the suggestions of Dr. Benjamin Church and his brother-in-law, a printer named John Fleming. Church, a distinguished physician and able writer supporting Whig policies, had been discovered in secret communication with General Gage and other British leaders only a few months earlier.” Page. 253

¹⁶⁵ Ibid, 253

Pennsylvania money.¹⁶⁶ Governor Tryon had “hired Henry Dawkins, a notorious counterfeiter, to engrave currency plates and counterfeit the rebel currency.

The British Army under the command of General Howe also waged currency warfare although it is not clear if he was the originator of the plan or simply one who gave it his complete support. An early entrepreneur of the idea to counterfeit the rebel currency may have come from a Dr. Benjamin Church who was to be discovered as a rather notorious British Spy. It appears that American intelligence at the time identified him as either developing the concept or implementing General Howe’s policies, we cannot completely certatia.¹⁶⁷

Either way without Howe’s support the British Army would not have supported the counterfeiting campaign and it is clear that Howe was in full scale agreement with the plan. According to the Continental Congress at the time, “large sums of Continental Bills of credit have been counterfeited and issued by the agents, emissaries and abettors of Sir William Howe,” thus identifying the British general as the direct authority behind the strategy.¹⁶⁸ Howe and the British used numerous tactics to wage currency warfare. The historian Eric Newman identified “a three pronged attack” consisting of the actual creation and distribution of counterfeited “American paper money;” the encouragement of loyalist and criminal elements, or “cheats” to produce their own counterfeit versions,

¹⁶⁶ Rose, 181; Also see Glaser, Lynn, *Counterfeiting in America: The History of an American Way to Wealth*, Clarkson N. Potter, Inc./Publisher, Ph

¹⁶⁷ Scott, Kenneth, *Counterfeiting in Colonial America*, Oxford University Press, New York, United States of America, 1956, Page. 252. Scott writes that “The British government soon conceived the idea of forging the Continental currency, perhaps at the suggestions of Dr. Benjamin Church and his brother-in-law, a printer named John Fleming. Church, a distinguished physician and able writer supporting Whig policies, had been discovered in secret communication with General Gage and other British leaders only a few months earlier.” Page. 253

¹⁶⁸ Nussbaum, 38

and the use of propaganda and rhetoric to call into question the legitimacy of the continental dollar.¹⁶⁹

Although it is uncertain who initially thought of the idea to use counterfeiting as a weapon, initial evidence suggest that Dr. Benjamin Church who as the Director of Hospitals of the Continental Army contemplated the measure and was discovered in the Fall of 1775 when “a letter in code giving military information to the British at Newport, Rhode Island, was intercepted” and was referred to the Congress by General George Washington.¹⁷⁰ Dr. Church was communicating with General Gage, one of the leading British Generals in the British Army. The American Representative in London, Arthur Lee, also informed Samuel Adams, in which Lee warned Adams that the British spurred on by Church and the Printer Fleming would “endeavor to depreciate the Congress Paper by throwing in forged notes.”¹⁷¹

Dr. Benjamin Church the notorious British spy from the very beginning was apparently in contact with London, or at the very least, his actions were known there. Arthur Lee serving then as an American representative in London (before the official break with the colonies) had written to Samuel Adams that:

“Great expectations, you are entertained from treachery in the provincials. Dr. Church was in league with others, particularly Fleming the printer. This I have

¹⁶⁹ Newman writes that “During the American Revolution the method devised by the British was a powerful three-pronged attack. It consisted of (1) the preparation and distribution of actual counterfeits of the American paper money; (2) the encouragement of ‘Tories’ and cheats to counterfeit and pass counterfeits independently; and (3) the issuance of propaganda as to the excellent quality and enormous quantity of counterfeits in circulation.” Newman, Eric P., “The Successful British Counterfeiting of American Paper Money During the American Revolution”

¹⁷⁰ Ibid, 179

¹⁷¹ Glaser, Lynn, Counterfeiting in America: The history of an American Way to Wealth, Clarkson N. Potter, Inc. Publisher, New York, NY, 1960, and 1968, Page. 37-38.

from a ministerial authority which may be depended upon. They will endeavor to depreciate the Congress paper by throwing in forged notes.”¹⁷²

Arthur Lee’s intelligence indicates that counterfeiting currency was one of the first options that the British opted for in their early war against the rebellious colonies. On board HMS *Phoenix* a printing press which was in the process of “turning out counterfeits”¹⁷³ of the newly created continental dollar and perhaps other currencies was already off the coast of New York waiting to be joined by the large invasion fleet approaching New York. After the Battles of New York, Long Island, and Manhattan, New York City would become the center of British counterfeiting operations in the colonies throughout the war.

The British recruitment of counterfeiters was carried out in the open, a rather sloppy approach. For example, on April 14, 1777, newspapers in New York printed the following “advertisement” stating:

“Persons going into other Colonies may be supplied with any Number of counterfeit Congress-Notes, for the Price of the Paper per Ream They are so neatly and exactly executed that there is no Risqué in getting them off, it being impossible to discover...This has been proved by Bills to a very large Amount, which have already been successfully circulated.”¹⁷⁴

The very fact of open counterfeiting advertisements implies general contempt for the continental congress and its new currency which could easily be exploited without any hardship to British finance or their ability to finance war as there appeared to be little fear of retaliation.

¹⁷² Glaser, Lynn, *Counterfeiting in America: The History of an American Way to Wealth*, (New York: Charles N. Potter, Inc, 1968), Page. 38

¹⁷³ Scott, 253

¹⁷⁴ Ibid, 254

Following the calamitous defeat of the Continental Army, at the hands of General Howe and George Washington's evacuation to New Jersey, New York City became the center of Britain's clandestine counterfeiting center in which "Congress Notes" were produced and distributed.¹⁷⁵The initial decision to deploy counterfeiting and open the war into a new field of monetary warfare continued throughout much of the remainder of the war. In April of 1777 advertisement in "New York papers" reported that:

"Persons going into other Colonies may be supplied with any number of counterfeit Congress-Notes, for the Price of the Paper per Ream. They are so neatly and exactly executed that there is no Risqué in getting them off, it being almost impossible to discover, that they are not genuine. This has been proved by Bills to a very large Amount, which have already been successfully circulated. Enquire for Q.E.D. at the Coffee-House, from 11P.M to 4a.m. during the present month"¹⁷⁶

Another indicators of the British strategy was to actually obtain the paper used for the printing of the continental currency from a Pennsylvania paper mill, probably by a certain James Smither "a well-known Philadelphia engraver, who before the Revolution had made cuts for some of the Pennsylvania notes" leading to an eventual accusation of treason by the Executive Council of Pennsylvania.¹⁷⁷As the war progressed, the British efforts to undermine the continental or American currency, continued. In August of 1779, the American warship, *Deane*, captured an inbound British ship originating from England, named the *Glencairn*, which American Commodore Samuel Nicholson reported that they had found "materials for counterfeiting our currency, consisting of types, paper

¹⁷⁵ *Counterfeiting in America*, 38.

¹⁷⁶ *Ibid*, 39.

¹⁷⁷ *Ibid*, 39

with silk and isinglass in it”¹⁷⁸ It is not improbable that the counterfeiting campaign was discussed albeit in secret at the highest levels of the British Administration.

A Strategy of Subversion and the Waging of Currency Warfare

By the spring and summer of 1776 the British currency warfare campaign against the rebels consisted of what Eric Newman has defined as “a three pronged attack” consisting of the actual creation and distribution of counterfeited “American paper money;” the encouragement of loyalist and criminal elements, or “cheats” to produce their own counterfeit versions, and the use of propaganda and rhetoric to call into question the legitimacy of the continental dollar.¹⁷⁹ General Howe and the military also joined and implemented the counterfeiting campaign. By 1777 agents discovered that “large sums of Continental Bills of credit have been counterfeited and issued by the agents, emissaries and abettors of Sir William Howe.”¹⁸⁰

Not surprisingly there is little direct primary sources with any of the leading British planners regarding their role in the waging of currency warfare. If they were foolish to put any of their thoughts to paper the sources have been robbed from us by time or where destroyed. In any event, they would not be the first leaders to not want

¹⁷⁸ Ibid, 41. “American Intelligence began getting sporadic hints of the enemy’s activities. The American frigate Deane, on August 9, 1779, captured a British ship on route from Glasgow. The report of Commodore Samuel Nicholson of the Deane to the Continental congress stated: “on board the Glencairn, a person says he had in charge a box, which was to be delivered to some person in New York, but upon our coming up with them and the ship striking, threw it overboard; upon which we went immediately after it, and with difficulty got it before it sunk, when upon examination we found it [to] contain materials for counterfeiting our currency, consisting of types, paper with silk and isinglass in it &c.”

¹⁷⁹ Newman writes that “During the American Revolution the method devised by the British was a powerful three-pronged attack. It consisted of (1) the preparation and distribution of actual counterfeits of the American paper money; (2) the encouragement of ‘Tories’ and cheats to counterfeit and pass counterfeits independently; and (3) the issuance of propaganda as to the excellent quality and enormous quantity of counterfeits in circulation.” Newman, Eric P., “The Successful British Counterfeiting of American Paper Money During the American Revolution”

¹⁸⁰ Nussbaum, 38

their names attached to such a frowned upon tactic of war (their counterparts in the 20th century would feel the same way). But their agenda in destroying the American currencies can be explained by the broader British strategy to subvert the legitimacy and reputation of the Continental Congress and rebellious colonial governments. The British strategy rested on a not entirely incorrect assumption that there were many loyalists remaining in the colonies. Even before the official outbreak of war the King's Government had sought and considered the arresting of certain key leaders in the colonies who were the true agitators. The King's mindset can be seen in the orders that were issued just prior to Lexington and Concord which read in part:

“that the essential step to be taken toward reestablishing government would be to arrest and imprison the principal actors and the abettors in the provincial congress, whose proceedings appear in every light to be acts of treason and rebellion.”¹⁸¹

Lord North the Prime Minister and Lord Germain the Secretary of State for America maintained the belief that there were large numbers of loyalist in the colonies which would assist the army.¹⁸²The goal was to wage war against the Continental Congress and the rebellious governments not the people themselves. If they could undermine the Congress and their ability to govern this would drive a wedge between the colonists and the Continental Congress. This was the grand strategy of the British government at the onset of the war and it is in this view that the strategy motivating currency warfare must be understood.

¹⁸¹ Atkinson, Rick, *The British Are coming: The War for America, Lexington to Princeton, 1775-1777*, (New York: Henry Holt and Company, 2019). 51

¹⁸² Ibid, 179

It is important to remember how much currency was inherently tied to national identity and the idea of state sovereignty. As King George himself admitted the Congress was acting a foreign government stating that “they [The Congress] have raised troops, are collecting a naval force. They seized the public revenue, and assumed to themselves legislative, executive, and judicial powers.”¹⁸³ Given that the regulation of the colonial currencies was a consistent reminder that the colonies had limited sovereignty and their propensity and fondness for demanding the emitting of paper money it is not surprising that issuing paper money was one of the first sovereign acts made by the Congress. Paper money was also a potential source of vulnerability as they were to find out. Destroying the value would serve more than an economic purpose, it would also serve to undermine the legitimacy of the Congress and rebellion itself. Just as the experience of Tryon and Dunmore had taught them prior to the war.

The American Currency and the Establishing of Sovereign Nationhood

Even before the colonies decided that they ‘ought to be free and independent’ from Great Britain the Continental Congress began laying the foundation for being a sovereign and independent state. In May of 1775 after the initial battles at Lexington and Concord the Continental Congress undertook the first step in establishing its legitimacy through war finance. However, the Congress faced an immediate financial problem, principally there just was not sufficient specie—gold and silver, to fund the war through the first year. Because of the political constraints and ideological dimensions of the

¹⁸³ *Ibid*, 167

rebellious confederation concerned with over centralization, the Continental Congress resorted to its only monetary alternative—paper money.

Facing the prospect of war The Continental Congress, issued its first “bills of credit, or paper money” on June 22, 1775 in the amount of “2 million Spanish milled dollars.”¹⁸⁴It was in the words of Jason Goodwin “the first of many acts of faith that led to independence.”¹⁸⁵

The challenges facing the Congress went deeper than being able to fund a war. It’s very legitimacy was questioned because “Congress was not a government; it was more like a charity” in which it had gathered to voice and debate a response to grievances by the King but it being not an independent state “no one anywhere wanted to give it or lend it money”¹⁸⁶ relying on the good will of the individual states. One politically astute member recognized that taxation would be unpopular asking rhetorically if he would “consent to load my constituents with taxes, when we can send to our printer, and get a wagonload of money, one quire of which will pay for the whole?”¹⁸⁷The inability of the Congress to raise taxes would plague the Continental war effort throughout the war. It was self-inflicted wound, in which any nation attempt at centralization was seen with suspicion at best, detrimental to individual liberty at worst. The issue would not be solved until 1787, and the debate continues to linger.

When Congress established a committee to draft the Articles of Confederation which included John Adams and Benjamin Franklin, they devoted considerable attention

¹⁸⁴ Goodwin, Jason, *Greenback: The Almighty Dollar and the Invention of America*, A John Macrae Book, Henry Holt and Company, New York, NY, 2003, Page. 59

¹⁸⁵ Ibid, 59

¹⁸⁶ Ibid, 59

¹⁸⁷ Ibid, 60

to the symbolism of the currency to convey the message of revolution and freedom. From Franklin's library they used *Symbolorum ac Emblematum Ethico-Politicorum*, and the *Idea principips Christiano-Politico Symbolis* by Saavedra, which "provided the symbol and motto for the fifty-five-dollar bill, showing a sun coming out after a storm."¹⁸⁸The notes themselves were embellished with imagery which "seemed to be governed by the need to stress all that was elevated and philosophical about the revolution" and stressing a unified war effort among the colonies with mottos like "The large colonies are in harmony with the small colonies" and "American Congress We Are One," and would be published by non-other Paul Revere.¹⁸⁹

Thus, the Continental Dollar became "the earliest symbols of the United States"¹⁹⁰ developed not only to establish the legal monetary authority of the congress but also to establish the Congress legitimacy in the eyes of the people and create a new nation. The importance of the people accepting and using the currency was seen as so important to the establishment of legal authority of the Congress that when Quaker pacifists argued that they could not use money that was used to finance war the Congress passed in January of 1776 (half a year before independence) a resolution declaring that people "lost to all virtue and regard for his country" that country of course being the New American country.¹⁹¹

The Articles of Confederation declared that the confederacy should be named "The United States" and Article 18 gave The United States "the sole and exclusive right

¹⁸⁸ Ibid, 61.

¹⁸⁹ Ibid, 62

¹⁹⁰ Ibid, 62

¹⁹¹ Ibid, 69

and power of determining on peace and war...coining money and regulating the value thereof.” The founders understood that regulating and establishing their own currency was the just as important as the decision to wage war as an indispensable aspect of a sovereign nation state. It was the United States that had the power to “emit bills” and borrow money, but only with the consent of at least nine states.¹⁹² After several revisions the final statement read that the United States had power to “emit bills on the credit of the United States.”¹⁹³ James Madison understood the power to issue currency, and its institutional appendage, the Bank of North America as a threat to states’ rights and argued against it.¹⁹⁴ Thus the new currency had its detractors from those within the Revolution and the British who actively wanted to destroy it.

Others understood, and Alexander Hamilton would use finance in general after the war to consolidate the federal government into one entity, that money was the essential prerogative of a government. Even before independence was declared, John Adams wrote in a Memorandum on Agenda for Congress that “coins and currency” had “to be regulated” and that money had to exist to “pay our debts, and fulfill our engagements.”¹⁹⁵ In this sense Adams understood what recent Scottish independence voters did not, that they need their own currency to establish a state. The source of the Continental’s financial weakness was a result of two factors: the necessity to finance a war quickly, and the lack of specie circulating in the American continent to finance a

¹⁹² Dwinell, Olive Cushing, *The Story of our Money or Our Currency and Credit—It’s Sources, Creators, Control, and Regulation of Volume and Value*, Meador Publishing Company, Boston, MA, 1946, Pages. 46-47

¹⁹³ Ibid, 47

¹⁹⁴ Ibid, 48

¹⁹⁵ Adams, John, *Revolutionary Writings 1775-1783*, The Library of America, Library Classics of the United States, Inc., New York, NY, 2011, Page. 40

long a war, these were largely also the result of potential concern for over centralization of the currency thus subverting the independent states individual sovereignty and not wishing to alienate the population through taxation.

John Adams spent a considerable time and energy observing the political relationship between the paper currency and the moral of the people. At one-point Adams considered inflation, abided by counterfeit currency, more detrimental to the cause of independence than military defeat and smallpox. Addams wrote in 1777 that “the indifference of the People about recruiting the Army,” is the result of “the unfortunate events of the last campaign, but the small pox, and *above all* [my italics] the unhappy state of our Finances, which occasions this evil.¹⁹⁶ As the war progressed Adams became convinced the fate of independence was significantly linked to its currency. “The only enemy (Adams spelling) of any great Consequence which his left to Us is our currency” and that a reluctance to tax and depended on the “vile paper” which many believed that independence “is connected with it” and that instead of paper money that taxation was the best way to raise funds would eliminate the dangers of inflation and currency depreciation.¹⁹⁷ Adams was suggesting that although money is necessary it opens up a new avenue of vulnerability to be exploited. Later in 1779 Adams wrote that “the greatest source of danger and unhappiness to the States then, probably will be, a depreciating Currency again arguing for taxation instead of expanding the money supply.¹⁹⁸

¹⁹⁶ Adams, 141

¹⁹⁷ Ibid, 203-204

¹⁹⁸ Ibid, 206

By 1780 attempting to secure a loan in Amsterdam, Adams maintained that a loan was necessary “to give Stability to the Currency of America—to give Vigour to the Enlistments for the army---to add alacrity to the fitting out Privateers and give an ample extension to their trade. It is significant that Adams placed the value of ahead of others indicating that without a currency other responsibility of state such as maintaining an army would be endangered. Adams understood that the link between expanding the money supply depreciating the paper currency and resulting in inflation would jeopardize the legitimacy of the Continental Congress and the war effort in general. In 1780 again, he writes that the “means of fluctuating Medium of Paper Money...would occasion many Perplexities, and much unhappiness...it would do injustice to many individuals, and will and out to be avoided, if possible.¹⁹⁹

John Adams certainly knew of the British campaign against the Continental currency. In a letter to his wife, Abigail, largely concerned with military affairs that “their principle Dependence is not upon their Arms, I believe so much, as upon the Failure of our Revenue. They think they have taken such Measures, by circulating Counterfeit Bills, to depreciate the currency that it cannot hold its Credit longer than this campaign” but defiantly adding, “but they are mistaken.” This passage is telling because the British believed that the 1777 campaign would be the definite campaign destroying the American rebellion.²⁰⁰ What Adams, and others knew at the time, was that the British were engaging in a consistent campaign to undermine the credibility of the Continental Congress through depreciating the currency. Adams also recognized that the currency, its

¹⁹⁹ Ibid, 425

²⁰⁰ Ibid, 144

value, and financial aspects of the conflict were inherently linked to creating a shared American nation, and that the people's will is what would either be broken or would carry the war forward.

John Adams was right to worry. As we have seen William Tryon and others were quick to weaponize currency. No doubt their experiences in the 1760's and up to the revolution influenced their quickness to embrace counterfeiting. Evidence suggest that Dr. Benjamin Church who as the Director of Hospitals of the Continental Army contemplated the measure and was discovered in the Fall of 1775 when "a letter in code giving military information to the British at Newport, Rhode Island, was intercepted" and was referred to the Congress by General George Washington.²⁰¹ Dr. Church was communicating with General Gage, one of the leading British Generals in the British Army. The American Representative in London, Arthur Lee, also informed Samuel Adams, in which Lee warned Adams that the British spurred on by Church and the Printer Fleming would "endeavor to depreciate the Congress Paper by throwing in forged notes."²⁰² Furthermore, counterfeiting by British and their Tory allies was rampant up and down the coast.

Josiah Bartlett angrily wrote his friend William Whipple, in 1777:

"We have lately discovered a most diabolical scheme to ruin the paper currency by counterfeiting it—vast quantities of the Massachusetts Bills and ours that are now passing are counterfeit and so neatly done that it is extremely difficult to discover difference. We are but newly acquainted with the scheme and have not

²⁰¹ Ibid, 179

²⁰² Glaser, Lynn, Counterfeiting in America: The history of an American Way to Wealth, Clarkson N. Potter, Inc. Publisher, New York, NY, 1960, and 1968, Page. 37-38.

made all the discoveries we hoped for, but by what appears at present, it is a Tory plan and one of the most infernal that was ever hatched”²⁰³

The British counterfeiting operation of the Continental paper currency during the American Revolution has all the trappings of a spy thriller—intelligence gathering, covert operations, and spies.²⁰⁴What is undeniable is that the counterfeiting campaign was orchestrated at the highest levels of the British Government and their representatives in the colonies. A perturbed George Washington lamented that “that no artifices are left untried by the enemy to injure us.”²⁰⁵The consequences to the Continental Congress of having a weak currency aggravated by counterfeiting was that it impacted the logistics and commissary of the army, and contributed to the difficulty in establishing international credit abroad,²⁰⁶ after all who would lend to a country that had not yet achieved independence and had a currency that was practically worthless?

The British efforts at destroying the value of the Continental Dollar and other currencies was generally successful. Largely the result of counterfeiting throughout the war, the Continental Congress had to recall for redemption vast amounts of series of issued currencies because of their increasingly loss of value, and American military commanders such as Alexander McDougal, an American General, wrote to Joseph Reed

²⁰³ Letter from Josiah Bartlett to William Whipple, Kingstown April 21st, 1777, in Frank C. Mevers (Editor), *The Papers of Josiah Bartlett*, (Hanover, New Hampshire: The University Press of New England, 1979), 157-158

²⁰⁴ For two recent studies on the intelligence war during the Revolution and their link to the counterfeiting operations and their discovery see Kilmeade, Brian and Yaeger, Don, *George Washington's Secret Six: The Spy Ring that Saved the American Revolution*, Sentinel, New York, NY, 2013, Pages. 103-106; and Rose, Alexander, *Washington's Spies: The Story of America's First Spy Ring*, Bantam Dell, New York, NY, 2007, Pages. 18-184

²⁰⁵ Rose, 182

²⁰⁶ Kilmeade and Yaeger, 104

who was the president of Pennsylvania that the British were “counterfeiting another emission” and described how the bills would be inserted into circulation.²⁰⁷

By December 1779, George Washington himself was writing to Congress saying that according to his intelligence, or what Washington described as a “confidential corresponded in new York” that there was an “indefatigable endeavors of the enemy to increase the depreciation of our currency, by increasing its quantity of counterfeits.”²⁰⁸ Benjamin Franklin said it best when he wrote that “but, it [paper money] being the instrument with which we combative our enemies, they resolved to deprive us of its use by depreciating it; and the most effectual means they could contrive was to counterfeit it.”²⁰⁹ By 1779 the entire \$200,000,000 issued currency had become, in the words of one prominent historian of the event, “worthless.”²¹⁰ Naturally, inflation coincided, harming an already weak currency. By 1779 the continental dollar would be worthless; hence the old saying of ‘not worth a continental’ came into being.

But just because the new American currencies were vulnerable to attack does not tell us why the British implemented the efforts. The strategy motivating the British to attack their enemy’s currencies was one of subversion to undermine their enemy legitimacy and ability to function as a sovereign government. In this governors Tryon and Dunmore were not alone. In New Hampshire Governor John Wentworth had his friend Colonel Stephen Holland to operate a clandestine operation by counterfeiting currency in order to “circumvent and disappoint” as Lynn Glaser puts it “the views of the patriots.”

²⁰⁷ Newman, 180.

²⁰⁸ Ibid, 180

²⁰⁹ Rhodes, 34

²¹⁰ Newman, 174

To this end Holland set up contacts with Tories in New York (perhaps even with Tryon's operations) to implement the counterfeiting campaign.²¹¹ Holland's operations were so successful that John Langdon who would later become Governor of New Hampshire said of him "Damn him...I hope to see him hanged. He had done more damage than one thousand men could have done."²¹²

In a broader sense the currency warfare campaign was based on several interwoven assumptions. The first being that money and a government's legitimacy are inherently linked and that there was a considerable amount of loyalist in the colonies, and those who were perhaps on the fence. By undermining the Continental and American currency the British would have driven a wedge between the rebellious Congress and the wider population.

Low Implementation Costs

Colonial Governors prior to the war had to confront the unfavorable monetary situation in the colonies brought about Parliament's determination to regulate the money supply and the crippling effects of counterfeiting. Once war came, the British Government and military went from prosecuting counterfeiters to openly employing them in their war against the patriots. In an age when honor was of high importance we should

²¹¹ *Counterfeiting in America*, 40. Glaser writes that "The Most effective method of circulating the bills was by Tory passers. There must have been many passing rings organized by Tories. One was headed by Colonel Stephen Holland of Londonderry, New Hampshire. Before the War he had been a prosperous merchant and leader in the province as well as occupying several local official positions. He was a friend of Governor John Wentworth, who persuaded Holland to remain in New Hampshire after the war broke out to endeavor "to circumvent and disappoint" the views of the patriots. This included, among other things, organizing an elaborate chain of counterfeit passers. In the course of ostensible business trips to the South, various gang members would purchase the counterfeits and return with them to pass them off...They connected Holland with Governor Wentworth and other New Hampshire Tories in New York."

²¹² *Ibid*, 41

ask if any reservations were entertained by the British in the waging of this particular form of war.

If the British High Command had any misgivings, they have not survived the length of time, or more likely, were never written down in the first place. Counterfeiting then as now is seen as a rather criminal and unethical enterprise which policymakers are often hesitant to implement or to hide their connection to such a policy. British officials did face charges against their character and much as today poor policies which harm the population are often raised as an argument against one belligerent or the other, the British were subject to such a propaganda and moral attack on their ethical instruments of war.

None other than Thomas Paine provided the first rhetorical shot against the ethics of the British counterfeiting campaign by employing his pen. Writing “an open letter” addressed to General Howe, Paine lambasted the General writing “you [Howe], sir, have abetted and patronized the forging and uttering counterfeit continental bills. In the same New York Newspapers in which your own proclamation under your master’s authority was published, offering, or pretending to offer, pardon and protection of these states there were repeated advertisements of counterfeit money for sale....you, sir, have the honor of adding a new vice to the military catalogue...”²¹³

General Howe, as subsequent governments and military officials would do, simply denied the allegation writing later to George Washington that the “allegation is too illiberal to serve a serious answer.”²¹⁴ This is not surprising, as engaging in counterfeiting as tactic and strategy of war have often been conducted in secret with

²¹³ Newman, Page. 177

²¹⁴ Ibid, 177

government fearing harm to their reputation and potential environment feedback effects.²¹⁵ As we shall see the counterfeiting operation was conceived of at the highest level with significant energy and diligence.

When General John Burgoyne surrendered at Saratoga, in perhaps the first true American victory in the war, General Howe wrote to General Washington denying the manufacturing of counterfeit currency saying that in regards to “forgery by my [Howe] agents” that this accusation was “too illiberal to deserve a consist answer.”²¹⁶ General Howe simply had to deny the allegations to avoid any culpability, although it was clearly evident that the British army was conducting the campaign and that at the highest levels the operations were planned and implemented by British and Civilian leaders.

Other factors should also be considered. First, there was never any chance that the rebels could retaliate in kind against the British Empire. They lacked the resources, and the will to do so. Furthermore, the British economy was simply too large and its financial system too strong to suffer from any potential counter-counterfeiting operations. Also, since the emitted colonial currency was practically worthless halfway through the war, many would have disparaged undermining the existing specie currency and pounds which maintained value at the time. Finally, with the political and economic costs being so low in regard to the employment of counterfeit bills, the actual costs of creating those forged notes was also fairly small. Paper notes were much easier to forge in the 1770’s than during the 20th century, and even though Ben Franklin attempted to make the continental

²¹⁵ See Bloom, Murray Teigh, “Uncle Sam: Bashful Counterfeiter,” *International Journal of Intelligence and Counterintelligence*, 1988.

²¹⁶ *Ibid.* 43.

bills difficult to forge, but he could only be so successful. Once the British began capturing, as in Philadelphia in 1777, the colonial paper supply used to create currency their efforts were only simplified. Finally, as we have seen the British employed their own soldiers and loyal Tories in putting into circulation the counterfeited notes and so they had an easy distribution system to which to wage this particular form of currency warfare.

Conclusion on the Counterfeiting Campaign during the American Revolution

The British counterfeiting campaign against the Rebel colonies was perhaps the most comprehensive and largest currency warfare campaign of the period. From Maine to Georgia British agents emitted counterfeit bills of the new rebel governments and effectively undermined their economies and sovereign legitimacy. The campaign also illustrates how changes in the threat environment created the conditions for policymakers who were once opposed and tasked with cracking down on counterfeiting, a crime considered to be treason and punishable by death, to reconceive counterfeiting as a viable weapon against the enemy's of the crown. As in subsequent conflicts currency which in peace time serves to facilitate commercial transaction and provide monetary stability to countries and governments would be weaponized and deployed to undermine the enemy's economy and more importantly to subvert their legitimacy and ability to function as a sovereign government.

Case II, Part I: Napoleon and Currency Warfare Against Austria 1809

On January 20, 1806 soon after his victory over the Russian and Austrian Armies at Austerlitz, Napoleon Bonaparte, Emperor of France, entered Vienna unopposed. The

Holy Roman Emperor, Francis II had, following his military catastrophe on December 2, 1805, come to see Napoleon in the French camp and ask for peace. Napoleon Bonaparte extracted heavy terms. The empire was essentially disbanded and was forced to place her finances at the services of the French. The victory at Austerlitz had catapulted Napoleon to the apex of his power and of his influence in the affairs of Europe, and it was during this period that Emperor's mind turned to the possibility of waging war through new means and thus weaponized currency for the first time.

In Vienna, Napoleon put Austria's finances to work for French interest. Napoleon's plan was "to employ the enormous credit of the bank [National Bank] as a weapon for its own destruction, and for the ultimate ruin of the country itself."²¹⁷ During the particular period of warfare which lasted until the mid-twentieth century, it was the custom for conquerors to force the defeated adversary to deliver payment for the costs of the war. Napoleon went further and incorporated Austria's financial system into his own Empire, as one historian put it "the ordinary revenues of the country in addition the extraordinary contributions which he had imposed."²¹⁸ Napoleon maintained the National Bank and those who worked there and simply collected the funds which were deposited there. It was during this period that the origins of currency warfare by counterfeiting notes originated.

Napoleon had entrusted General Glarke, the Duke of Feltre who was to serve as Minister of War the Governor of Vienna, but who "was in reality the Chief of Police,

²¹⁷ Edgar, Pelham, Ph.D, "Napoleon as a Forger," *Journal of the Canadian Banker's Association*, Vol. 9, October 1901 to July 1902, (London: Forgotten Books, 2015), 204

²¹⁸ Ibid, 204. Edgar is quoting here from another sources, but the quote is unattributed.

with active surveillance over the Austrian bank.”²¹⁹The French had brought with them workers of secretive and perhaps sinister nature to Vienna. In the evenings, after the Austrian engravers had left their jobs, the French would come in and remove the engraving plates and the printing machines and remove them in order to produce forged bank notes. The Austrians, apparently, never realized the clandestine operation and in due time the French had reproduced the Austrian printing and engraving materials and sent them back to Paris.²²⁰ The purpose was to produce Austrian Bank notes for some future purpose.

We are told that it was during this period of peace with Austria and with Europe that Napoleon began to formulate the idea of waging currency warfare against his enemies and it was for this purpose that the plates had been copied in Austria and transported to Paris. In 1806 the brief period of peace ended, and Napoleon was once again at war with Europe. Britain’s finances were one of her principle strengths and it was her financial system which had been evolving since the times of Duke of Marlborough a century earlier that financed the armies that opposed the French Emperor. Napoleon resorted to economic warfare in the form of a blockade against Great Britain, the famous Berlin Decree in which he hoped to “shatter Britain’s commerce.”²²¹But the economic blockade was but one method of waging economic warfare against Britain. Napoleons’ agents

²¹⁹ Ibid, 204

²²⁰ According to Pelham, “Every evening after the departure of the Austrian engravers, Clarke’s agents’ removed the engraving plant. This they carried to the French mechanics in the suburbs, who manufactured during the night a facsimile of the originals, which were restored to their proper place before the return of the Austrian workman. In a short time, a complete facsimile of the original plant was secured, and the engravers returned to Paris prepared when the time should arrive to issue Viennese notes in any number.” Ibid, 205

²²¹ Ibid, 205

having obtained the intelligence demonstrating how the British printed their own paper-money sought to destroy Britain's financial credit through the distribution of forged British Pounds.²²² The Emperor's mind had also turned to Russia and following the peace at Tilsit in 1807 had his own French Ambassador there replicate Clarke's efforts in Vienna. Paris had become the epicenter for a currency warfare campaign against Britain and eventually against Austria. And Russia.²²³ But Napoleon would not initiate currency warfare until *after* Austria had entered the war against him.

Austria Enters the War 1809: Napoleon Implements Currency Warfare

By 1807 Austria had yet to join the coalition against Napoleon and Napoleon had not yet attacked Austria's currency, although he was prepared to do so. Before war erupted in 1809 Napoleon had written to the General Adjutant, duke Bubua, informing him that "I have two hundred million banco currency made in France, which it is my intention to circulate, and as soon as the war begins again I will manufacture more."²²⁴ England offered Austria the amazing sum of "one hundred millions" to enter the fight against Napoleon, and Austria accepted.²²⁵ It was at this time, and not before, that historian Pelham Edgar writes "It was at this crisis in the affairs of Austria that Napoleon resorted for the first time to the use of forged bank notes."²²⁶

Writing to Count Fouche Napoleon writes:

²²² Ibid, 205

²²³ Pelham writes that "In this case corruption, not force or midnight cunning, was employed. An officer of the Bank of England was bribed, and delivered to the French agent the matrices and models of the engraving plant. These were expedited to Paris, where a similar plant was constructed and held in reserve with the Austrian material already secured." Ibid, 205

²²⁴ "Proceedings of the American Numismatic Society from February 4, 1915 to January 15, 1916., *American Journal of Numismatics (1897-1924)*, Vol. 49 (1915), pp I, iii-iv-Ixciii, page vii.

²²⁵ Ibid, 207

²²⁶ Ibid, 207

“I had lately given you various instructions with reference to the Vienna bank notes; I have heard nothing further of them; I suppose that you have kept this object in mind. I desire you to send me here all those which exist, and that you should carry out with all zeal the instructions I have given.”²²⁷

The emperor had the Vienna Bank Notes on his mind for almost immediately wrote a letter that deserves to be printed in its entirety.

To Count Fouche, Minister of Police,

Schoenbrunn, Sept 23, 1809

“March will send you a collection of all the different kinds of bank notes. You will find herewith the necessary instructions. I wish you to establish a plant for the manufacture of these notes of all values of the amount of 100 millions. You would have to set up a machine capable of turning out 10 millions a month. *It is with paper money that the house of Austria was able to make war against me; it is with paper money that she will still be able to make war against me. That being so, it is my policy in time of peace as in time of war to destroy this paper money and to oblige Austria to return to the system of specie, which of its very nature will compel her to reduce her army and the foolish expenses by which she has compromised the security of my dominions. My intention is that this operation shall be performed with secrecy and mystery. However, the end that I have in view is there a political end than an advantage of speculation and profit.* This object is extremely important. There is no tranquility to be hoped for in Europe while the House of Austria can secure an advance of 3 to 4 hundred millions by the credit of her paper money.

Send an intelligent and skillful agent to receive while we are here all the instructions necessary to give this affair the extent which I wish to give it, and which will have a great effect.”²²⁸

Napoleon’s letter during his war against Austria is remarkable for it demonstrates one of the central arguments of this study principally that currency warfare is not motivated by the pursuit of wealth but rather by the pursuit of political ends. To

²²⁷ Letter from Napoleon written to Count Fouche, from Schoenbrunn, Sept 5, 1809. Ibid, 207

²²⁸ Ibid, 207-208

Napoleon destroying the value of the Austrian paper currency in order to contract the money supply so that Austria would be forced to reduce the size of her army, sue for peace, and be subservient to the French Empire. Napoleon also demonstrated a keen sense of how money worked. He does not mention the destruction of the currency through inflation but emphasizes what is ultimately a psychological attachment to money, and the faith that people have in fiat currency. Ultimately, Napoleon reasoned people would prefer something that was actually worth something—hard specie. The desire for specie would reduce the amount of money in circulation (the same phenomenon that the American revolutionaries faced) and ultimately help bring the war to a successful end.

Napoleon further illustrates that his strategic motivation to implement currency warfare against Austria was motivated by strategy of subversion. Again, writing to Count Fouché Napoleon says that “When the house of Austria has no more paper money, she will no longer be able to go to war...If I had destroyed this paper, I should not have had this war.”²²⁹

The war against Austria was going well and Austria began, once again, to negotiate peace with the Emperor which would culminate in Napoleon being unified by marriage with the Austrian House, by marrying the daughter of Francis II, Maria Theresa. Furthermore, the forged note had been causing real havoc in Austria and Francis II sent his able minister, Metternich to end the counterfeiting of the Austria currency. Metternich writing to one of Napoleon’s ministers to inform him of their conversation over the forged notes and indicated that the counterfeiting would only stop once peace was

²²⁹ Letter written to Count Fouché the Minister of Police, September 23, 1809. Ibid, 208.

achieved. Metternich reported Napoleon as telling him that “this measure [counterfeiting] could have no result have at a period very different from the present and deigned to make me hope that the mass of forged note would be returned to me.”²³⁰

At this point, Napoleon having full knowledge of the operation, and having demanded it secrecy in order to maintain plausible deniability went further and played the surprised and moral leader who would put an end to the illicit practice. According to Metternich Napoleon ordered “investigations” into the matter which Metternich interpreted as “further proof of the friendly sentiment which animate him for the Emperor my master.”²³¹

Napoleon further promised to stop the counterfeiting, but this of course was disingenuous for the currency producing plants where not as Napoleon had told Metternich already been destroyed.²³² Metternich wrote to Francis II openly writing about Napoleon’s solemn promise to end the counterfeiting saying that “It seems to me that you have not too much confidence in me. Very well then—give my word as a sovereign to a sovereign that everything has been destroyed.”²³³ It wasn’t.

Evidence suggest that Napoleon did stop the counterfeiting of the Austrian currency following his war with Austria. At this point, if not earlier, Napoleon turned his full attention to the British and having created counterfeit pounds went about distributing

²³⁰ Ibid, 209

²³¹ Ibid, 209

²³² “His Majesty has just commanded me to make known his desire that het French Government should restore the confidence of Austrian finances concerning the possible recurrence of such an abuse, though entirely involuntary, by restoring the forged notes, the stamps, etc.—all things of no value in the hands of a friendly Government whose surveillance cannot always be a guarantee against abuses such as those which we have lately experienced.” Metternich. Ibid, 209

²³³ Ibid, 209

them in England through French agents. In 1812 as Napoleon *Grande Armée* crossed the River Neman into Russia with plans to create “inexplicable confusion, and ruin for many years her credit, her commerce, and her political future.”²³⁴ By 1813 however, as Napoleon resumed the “the counterfeiting of the Austrian redemption notes” although how much of the forged currencies were deployed remains unclear.²³⁵

Following the War and the restoration of the Bourbon Monarchy following Napoleon’s final defeat by the Duke of Wellington at Waterloo, Napoleon’s counterfeiting campaigns were subject to investigation by all the allied powers. Ultimately, nothing was done but attempts at acquiring the notes to the respective countries and nothing further could be done. Napoleon was no more.

Like the generation of British policy-makers in North America who only engaged in currency warfare until after hostilities had commenced, Napoleon hesitated to implement his currency warfare campaign against Austria until *after* Austria had declared war against him in 1809. Napoleon had acquired and produced fabricated Austrian notes after his initial victory over Austria at Austerlitz and he had formulated a clear strategy motivating its use. Principally to undermine the Austrian finances to subvert their ability to wage war. As noted earlier, Napoleon himself characterized his strategic motivation as political and not driven by a desire to acquire wealth. The strategy was to manipulate the

²³⁴ Ibid, 212

²³⁵ “Proceedings of the American Numismatic Society from February 4, 1915 to January 15, 1916., *American Journal of Numismatics (1897-1924)*, Vol. 49 (1915), pp I, iii-iv-Ixciii, page vii-viii; See also, Liudmila P. Marnei chapter titled “The Finances of the Russian Empire in the Period of the Patriotic War of 1812 and the Foreign Campaigns of the Russian Army,” in Janet M. Harley, Paul Keenan, and Dominic Lieven (Editors), *Russia and the Napoleonic Wars: War, Culture, and Society, 1750-1830*, (Palgrave MacMillan: New York, 2015)

Austrian paper money in order to contract the money supply and debilitate Austria's war effort. as a political one and not as a means to gain wealth or enrich France.

As to the costs, like leaders before and since, Napoleon placed great significance on keeping his counterfeiting operations secret in order to maintain plausible deniability and perhaps to not sully his reputation by authorization such criminal behavior. As we have seen he navigated this challenge so well that he was able to position himself as an honorable sovereign who would collaborate with the Austrian's to put an end to the criminal act. There were also no significant costs to the actual production of the currency notes. Napoleon had simply stolen the plans to Austria's printing presses and engraving plates (a form of intellectual property theft) and to reproduce the machines and create currency in Paris without any inhibitions. More significant, Napoleon's campaign against the Austrian currency shows that all else being equal what was necessary to begin the campaign was a certain degree of threat—Austria declaring war for Napoleon to implement currency warfare.

Chapter 4: The United States and Currency Warfare in The Second World

War

During the Second World War (1939-1945) the United States waged currency warfare against Japan by counterfeiting its currencies but did not do so against Nazi Germany or Italy. In the Asia-Pacific Theater of operations the Office of Strategic Services (O.S.S), then led by William Donovan and General MacArthur's Southwest Pacific Area Command (SWPA) considered ten separate proposals for undermining the Japanese government's authority and legitimacy in its occupied territories and later its home islands by counterfeiting the Japanese national and occupational currencies. Out of the ten-counterfeiting proposed eight were implemented. The O.S.S counterfeited Japanese occupational Burmese Rupees, Japanese-Chinese Central Reserve Bank currency notes, Thai (Siamese) Baht, Malaysian Straights Dollars, Dutch East Guilders, and General MacArthur's command counterfeited Filipino Pesos. The O.S.S began counterfeiting operations against the Japanese Imperial Yen sometime in 1942 and into 1943 before being suspended and a plan to insert Japanese forged yen into the home islands employing submarine providing the currency to Japanese fishing boats was never implemented. As the war reached its final climax in the Pacific, a serious discussion took place whether to take currency warfare to the Japanese home islands and drop, from the air immense quantities of forged Japanese Yen for purposes of causing inflation and undermining the Japanese moral. Initially, the plan was not approved although by the end of the War propaganda currency notes were dropped on Japan.

In Europe from 1940 through 1945 the United States considered six different plans to counterfeit the German and Italian currencies but never implemented the proposals. Throughout Second World War, American plans to wage currency warfare remained constant in their approach— produce forged notes and drop them into Europe from the air by American and British bombers. The goal was to undermine the morale of the enemy's civilian populations and with it the legitimacy of the Fascist governments by causing severe inflation. Unlike in the Pacific, the United States restrained itself from implementing these plans citing ethical, moral, and practical considerations of production. What explains the variation in the United States decision to wage currency warfare during the Second World? Why, even though Franklin Roosevelt embraced and eventually authorized the idea of counterfeiting the Axis currencies did the O.S.S, and General MacArthur move forward with their counterfeiting plans, integrating them into their overall clandestine and military operations against the Japanese while in Europe, even with strong support and endorsement from O.S.S and its leader General William Donovan, ultimately decide not to implement a similar policy?

In this chapter I argue that what explains the decision to implement currency warfare in the Asia-Pacific theatre but not in Europe rests on the perceived implementation costs by the decision makers tasked with making the ultimate decision to counterfeit their enemy's currencies. Specifically, decision-makers in the Pacific were given greater freedom to implement currency warfare than in Europe.

This freedom of decision was also the result of bureaucratic support at the highest levels. At the early stages of the war the Office of Strategic Services had little oversight

from other government agencies and theater commanders like Douglas MacArthur had immense autonomy in their conduct of the war. The freedom of decision was approved by the highest authorities within the American Military, even when the Treasury Department objected. As late as August of 1945 when Japanese morale was perceived to be hardening against a U.S. invasion authorization was requested from the Joint Chiefs of Staff for a “morale subversion” campaign vis-à-vis targeting the Japanese Yen, to be “approved” and to “direct that it be implemented under the direct and control of the Theater Commander and with the assistance of the Army, Navy, and Air forces in the infiltration of agents” to achieve this task.²³⁶

Other factors support the evidence that the decision to implement currency warfare depended on the perceived cost of implementation. In both cases, the idea to wage currency warfare via counterfeiting was the result of the increasing threat to the United States posed by German and Japan, even before the United States officially entered the war. Second, in both cases, the plan to counterfeit Axis currencies was motivated by a strategy of subversion. In both cases, the plans to create hyperinflation by introducing spurious or forged notes was driven by the belief that the morale of those people living under Axis rule and thus undermine the legitimacy of the people's

²³⁶ Memorandum for the Joint U.S. Chief of Staff. Subject: “Morale Subversion Activities Directed Against Japanese Resistance to Unconditional Surrender,” Dated 7 August 1945. The request for authorization by the Joint Chiefs was preceded by a “Memorandum of Information for the Joint Chiefs of Staff” dated August 2, 1945 in which proposals were made to subvert Japanese morale which was seen as hardening as invasion appeared imminent. One of the plans was to increase inflation in Japan by mounting a rhetorical campaign against the Yen including rumors that the Japanese “Government is going to issue new 500 yen notes” and to “Emphasize inflationary meaning of projected new note issue, and mention huge government expense (such as war insurance payments) requiring constant outpouring of cash,” and the use of “Black radio, newspaper items and rumors: All clever people are putting money into tangible goods, as a means of avoiding inflationary loss.” We can assume that the Joint Chiefs was aware of other currency warfare activities throughout the war. William J. Donovan Papers, Miscellanea from Box 121A, Army Archives, Carlisle Pennsylvania.

confidence the German and Italian governments helping bring the war to an end. Where the two cases diverge is on how the policymakers perceived the costs versus the potential benefits of counterfeiting the enemy's currency

The deliberations over waging currency warfare by counterfeiting German or Italian currencies was conducted at the highest levels of the American government. President Franklin Roosevelt enthusiasm for the counterfeiting of German and Italian currencies was not shared by his Treasury Secretary Henry Morgenthau. From the beginning in 1940 Secretary Morgenthau viewed such schemes as unethical and crooked and was openly hostile to the plan. The evidence suggests that his original reservations and other practical considerations regarding the production and distribution shaped the debates over whether to counterfeit Germany's currency through the remainder of the war. Bur Morgenthau's influence was limited on this matter. Unlike in Europe, the O.S.S enjoyed considerably more freedom of action owing to the general lack of supervision and diminished interest in its operations in the Pacific when compared to those in Europe. Because of this reduced oversight commanders in the Pacific had more freedom to wage new and unique forms of warfare than their counterparts in Europe. In the Pacific, it was taken as a given that the United States should counterfeit the Japanese currency with the discussion revolving around how to produce the forged notes correctly and how to distribute them in Japanese occupied areas as opposed to whether they do so. It was not until the final year of the war that the O.S.S. discussed questions of potential monetary blowback effects along with political and moral considerations. But by then America's

currency war against Japan was well underway, and the O.S.S had mastered the art of counterfeiting Japan's currency.

Chapter Outline

This chapter is divided into three parts. First, a brief background is provided establishing the currency battlefields of the Second World War followed by an introduction of the principal decision makers who debated and were ultimately tasked with implementing currency warfare. Part I and II are the bulk of this chapter. Part I is the negative case in which the United States did not wage currency warfare against Germany and Italy beginning with the original Steinbeck proposal of 1940 through the early months of 1945. I begin with the negative case because of chronological significance, specifically, that the idea to wage offensive currency warfare was first proposed and debated with target being Nazi Germany and Italy before it was considered in the Pacific. Part II explores the positive case of America's decision to wage currency warfare against the Japanese. In this chapter we look at the numerous fronts in which counterfeiting was deployed against the Japanese and how it was motivated by a strategy of subversion. Primary evidence shows that overall discussions as to whether counterfeiting currencies should be implemented was generally met with annoyance by the O.S.S and military officials fighting the Japanese. Emphasis was placed not on the question of *should* it be done, but rather on how to do it. Only later in the war did the ethical and practical questions of implementation receive further and closer supervision.

The Currency Battlefield and the Decision Makers

The currency battlefields of the Second World War were the result of the German, Italian, and Japanese conquest in Europe, Asia, and the Pacific. Germany and Japan were especially adept at waging currency warfare against their adversaries as part of their mission to create a Greater Nazi Reich and the East-Asia Co-Prosperity Sphere. Both Germany and Japan created different forms of currencies to both subvert the sovereignty of their enemy's governments and territory by creating unique forms of fiat currencies often called Occupational Currencies, or as in the case of Japan in China creating a competing bank The Central Reserve Bank of China and competing Japanese-Chinese currency to supplant the Chinese Nationalist Yuan. In every country the Japanese occupied or invaded, the Japanese established occupational currencies making and simultaneously outlawing the previous legal currency of the vanquished government.²³⁷

In Europe, the Germans created their own occupational currencies known as Reich Credit Bank certificates (RKK) (also include other forms of paper currency) whose overvalued exchange rate vis-à-vis other currencies both undermined the value of the occupied national currencies and provided a form of financial plunder for the *Reichsbank*. The pattern of establishing exchange rates favorable to the German state was a standard practice during the war serving to undermine the independence of the conquered states and linking them directly with the Nazi Empire.

Both Nazi Germany and Japan also waged currency warfare in more covert forms, especially by counterfeiting Allied currencies. In Germany, the S.S was notorious in

²³⁷ For more in depth analysis of currency warfare waged by Japan see Lieu, D.K, "The Sino-Japanese Currency War," *Pacific Affairs*, Vol. 12, No. 4, 1939;

using slave labor to produce counterfeit British Sterling notes. As Part of Operation Andrews and later Operation Bernhardt, skilled Jewish printers were forced to fabricate forged British notes which were then inserted into the international monetary system causing long term harm to the British currency even after the war ended. The Japanese forged Indian Rupee notes and also counterfeited Chinese Nationalist Yuan notes as part of their campaign to undermine the Chinese and British governments. Both the Germans and Japanese weaponized monetary instruments and sent them off to war in pursuit of their subversive and expansionist policies.

However, the creativity that the Axis demonstrated in waging currency warfare could not mask the fact that they were particularly vulnerable to a monetary attack on their systems. Germany, Italy, and Japan pursued autarkic economic policies seeking to establish independent self-sustaining economies while also devoting large sums to military armaments and public works, especially in Germany. As a result all three regimes were particularly susceptible to inflationary pressures from within and outside their borders.

Mussolini's worry about the value of the Lira was not misplaced, even before he threw his hat in with Hitler. Between 1938 and 1943 "strong inflationary factors were at work" and prices had increased by a factor five.²³⁸The fear of having the Italian people make material sacrifices which could result in a decline in Mussolini's favorability was

²³⁸ Gramp, William D., the Italian Lira, 1938-1945, *Journal of Political Economy*, Vol. 54, No. 4 (August 1946), 309

so extreme that Il Duce was citizens by the Germans for “never having been able to decide to test the trust of the populace with a loan.”²³⁹

In Germany the fear of hyper-inflation and its potential impact on the morale of the German people was of great concern for Hitler and the regime. As a result the Nazi's did everything possible to minimize the financial hardships on its own citizens. As German monetary historian Gotz Aly observes “Moreover, once the Nazi state undertook what became the most expensive war in world history, the majority of Germans bore virtually none of the costs” by “shielding the average Aryan from that burden.” To protect the German people the Nazis “destroyed a number of foreign currencies” by forcing the occupiers to pay for the costs of war.²⁴⁰ As the war progressed Nazi Germany's monetary situation only worsened. As Adam Toose writes “On 17 September 1941 the Reichsbank's economics department concluded that the Situation of the German currency could be summarized in two succinct statements: the supply of consumer good had halved; the volume of money in circulation had doubled.”²⁴¹ By late 1944 “the volume of banknotes expanded by more than 80 percent” and Germany was “faced with the imminent threat of hyperinflation.”²⁴² As we shall see the United States was aware of Germany's and Italy's monetary vulnerabilities but chose not to exacerbate this weakness by counterfeiting the Reichsmark or the Lira and thus bringing about hyper-inflation much sooner and creating further difficulties on Nazi war financing.

²³⁹ Aly, Gotz, *Hitler's Beneficiaries: Plunder, Racial War, and The Nazi Welfare State*, (New York: Metropolitan Books, 2005), 298

²⁴⁰ Aly, Gotz, *Hitler's Beneficiaries: Plunder, Racial War, and The Nazi Welfare State*, (New York: Metropolitan Books, 2005), 7.

²⁴¹ Toose, Adam, *The Wages of Destruction: The Making and Breaking of the Nazi Economy*, (new York: Viking Press, 2006), 494

²⁴² *Ibid*, 645

The individuals who debated and ultimately decided whether or not to engage in counterfeiting operations included those at the highest levels of the American government and military establishments including President Franklin Roosevelt, Treasury Secretary Henry Morgenthau, General Douglas MacArthur, and William 'Wild Bill' Donovan, an American war hero of the First World War who President Roosevelt assigned to create an organization (First as the Coordinator of Information and later as the Office of Strategic Services) tasked with the gathering of war time intelligence and later to conduct clandestine military operations. Other key figures in the decision-making process include Stanley Lovell, who served as the director of the O.S.S.'s Research and Development Department, and was responsible for gathering the materials and analyzing the ability of carrying out the counterfeiting operations. Others include Colonel Eifler, a rough man who had served as a Border Customs Agent for the Treasury Department, before joining the National Guard and after Pearl Harbor selected to lead the O.S.S.'s Detachment 101 in Southeast Asia, the first covert group of its kind in the war. Eifler, after overcoming initial hesitancy about the ethics of counterfeiting currencies (he had been in law enforcement after all) became one of its strongest advocates of counterfeiting Japanese currencies and implemented the plan until wartime injuries forced him to return stateside.

Other characters will emerge, including Bob Feller's who served as Douglas MacArthur's G-2 (chief of intelligence) who pushed for a plan to inflate Japanese currency by dropping spurious Japanese yen over its home islands. But readers may find some unorthodox characters as well, especially at the beginning of the debate over

whether to forge Axis currencies. Specifically, John Steinbeck the famed California author of *East of Eden*, *Canary Row*, and the *Grapes of Wrath*, early on met with Franklin Roosevelt with his proposal to do counterfeit German and Italian currencies which resulted in the first major debate of such a plan, which included Secretary Morgenthau and the British Ambassador Lord Lothian. We must remember that at this time the U.S Federal Government was much smaller than it is today, and the United States did not have any serious secret agency to wage covert warfare abroad. If early plans seem amateurship, they were overcome with immense imagination. Increasingly the nature of these debates matured and showed greater degrees of sophistication, culminating in the 1944 debates to inflate the German Reich mark by dropping forged marks by the air. The idea that currencies could be weaponized and deployed against an enemy's currency for purposes of undermining the legitimacy of the Axis powers remained a constant feature of America's story in the Second World War. We now turn to that story.

Case I, Part I: The Steinbeck Proposal of 1940 and First Debates over Waging Currency Warfare in Europe

The five-year debate to wage currency warfare against Nazi Germany, by counterfeiting the Reichsmark began with a writer and an invitation from the White House. On June 25, 1940 Franklin D. Roosevelt, then seeking an unprecedented third term as President of the United States, and with the war in Europe going Hitler's way, asked John Steinbeck, the famed author of the *Grapes of Wrath* to come see him at the

White House, preferably the following day.²⁴³ Steinbeck had written President Roosevelt recently in regards to the “international situation” and hoped he could discuss with the President his “conclusion that a crisis in the western hemisphere is imminent, and is to be met only by an immediate, controlled, considered, and directed method and policy.”²⁴⁴ The two men discussed Steinbeck’s immediate concern with the German use of propaganda in the Western hemisphere which he saw as being implemented “through boldness and the use of new techniques.”²⁴⁵ The specifics of the German propaganda which Steinbeck saw, or perceived to have seen, remain unclear, but the President must have considered the conversation informative, because less than two months later he invited Steinbeck back to the White House to hear the author’s case for “an easily available weapon more devastating than any battleships” to use against Nazi Germany.²⁴⁶

Between June 25 and September 25, 1940 (the date of their final meeting) the situation in Europe had gone from bad to catastrophic. Since April of 1940 the Hitler’s *Wehrmacht* had successfully conquered Denmark and Norway. Then on May 10 the long awaited German offensive in the West began with simultaneous invasions of Holland, Belgium, and France. The Maginot Line (the long series of fortifications along the Franco-German border stretching from Switzerland to Luxembourg) upon which so much

²⁴³ Franklin D. Roosevelt Presidential Library, President’s Personal File (PPF), 8829-8907, File PPF 8853, Steinbeck, John.

²⁴⁴ Ibid, Letter from John Steinbeck to President Roosevelt dated Jun 24, 1940 and written from 2017 Hillyer Place, N.W. Washington D.C.

²⁴⁵ Ibid, Letter from John Steinbeck to Franklin Roosevelt, dated August 13, 1940 from Los Gatos, California. In this letter Steinbeck briefly acknowledges their earlier visit and the content of their conversation which revolved around the German use of propaganda. It remains unclear what, specifically, Steinbeck was alluding to.

²⁴⁶ Ibid, in this letter, Steinbeck asks to meet President Roosevelt to share with him an idea developed with Dr. Melvyn Knisely from the University of Chicago. The plan is not developed in the letter, but we know concerned the counterfeiting of German Currency; (See, John Steinbeck, “the Secret Weapon W were AFRAID to use”, *Collier’s*, January 10, 1953)

faith had been invested in its defensive abilities, were simply bypassed through the believed to be impregnable Ardennes's Forrest in southern Belgium and North Eastern France. By the end of May the British, French, and what remained of the Belgium armies had been pushed back to the sea and were surrounded in the port-city of Dunkirk.

Table 3. The United States and Currency Warfare in Europe

Proposed Currency Warfare Plans (via Counterfeiting) Europe	Decision Makers	National Security Threat	Strategy of Subversion	Implementation Costs	Outcome
Steinbeck Proposal (1940)	President Franklin Roosevelt, Secretary of Treasury Henry Morgenthau, Ambassador Lord Lothian (UK), John Steinbeck	Yes: From Nazi Germany	Yes: Directed against Governments of Nazi Germany and Fascist Italy	High: Ethical and Moral (cause unnecessary harm to civilian population); Material costs (Production and distribution high), Political and Military Blowback Effects (fear of retaliation against UK)	Not Implemented
Johnson and Contrite Proposals (1941)	U.S. Senator Johnson (Colorado), William Donovan Coordinator of Information (COI), COI operatives Goodfellow	Yes (Johnson Proposal): From Nazi Germany (Mid 1941) Yes (Contright Proposal December 22, 1941): From Germany and Japan	Yes: Directed against Governments of Nazi Germany, Italy, and Japan	High: (Reiterates previous concerns by Secretary Henry Morgenthau)	Not Implemented
Donovan Proposal Against the Italian Lira (1942) and Buxton Plan (1943)	William J. Donovan (COI/OSS Director), Franklin Roosevelt	Yes: At War with Italy	Yes: Directed Against Italian Government Yes: Directed Against Germany	Considerations: Ethical (concern for civilian population)	Not Implemented
Special Plan to Inflation German Currency (and subsequent Pangburn Discussion 1944)	O.S.S, Stanley Lovell, William Donovan, Col. Pangburn, O.S.S Research and Analyst (Presumably Treasury Department)	Yes: At War with Germany, preparations for Normandy Landings	Yes: Directed against German Government	Considerations: Ethical/Moral (concern for civilian population, and synonymous with chemical warfare), Political and Military (cost and feasibility of dropping forged currency from the air),	Recommendations: Approve of Plan by O.S.S Implemented: NO
1945 The Last Proposal	O.S.S	Yes: At War with Germany (Battles of Aachen and the Ruhr lay ahead)	Yes: Directed Against German Government and Military	Considerations: (Previously mentioned), New Opportunity to implement plan	Not Implemented

With the British Expeditionary Force (BEF) facing annihilation the Royal Navy assisted by hundreds of civilian vessels of every kind, and with the RAF holding the *Luftwaffe* to a standstill over the skies of Dunkirk, had by June 4 achieved a “miracle of deliverance” rescuing over three-hundred thousand soldiers of the BEF and the French army, carrying them to safety in Great Britain. But this “deliverance” could not mask the fact that what had occurred in France was “a colossal military disaster.” But as Britain’s new Prime Minister Winston Churchill would say “Wars are not won by evacuations.” It would be sometime before Great Britain could wage offensive war against Germany.

On June 21, 1940 the French sought an armistice and would surrender in Marshal Foch’s railway carriage which over twenty years ago, the Germans had themselves capitulated to the French. The humiliation was complete. From the German perspective all that stood between complete victory in the West was Great Britain and despite assertions made by Churchill that the British people “would fight on the beaches and in the streets” at the moment, the odds seemed distant that Great Britain could successfully emerge from a German assault. What would this mean for the United States?

Franklin Roosevelt understood the gravity of the situation. Roosevelt, then fifty-seven years old, crippled by polio since the 1920’s, was seeking an unprecedented third term as president a decision driven by his conviction that the United States faced serious dangers ahead and believing that he could see the nation through them. For years Roosevelt had traversed a fine line between educating a largely isolationist public about the dangers of Germany and fascism, while not going so far as to antagonize the public over a future American military intervention abroad. “Your son’s” he told the public

“would not fight in foreign wars.” In 1937, attempting to lessen the neutrality act, making it easier for those fighting aggression to acquire weapons, he had spoken of “measures short of war.” What that meant exactly was anyone’s guess. (Book on Roosevelt for quotes)

When Hitler invaded Poland on September 1, 1939 Roosevelt explained that “when peace has been broken anywhere, peace of all countries everywhere is in danger,” and declaring that he could not “ask that every American remain neutral in thought.”²⁴⁷In June of 1940, at a commencement address at the University of Virginia, Roosevelt made it clear that his sentiments were with the Western Allies making it American policy to confront those who are “contemptuous, un pitying masters of the other countries” and declaring that the United States would “extend to the opponents of force the material resources of this nation.”²⁴⁸To this end he would go against the advice of his senior military commanders, George C. Marshall among them, and allow for American supplies (ammunition, weapons, etc.) to be sold under the provisions of “cash-and-carry” to Great Britain.²⁴⁹ Roosevelt had shifted American foreign policy from one of neutrality to one material support for the Allies, especially Great Britain. But was it too late?

After France capitulated on June 22, 1940 Great Britain braced itself for invasion. Many wondered if, the British army, lacking heavy weapons after its evacuation from Dunkirk could successfully repel a Nazi invasion. As historian Antony Beevor writes the “They [the British] knew that the situation was desperate, if not catastrophic, with almost

²⁴⁷ Herring, George C., *From Colony to Superpower: U.S. Foreign Relations Since, 1776*, (New York: Oxford University Press, 2008), 517.

²⁴⁸ Ibid, 520

²⁴⁹ Ibid, 520

all the army's weapons and vehicles abandoned on the other side of the Channel."²⁵⁰ On August 13, 1940 The Battle of Britain began with the *Luftwaffe* bombing British air fields, while German fighter pilots attempted to establish air superiority prior to invasion. By September, the Royal Air Force was running out of pilots.²⁵¹

As the Battle of Britain was being fought two important deliberations were taking place in Washington. The first was a discussion over what came to be known as the "destroyers-for-bases-agreement" in which the United States would lend the United Kingdom fifty old destroyers for leasing rights in the Caribbean and Newfoundland. The second conversation conducted at the highest levels of the American government and with British input, was begun by Steinbeck's second meeting with Roosevelt to discuss the weapon that was more "powerful than a battleship" and which provided the means by which to fight Nazi Germany. The idea violated established norms of decency but the threat confronted by the United States necessitated such proposals.

Steinbeck's letter intrigued Roosevelt. Roosevelt's efforts at this point had been to sustain the British and French war efforts and were defensive in nature. Roosevelt had yet to take any direct steps in confronting Hitler and it would not be until 1941 that the American Navy began to conduct patrols and escort convoys into the North Atlantic and at times engaging German U-Boats. For now Steinbeck's counterfeiting proposal offered the possibility of taking the war directly to Germany. On September 12, 1940, at the height of the German's air campaign against Great Britain, Steinbeck met with Roosevelt

²⁵⁰ Beevor, Antony *The Second World War*, (New York: Little Brown and Company, 2012), 129-130

²⁵¹ Ibid, Chapter Eight in Beevor's *The Second World War* titled Operation Sea Lion and the Battle of Britain.

to discuss undermining the German monetary system by waging currency warfare against the *Reichsmark*.²⁵²

John Steinbeck's creativity, usually devoted to literature, was now directed at confronting the threat of fascism. Steinbeck and his friend Dr. Knisely, developed an idea for a weapon "a weapon so terrible that it horrified everyone who heard of it, for it was designed to set up a chain reaction in the most fissionable of all things: human beings."²⁵³ Their goal was "to devise a weapon which might help destroy Hitler's Nazi Regime and Mussolini's Fascist state" by undermining the people's emotional ties with the state.²⁵⁴ Steinbeck and Knisely reasoned that ultimately the best means by which to wage war against Hitler and Mussolini, would be through undermining the moral of its people and thus delegitimizing the fascist regimes. In this way, they argued, if not necessarily invented, what would soon be described as moral operations usually waged clandestinely and whose objective was the demoralization and subversion of the enemy's government and policies. Steinbeck argued that undermining the enemy from within was more successful than the overt use of force, writing that to "Strike at a people from without and they coagulate into a resisting mass."²⁵⁵ To this end, Steinbeck and Knisely's weapon needed the following:

"The qualities our weapon required were these: it must increase the pressure of the state on the people beyond the breaking point. It must work from within, not from without. And, finally, it must not be effective against us. On this basis, we

²⁵² Franklin D. Roosevelt Presidential Library, President's Personal File, 8829-8907, File PPF 8853, Steinbeck, John. Steinbeck wrote the letter on August 15, 1940 and Roosevelt extended an invitation on September 3, 1940 to come to the White House on Thursday September 12, at 12:30 p.m.

²⁵³ *The Secret Weapon we were AFRAID to Use*, 9

²⁵⁴ *Ibid*, 9

²⁵⁵ *Ibid*, 9

made our weapon—perhaps more frightful than the hydrogen bomb, and far more penetrating and subtle than chemical or germ warfare.”²⁵⁶

President Roosevelt received Steinbeck and Dr. Knisely in his Executive Offices, probably the Oval Office with its illuminating French windows, and walls covered in naval prints, and listened to their proposal. The proposal which Steinbeck had prepared for the President was to engage in a called for a currency counterfeiting campaign against Germany, and Italy. According to Steinbeck the President did not bother to hide his excitement, saying that “This is strictly illegal...and we can do it?”²⁵⁷ Believing the idea worthy of consideration, telling Steinbeck that “Why, for the cost of one destroyer we could send Italy spinning. For the cost of a cruiser, we could have Hitler on a hot stove lid,” he called over to the Treasury Department where his long-time friend and New York Neighbor, Treasury Secretary Henry Morgenthau Jr. was instructed to listen to Steinbeck’s idea. Roosevelt wanted to know what Morgenthau thought of the plan and if it was feasible.

Henry Morgenthau’ Jr. served as Franklin Roosevelt’s Secretary of Treasury from 1933 until shortly after the President’s death in April 1945. He considered himself to be a close friend of the President, although whether the president had any close friends is open to discussion.²⁵⁸

²⁵⁶ Ibid, 9. Steinbeck might be engaging in literary hyperbole, but as the following discussion will show, discussing the possibility of a counterfeiting campaign was no laughing matter, especially to Secretary of the Treasury Morgenthau.

²⁵⁷ Ibid, 9

²⁵⁸ For an excellent biographical description of Henry Morgenthau Jr., see Beschloss, Michael, *The Conquerors: Roosevelt, Truman and the Destruction of Hitler’s Germany 1941-1945* (New York; Simon & Schuster, 2002).

Morgenthau was a thorough diarist, writing memorandum, sometimes with the help of his aides, to record the events he faced as Treasury Secretary. On this day, September 14, 1940, the Treasury Secretary met with the two men who Roosevelt had sent over, and heard their proposal. Steinbeck would later say that Morgenthau was “shocked” at the counterfeiting campaign to undermine Hitler.²⁵⁹ Morgenthau, who as head of the Treasury Department was responsible for combatting counterfeiting of U.S. Dollars, a practice which was illegal, agreed with Lothian that such a plan was “crooked.” Steinbeck recalled that he was not even able to finish his presentation before Morgenthau interrupted saying that “It’s against the law, and I will have nothing to do with it.”²⁶⁰ After meeting with Steinbeck Morgenthau spoke with Roosevelt presumably offering his opinion that counterfeiting German currency was illegal and unethical. Roosevelt, called Steinbeck afterwards to relay the Treasury Secretary’s apprehensions, but he also told Steinbeck that he would ask the British Ambassador for his thoughts on the matter. Morgenthau would reach out to British Ambassador Lord Lothian for his thoughts on the proposed scheme and what he heard delighted him.²⁶¹

Lord Lothian, the British Ambassador to the United States, had at one point supported Neville Chamberlain’s policy of appeasement, but once Great Britain went to war, he devoted all his energies to the war effort. Morgenthau asked Lothian for his thoughts on the proposed plan to wage currency warfare against Germany and Italy by counterfeiting their currencies. In a written memorandum Lothian informed Morgenthau

²⁵⁹ Ibid, 10

²⁶⁰ *The Secret Weapon we were AFRAID to Use*, 10

²⁶¹ Franklin Roosevelt Library, Morgenthau, Henry Jr. diary Book 306, September 14-18. Morgenthau’s diary presents a unique opportunity to examine the decision making process at the highest levels of government concerning the often covert nature of currency warfare, and counterfeiting in particular.

that the British had considered such a plan recently, but had rejected the idea. The Lothian memorandum says that:

“The suggestion that counterfeit Reichsmark notes should be dropped from aeroplanes (original spelling) over Germany was exhaustively considered by the British Government some time ago. At that time, it was thought that this would be regarded by the world at large as particularly odious and dishonest method of warfare, and if this argument has to any extent lost its force since then there are other arguments which seem decisive.”²⁶²

Lothian’s memorandum emphasized the ethical considerations of counterfeiting enemy currency as being sufficient to prevent such a policy from being implemented. This would change as the war progressed, but in the early months of the war there was still a belief that war could be constrained by respecting individual civilian property and not targeting civilians directly (Hastings Bomber command). Furthermore, any currency counterfeiting campaign would be quickly known by the Germans and “in a country ruled in the way Germany is ruled, it would not be difficult for the authorities to organize the collection by party or official organization of the notes dropped,” and would “frighten the population so that they would not dare to collect these notes and retain and use them.”²⁶³

In addition to considering the potential harm to civilians, Lothian also argued that the costs associated with a counterfeiting campaign would not outweigh its potential gains. Because the German government was rationing “nearly all goods” or there was simply a lack of them, even if a German wanted to use counterfeit notes, its use would be “limited” and would more than likely end up in German “savings accounts” which would

²⁶² Ibid, Morgenthau Diary Book 306, Page. 181

²⁶³ Ibid, 181

have the side-effect of providing Germany with increased borrowing opportunities from banks as opposed to the market.²⁶⁴

Finally, the sheer quantity of counterfeit bills, which at this point no one could ascertain a precise number of how much currency needed to be produced, would be “beyond the capacity of the Royal Air Force if it is not to limit its attacks on military objectives to an undesirable degree.”²⁶⁵ Finally, there was concern with the possibility of Germany counterfeiting British currency as a form of retaliation (Lothian did not know that the Germans had already planned such an attempt and would attempt to counterfeit British Pounds in 1942 to great success, but by then Lothian would be dead). Because the British system was different from that of Nazi Germany, that is not totalitarian, its potential for disrupting the British economy was regarded as more probable than that of a totalitarian Germany economy. Furthermore, the fact that Great Britain was susceptible to retaliatory currency strike was a very real one, considering how vulnerable the British financial system was largely the result of its diminished foreign currency reserves.²⁶⁶

According to Lothian the British were not against counterfeiting other official German documents such as food ration cards or even waging agricultural-environmental warfare perhaps by “dropping beetles on the German potato patches” and attempting “to set fire to German crops with small incendiary parcels.”²⁶⁷ There had been intense

²⁶⁴ Ibid, 181. Here Lothian writes that if counterfeit currency was deposited into banks “The German Government would increase their borrowing accordingly from these banks, and decrease their borrowing on the markets.”

²⁶⁵ Ibid, 182

²⁶⁶ For an analysis of Britain’s wartime financial policies and difficulties see Chapter 4 of Cappella Zielinski, Rosella, *How States Pay for Wars* (Ithaca: Cornell University Press, 2016).

²⁶⁷ Ibid, Morgenthau diary, Book 306 Memorandum to Secretary Morgenthau from Mr. Cochran, dated September 14, 1940.

debates within the British government over waging currency warfare through counterfeiting since the first days of the war with Winston Churchill proposing such a plan (more on this in chapter 5). But counterfeiting currencies was in a league of its own when it came implementing dirty forms of war. Regardless of what the British had, or may have done, the plan to engage in currency warfare through a counterfeiting campaign was declined on grounds that it was an unethical means to wage war. Furthermore, the implementation costs associated with creating and distributing sufficient quantities of counterfeit currency via air drops was deemed too costly, and the structure of the German government and economy offered a level of insulation from having the *Reichsmark* counterfeited.

Ultimately, Franklin Roosevelt decided not to implement the counterfeiting campaign against Nazi Germany explaining to Steinbeck that “Killing is all right, and you could attack religion with some impunity, but you were threatening something dearer than life to many people--.”²⁶⁸In the coming years Roosevelt’s observation would aptly describe the odd ethical realities of America’s approach to evaluating currency warfare against the European Axis powers. Even as the United States would conduct an intense strategic air campaign against German cities, the United States would never commit itself to counterfeiting German or Italian currency.

In the coming years further proposals to counterfeit the German currency would be introduced and debated largely against the parameters first established by the Steinbeck proposal and the objections it raised, particularly by the Treasury Department

²⁶⁸ *The Secret Weapon We Were Afraid to Use*, 10

in September of 1940. In subsequent years, the Axis threat to the United States would increase as Japan and Germany declared war on the United States. Plans to wage currency warfare by counterfeiting would continue to be motivated by a strategy of subversion along the same lines as Steinbeck had proposed. Subsequent currency warfare campaigns would be prerogative of the newly created Office of Strategic Services, and its leader William J. Donovan. Ultimately, reservations would continue to be raised about the implementation costs of implementing this particular type of warfare often grappling with the moral and ethical challenges raised by currency warfare, concerns over retaliation, and the overall material costs of producing and inserting sufficient quantities of forged notes.

1941: The Marshall Proposal

Although Secretary Morgenthau objections to counterfeiting German and Italian currencies had shelved Steinbeck's proposal the idea of waging currency warfare against the Axis would not go away. Although many continued to hope and believe that the United States could remain neutral, by 1941 such hopes were increasingly becoming unrealistic. With Roosevelt's reelection to a third term safely behind him, Roosevelt continued to maneuver the United States into military preparedness asking for an increased in defense expenditures, but also employing direct American naval power against Germany. Specifically, by the summer of 1941 American naval warships were engaging in patrols in the North Atlantic having extended their range of operations to beyond Greenland, thus serving as convoy escorts for British ships. On a few occasions

American destroyers and German U-Boats engaged one another in open battle in the North Atlantic

The transition from 1940 into 1941 had seen the threat of British invasion stopped, but until June 22, 1941 when Germany invaded the Soviet Union, Great Britain continued to fight the war alone in the Mediterranean and the Atlantic. When On June 22, 1941 Germany launched Operation Barbarossa the invasion of the Soviet Union it appeared as if the Germans would achieve another victory. If Hitler defeated his ideological enemy, he would be free to focus on Great Britain once again. It was at this time that further proposals for waging currency warfare against Nazi Germany by counterfeiting their currencies were introduced. Although Morgenthau's arguments had shelved the Steinbeck proposal the idea that manipulating the value of German or Italian currencies could be a means by which to strike at the enemy would simply not go away. Record indicate that in 1941 two proposal were submitted for the waging of currency warfare via counterfeiting. One occurred in July of 1941 and the other shortly after the Japanese attack on Pearl Harbor and Hitler's declaration of war on the United States.

On July 23 Trumbull Marshall, President of the Fine Arts Appraisal Corporation in New York City, wrote a letter to Colonel Donovan, the Coordinator of Information (COI) the predecessor to the Office of Strategic Services (OSS), through a contact at the State Department named James clement Dunn, an Advisor on Political Relations. The purpose of the letter was to inform Donovan of a "proposal for economic disruption of Germany, Italy or any other present or potential enemy of the United States, Great

Britain, or Russia.”²⁶⁹ Marshall argued that Germany and Italians goal of creating an autarkic economic system (an enclosed self-sufficient economy) was largely immune from outside pressures “so long as its subjects either have confidence in the form of currency which they are using or so long as with or without that confidence they can be compelled to use that currency for all internal purposes.”²⁷⁰ The goal therefore was to subvert the credibility of Axis monetary system, by causing doubt in the people’s minds as to the value of that currency. Marshall writes that:

“If you can suddenly show the subjects of Axis and Axis-held countries that the money they are using is worthless and can make the Axis monetary system seem ridiculous to these subjects and at the same time make the governments themselves uncertain as to whether currency in circulation is good, suspect or worthless, you will create a condition of chaos and mutual distrust among them which will completely upset their carefully ordered plans for wages, prices, taxes and general political and industrial economy.”²⁷¹

Marshall understood that his proposal was somewhat unethical writing that “I had some hesitation in advancing the truly “diabolical” scheme I had in mind for fear that our Government and His Majesty’s Government might think that my plan, though perhaps sound, would not be “good cricket.””²⁷² If Marshall believed that the English Speaking Peoples were too ethical to contemplate the counterfeiting of German or Italian currency, he had no doubt that the Soviet Union would find such a plan welcoming writing that “I do not think that the USSR would worry much about the ethics of a plan which looked as

²⁶⁹ Marshall to Colonel Donovan July 30, 1941, RG 226 Office of Strategic Services, OSS, Washington Director’s Office Administrative Files, 1941-1945 M1642 Roll 90, NARA

²⁷⁰ Ibid, Marshall to Colonel Donovan, July 30, 1941, Page 1

²⁷¹ Ibid, Marshall to Donovan, July 31, 1941, Page 1.

²⁷² Ibid, Marshall to Donovan, July 31, 1941, Page. 1

if it would work.”²⁷³ Marshall’s belief in the ethically conscious American and British governments were soon disavowed when he read that the British were being accused by Germany of forging their ration cards, not a far step from counterfeiting currency.²⁷⁴

Putting his reservations aside, Marshall outlined the plan. First, the governments of the United States and Great Britain should collect “samples of every conceivable form of currency,” including “all the various forms of mark and pfennig notes now being used in the Greater Reich and such local currencies as are used in France, Holland, Belgium, Denmark, Poland, Norway, etc.”²⁷⁵ Marshall was aware that German practice was to set up puppet or fiat currencies in occupied countries to prevent inflation of the German *Reichsmark*.

Once this was done, printing presses, should create “three or four times the probable total amount of currency now in use” and dropping the counterfeited currency by air using bomber aircraft. ²⁷⁶If all went well, and accounting for considerable numbers of such counterfeited currency be lost in the process of dissimulation, there would be sufficient “ready to be picked up as there is already in circulation now throughout the enemy country.”²⁷⁷ The consequences of such a scheme could not be overstated. Marshall, writing with great enthusiasm and imagination, asked Donovan to imagine what would happen in the United States if such a plan was implemented here:

“Can you imagine,” Marshall writes, “the riots that would break out? Can you imagine literally millions of people battling with each other to pick these bills up from the ground, hoerd (original spelling) them or spend

²⁷³ Ibid, Marshall to Donovan, July 31, 1941, Page. 1

²⁷⁴ Ibid, Marshall to Donovan, July 31, 1941, Page. 1

²⁷⁵ Ibid, Marshall to Donovan, July 31, 1941, Page. 2

²⁷⁶ Ibid, Marshall to Donovan, July 31, 1941, Page. 2.

²⁷⁷ Ibid, Marshall to Donovan July 31 1941, Page. 2

them then and there? The police and all other civil and military authorities would be helpless to stop it. The entire police machinery, jails, courts, etc. would be swamped and break down. Thousands of police, soldiers, deputy sheriffs and other normally honest officials would find the temptation too strong for them to resist and would start to collect and secret this “manna” themselves. To put it bluntly all hell would break loose.”²⁷⁸

Marshall’s enthusiasm continued arguing that such a scheme had the potential to bring down the entire Nazi economy. Marshall argued that if sufficiently large quantities of forged currency was inserted into Germany that:

“Banks will close down, workers will not be paid by factories, store’s will refuse to accept any currency or any ration cards or other forms for fear that they will later find they are worthless. The entire population will be tired up in a knot and the whole carefully planned and coordinated systems of managed currency and planned economy will crash down into chaos.”²⁷⁹

Like the Steinbeck the previous year, Marshall, and Senator Johnson believed that counterfeiting the German *Reichsmark* would pose no immediate danger to American or allied currencies. Marshall argued that “this scheme will not in any way injure nations not hooked to the Axis belt. German currency is no good outside of Germany now and hence anything which destroyed the value of lira, marks or yen could not hurt our own people or neutrals”²⁸⁰ Marshall, ignorant of the German counterfeiting operations against the British Pound argued that Britain would not be targeted because Germany lacked the paper and means by which to undermine the British currency. The British Government did not share Marshall’s assumptions about their monetary invulnerability, and German

²⁷⁸ Ibid, Marshall to Donovan, July 31, 1941, Page. 2

²⁷⁹ Ibid, Marshall to Donovan, July 31, 1941, Page. 3

²⁸⁰ Ibid, Marshall to Donovan, July 31, 1941, Page. 3

counterfeiting efforts would later cause a near collapse of the British pound, and its effects felt long after the conflict ended.

Colonel Donovan wrote back to Senator Johnson thanking him for the forwarded proposal but for imagined reasons did not disclose any previous debates regarding the counterfeiting of foreign government's currency. No evidence suggest that the plan was implemented at this time, and previous explanations including the ethical concerns, the material costs of implementation, and the Treasury Department's overall disgust with the idea of counterfeiting foreign currencies surely also placed a hold on this proposal. However, this marks the first time that we know of that William Donovan was introduced to the idea of counterfeiting the currencies of America's enemy's. As we shall see shortly the idea to counterfeit Axis currencies stayed with Donovan but it would have to be until after America officially entered the war that a plan to take currency warfare to the Axis powers would be against proposed.

The Contright Proposal (December 1941)

On December 7, 1941 Japan attacked Pearl Harbor and Hitler declared war on the United States four days later. The United States was now officially in the war. It was at this point, with America's battleship fleet crippled, with German U-Boats free to sink American ships at will, with Japanese forces invading the Philippines, Hong Kong, Malaysia, Wake Island, Burma, Thailand, and other territories that another proposal was submitted to the Coordinator of Information to wage war by counterfeiting the currencies of the Axis powers.

An enterprising soldier, Private N.E. Contright wrote on December 22, 1941, just days after America's official entry into the war of a plan he had conceived to undermine the enemy. Contright wrote to his commanding officer that he "had this idea in my head for some time, and I feel that it may be of some help in winning the war." The plan was "to print exact duplicate of the enemy paper money" and "to shower the cities of the enemy with this counterfeit money, at the proper time, with the proper amount." The benefit of such an operation was to "create discontinuity and suspicion within that nation" through the disruption of the economy." The idea was sent to the Coordinator of Information, a precursor organization to the OSS which received a somewhat bemusing response. Major M.P. Goodfellow who forwarded the suggestion to Lt. Col. Robert A. Solborg with the skeptical note "How is this for a form of sabotage?" Lt. Col. Solborg took the idea to Morgenthau. We do not know if Goodfellow knew of the previous proposals to counterfeit German currencies, nor if he knew of Morgenthau's reservations. Either way Goodfellow soon found out. Reporting to Col. Solborg saying that "Morgenthau said we are not in the counterfeiting business." But, Col. Solborg thought the idea worth holding onto and added "this is only one phase of confusion sabotage activities" and would keep the idea in mind.

Contright did not single out any specific Axis country to be subjected to have its currency counterfeited. We can assume he meant Germany, Italy, and Japan. Goodfellow, a former marketing agent in New York before joining the COI who had expressed bemusement at the plan would soon have a role to play in counterfeiting Japanese currencies. We can of course not know how much influence this proposal had on the

minds of the Donovan and other COI and later O.S.S leaders but it remains an important proposal nevertheless. First, it kept the idea of counterfeiting Axis currencies floating within the minds of America's leaders who would be tasked with waging psychological warfare. Second, Contright's proposal shows remarkable consistency with the previous proposal both in being motivated by security threats to the United States and by strategic motivation of subversion. As 1941 passed into early 1942 William Donovan would himself write to Franklin Roosevelt urging the counterfeiting of the Italian Lira as a way to knock Italy out of the war.

1942: Donovan, Morgenthau, and the Debate to Counterfeit Axis Currency

From December 1941 through the first six months of 1942 the overall allied objective and strategy in Europe was to survive and building sufficient strength to launch an offensive against the German and Italian armies. It was a time of great danger and uncertainty. In the North Atlantic the German U-boat offensive against the supply convoys was crippling Britain's lifeline to the United States. In North Africa, Rommel's *Afrika Corps* had surrounded Tobruk and sizeable British Army which would surrender later that year. Britain's Gibraltar of the East, Singapore, would soon fall to "inferior numbers of Japanese. In the Philippines, American and Filipino forces held out on the island fortress of Corregidor until April 1942, although its commander Douglas MacArthur was spirited away to Australia, vowing to return. Rearmament would not be in full force for several months, and there would be no major allied offensive in the European or Pacific theaters until the November of 1942. Immediately after the United States officially entered the war the debate over counterfeiting Axis currencies was once

again held, and approved by Franklin Roosevelt. However, even with the President's verbal approval the decision to counterfeit the German and Italian currencies was consistently not implemented even though other counterfeiting of official documents would take place and controversial policies like strategic bombing would become a fixture of America's war against the Nazis.

Early in 1942, Secretary Morgenthau, who had previously been appalled at Steinbeck's proposal to counterfeit German and Italian currencies appears to have warmed to the idea—at least in the abstract now that America was in the war. It would, ironically, be Morgenthau who would relay the unwritten approval by Franklin Roosevelt to Stanley Lovell of the O.S.S to wage currency warfare against the Axis by forging their currencies. Morgenthau agreed to meet with Dr. Stanley Lovell, who William Donovan had appointed as the Director of OSS's Research and Development branch, because as Donovan explained “I need every subtle device and every underhanded trick to use against the Germans and the Japanese...”²⁸¹ Research and Development would devise methods of waging covert subversive warfare including the forging and counterfeiting of “perfect passports, worker's identification papers, ration books, money, letters” for OSS operations behind enemy lines.²⁸²

Assisted by Colonel Otto J. Doering of the O.S.S. who knew Randolph Paul the Undersecretary of the Treasury, Lovell was to meet with Henry Morgenthau to get the green light on the forging campaign. Lovell had “recruited” Kimberly Stuart “an expert in

²⁸¹ Lovell, Stanley P., *Of Spies & Stratagems*, (Prentice-Hall, Inc., :Englewood Cliffs, N.J., 1963), Page. 7

²⁸² Lovell, Stanley P., *Of Spies and Stratagems*, (United States of America: Prentice-Hall International, Inc.: 1963), 23

papermaking,” and Dr. Westbrooke Steele, the President of the Papermaker’s Institute²⁸³ to see if such a plan was feasible. It was. The Following is Lovell’s recollection of how President Roosevelt authorized, secretly, the idea to forge Axis currencies:

“In a remarkably short time, Colonel Doering had done his part so well that I met with Secretary of the Treasury Morgenthau. He had agreed to ask President Roosevelt if we might proceed. Morgenthau said, “You come over here tomorrow at eleven o’clock. If I say, ‘The President has a cold and I was unable to see him on your problem,’ that means he allows you to go ahead at full speed. If I say, “I took that matter up with the President and he refuses authorization,” that means exactly what I say.”

The Next day I called on him at the appointed time. I was ushered into his office to find Randolph Paul, Daniel W. Bell an at least ten other men gather around his conference table. As I entered, he turned to them and said, “Excuse me, Gentlemen; this is Dr. Lovell of the O.S.S.” Swinging around to me he said, “Now, on that matter you asked me about, I was unable to see the Resident for approval because he has a cold. Do you understand that, Dr. Lovell?” I said, Yes, I do, Mr. Secretary, and thank you.”²⁸⁴

Morgenthau was on board, although not officially, at least as events would show, in counterfeiting Japanese currency. Furthermore, there was to be no written authorization from the President of the United States nor any high-ranking U.S. official for that matter. The forging of currencies and other materials was to be secret because if ever acknowledge or discovered “it would, indeed, have been disaster if any suspicion of our counterfeiting and forgery shop had ever cast the faintest shadow on the U.S. Governments legitimate activities.”²⁸⁵

With the President’s Approval the task now fell to the COI (soon to be renamed the OSS), to debate and decide whether to counterfeit Axis currencies, and William J. Donovan would be at the forefront of this debate, especially in the European theater.

²⁸³ Ibid, 24

²⁸⁴ Ibid, 24

²⁸⁵ Ibid, 25

William J. Donovan was quintessentially American. Unlike the majority of FDR's inner circle such as Henry Morgenthau, Donovan was not born into wealth and his humble origins were overcome through diligence, strong work-ethic, and intelligence. Donovan was a supreme example of American individualism whose true powers of imagination become clear only during times of immense danger and conflict. Donovan was confident, unorthodox in his thinking, and unafraid to propose unconventional means to attack the enemy. Historian Lewis E. Lehrman portrays Donovan as a "nonconformist" and "an entrepreneur who lacked the bureaucrat's requisite patience for rules and procedures."²⁸⁶ Donovan's individualism and disregard for rules and procedures would shape the character of the Office of Strategic Services and give considerable discretion and freedom of decision making in debating and carrying out subversive policies against the Axis.

Furthermore Donovan knew Franklin Roosevelt, and Roosevelt trusted Donovan—the two had a fondness for "strange ideas."²⁸⁷ In the 1930's Donovan visited Europe, meeting Benito Mussolini, and as we shall see his visit made an impact on the fragility of the Italian financial system. In August 1940, Donovan returned from a visit to Great Britain providing a less pessimistic and "defeatist" assessment of Britain's future than that suggested by Ambassador Joseph Kennedy.²⁸⁸ For the remainder of the conflict Donovan would provide the president with weekly, if not daily reports from the war

²⁸⁶ Lehrman, Lewis E., *Churchill, Roosevelt, and Company: Studies in Character and Statecraft*, (Connecticut: Stackpole Books, 2017), 56

²⁸⁷ *Ibid*, 57

²⁸⁸ See Lehrman's Chapter on William J. Donovan and William Stephenson: Master Secret Agents (2017) in his *Churchill, Roosevelt, and Company* for a description of the differences between Donovan and Kennedy, Page 55.

around the world and proposals and analysis for how to take the fight to the enemy. In 1942, Roosevelt recognizing the need for an American intelligence and clandestine services appointed William J. Donovan to be the Director of the Office of Strategic Services (OSS).

In the first months of 1942 the ‘big question’ for the United States was which front to prioritize—Europe or the Pacific. Not surprisingly, many American leaders including Admiral King and General George C. Marshall wanted to focus on the Japanese, after all they were the ones who had brought the United States into the war. Churchill and the British, and William Donovan disagreed. They viewed Nazi Germany as being the more dangerous adversary both because of its proximity to Great Britain and its technical superiority over the Japanese. The question was however, where to strike? The Joint Chiefs of Staff wanted to strike at France directly and get the war over with as quickly as possible. The British, including Churchill, believed such a policy to be catastrophic (history would prove them correct). The allies did not have the men nor equipment to launch an invasion of the continent in 1942 or 1943. Churchill proposed a Mediterranean strategy, and to strike at the “Soft-Underbelly of Europe” meaning Italy.

In January and February of 1942 the question of whether to counterfeit German and Italian currencies had reached the desk of William Donovan. In January Colorado Senator E.C. Johnson forwarded a proposal to Donovan from one of his constituents proposing “a novel secret weapon to be used against Hitler,” that is to “Flood Germany

with counterfeit German Marks.”²⁸⁹The plan was debated among the Research and Analysis division of the OSS, and earlier arguments against such plan were again put forward especially the question of retaliation against Great Britain by Germany

As the memorandum indicates “the idea underlying the scheme is that Germans coming into possession of these counterfeit marks, indistinguishable from legal currency, would rush to convert them into goods, and that this increased flow of expenditures would produce a violent inflation and weaken Germany’s war effort.”²⁹⁰The concern was that such a plan opened Great Britain to retaliation in kind (again not knowing that the Germans had already attempted one such plan and would soon engage in another).Second, was the persistent belief that the German financial system and overall economy could withstand a currency counterfeiting campaign. The authors write that “Economic controls in Germany are more complete and effective than in any other belligerent country, and the civilian’s expenditures for goods and services are almost entirely divorced from the volume of money at his disposal.”²⁹¹Because of this, “it is doubtful that even a marked increase in the amount of money, legal or counterfeit, in German hands would have any substantial effect on the Germany economy.”²⁹²The memo concludes however, that the principal concern was the exposure of Great Britain to retaliation. Great Britain was vulnerable to such an attack because “a considerable

²⁸⁹ Records of the OSS Washington Director’s Office. Letter from Senator Johnson of Colorado to William J. Donovan, on a constituent’s proposal to counterfeit German Marks, dated January 6, 1942. RG 226 M1642 Roll 61. NARA, College Park, Maryland

²⁹⁰ Ibid, “Interoffice Memo” regarding “Letter from Senator E.C. Johnson (Colorado) to Colonel Donovan,” January 9, 1942 (Frame 278)

²⁹¹ Ibid, January 9, 1942 “Interoffice Memo”

²⁹² Ibid, January 9, 1942 “Interoffice Memo”

proportion of the working class has insufficient money income to purchase the food permitted to them under existing rations.”²⁹³

Donovan agreed with his team’s analysis, especially indicating his concern for retaliation against Britain’s financial system. Writing to Senator Johnson Donovan says that when it comes to counterfeiting currency “it is a game which two can play” and echoed that the German economy was not susceptible to such a plan, for the reasons presented by his staff. He concludes by expressing overall concern for Great Britain’s vulnerability saying that:

“...although rationing and other controls have assumed increased importance, there are large groups of the population whose spending would be increased if, say, large quantities of counterfeiting British bank notes were dropped by German planes over British cities. For this reason and others, this suggests seems to me a dangerous one to try out on Germany.”²⁹⁴

Donovan remained officially uncommitted to the plan and questioning its feasibility writing that he was “skeptical of the usefulness of this particular suggestions.”²⁹⁵ But this was not the end of the story Donovan certainly new of the earlier discussions regarding the counterfeiting of currencies, and as he had told Lovell, he wanted the OSS to conceive of any possible means by which to subvert the Axis powers. Was Donovan being disingenuous to Senator Johnson by not wanting to acknowledge, openly, that the US would engage in such a scheme? Yes and no. It appears that Donovan did believe, at this stage of the war, that Germany was not the ideal target for a currency counterfeiting campaign, but Italy might be. With much less resources, and an economy

²⁹³ Ibid, “Inter Office memo,” January 9, 1942

²⁹⁴ Ibid, “Inter Office memo,” January 9, 1942

²⁹⁵ Ibid, “Inter Office memo,” January 9, 1942

which was, according to him vulnerable to attack, Italy might be the more appropriate target for currency warfare. Thus shortly after the Johnson proposal, Donovan ordered his research and analysis team to look into the merits of a counterfeiting campaign against Italy. Donovan took his teams findings and wrote a proposal for President Roosevelt to authorize currency counterfeiting operations against the Italians.

Subverting Mussolini, Donovan Proposes to Counterfeit the Lira

Through the early months of 1942 Donovan devoted significant attention to knocking Italy out of the war through the use of morale or propaganda operations. One of the earliest proposals was to counterfeit the Lira for the purpose of subverting Mussolini's legitimacy in the eyes of the Italian people, who Donovan believed did not fully support El Duce's ambitions. Furthermore, having traveled to Italy and meeting Mussolini personally during the 1930's Donovan was well positioned to understand Italy's financial and economic vulnerabilities, and undoubtedly intrigued by the recent counterfeiting proposal he "thought at least it might be interesting to see what had been done in the other wars by this weapon."²⁹⁶ With his research team's report on hand, Donovan took his proposal to directly to President Roosevelt.²⁹⁷

President Roosevelt received the memorandum on or around February 19, 1942. The memorandum gets right to the point, and deserves to be quoted at length. Stating that

²⁹⁶ Donovan, William J., "Memorandum for the President, No. 269 February 19 1942, Franklin President Library
Roosevelt, Franklin D., President's Secretary File (PSF), Office of Strategic Services, Reports 2/12-20/42 #244-273 thru Office of Strategic Service, Reports: 4:19-21/42 #424-437, Box 148, Franklin Roosevelt Presidential Library, Hyde Park, New York

²⁹⁷ Donovan, William J., "Memorandum for the President, No. 269 February 19 1942, Franklin President Library
Roosevelt, Franklin D., President's Secretary File (PSF), Office of Strategic Services, Reports 2/12-20/42 #244-273 thru Office of Strategic Service, Reports: 4:19-21/42 #424-437, Box 148, Franklin Roosevelt Presidential Library, Hyde Park, New York

“A proposal has been made to adopt to a scheme to distribute spurious money throughout Italy in the following manner:

1. Lira notes in appropriate denominations, numbered and designed to appear identical with those in current use, should be manufactured in large quantities in the United States. Some special chemical should be included so that the notes can be so processed as to be readily identified.
2. These notes would be distributed throughout Italy and all Italian-occupied countries. Different methods could be used for this, including distribution by airplane.
3. Simultaneously with the distribution, an intensive publicity campaign should be started. The Italians should be invited to look at their money and decide for themselves which is good and which is bad. The Italian would know that there was a deficit in this year’s budget of thirty billion Lira, so the money circulated by his own government is of dubious value but if he has the money circulated by the democratic powers then he has something of value because this could be redeemed upon the overthrow of the Mussolini government. If this objective be achieved within a specified period of time, the money that he has in his possession, circulated by the democratic powers, would be redeemed at X-dollars or X-pounds per thousand lira.”²⁹⁸

As Donovan pointed out to Roosevelt, “the one feature in this proposal that distinguishes it from other proposals in history is the element of redemption.”²⁹⁹ Whether this claim was true remains uncertain, but what distinguishes the Donovan proposal from previous ones was his concern for minimizing the impact of waging currency warfare on the Italian people and how this could help the Allied war effort. By minimizing the impact of currency warfare on the Italian people, and giving them a worthwhile monetary alternative to the existing Lira, Donovan believed that this would make it easier for

²⁹⁸ Donovan, William J., “Memorandum for the President, No. 269 February 19 1942, Franklin President Library
Roosevelt, Franklin D., President’s Secretary File (PSF), Office of Strategic Services, Reports 2/12-20/42 #244-273 thru Office of Strategic Service, Reports: 4:19-21/42 #424-437, Box 148, Franklin Roosevelt Presidential Library, Hyde Park, New York

²⁹⁹ Donovan, William J., “Memorandum for the President, No. 269 February 19 1942, Franklin President Library
Roosevelt, Franklin D., President’s Secretary File (PSF), Office of Strategic Services, Reports 2/12-20/42 #244-273 thru Office of Strategic Service, Reports: 4:19-21/42 #424-437, Box 148, Franklin Roosevelt Presidential Library, Hyde Park, New York

Italians to if not switch loyalties, at least minimize their support for Mussolini by removing the fear of a vengeful occupation.

Second, the memorandum is the first to explicitly use the word *subversion* (my italics) to define the motivation for counterfeiting currencies during armed conflicts. Although previous proposals which had been introduced before (e.g. Steinbeck, and Johnson proposals) for counterfeiting currencies had been motivated by subversive objectives (i.e. discrediting the legitimacy of the enemy's legitimacy from within), Donovan is the first to use this word directly. In the summary on the "Historical Instances of Political Counterfeiting" the authors write that:

"Since the appearance of paper currency, counterfeiting has frequently been employed for political purposes. The chief objective of political counterfeiting has been the creation of funds for subversive activity. Legitimate governments have rarely resorted to counterfeiting except to create purchasing power for an occupying army. There is only one authenticated instance of a belligerent government's dissemination of counterfeit currency in order to inflate the currency and disrupt the economy of its enemy. This counterfeiting campaign, conducted by the British government against France in 1794, is generally regarded as having failed."³⁰⁰

Monetary historian Murray Teigh Bloom points out that the report although informative for how it conceives of the strategic motivation for counterfeiting against an enemy's currency was not completely accurate. The report failed to account for other cases of counterfeiting, including the American Revolution when British counterfeited the Continental Currency, relies on the British counterfeiting of French currency during the Wars of the French Revolution which he declares "as having failed."³⁰¹ According to

³⁰⁰ Ibid, Roosevelt, Franklin D., PSF, Box 148

³⁰¹ Ibid, Roosevelt, Franklin D., PSF, Box 148. For an analysis of Donovan's Memorandum see Bloom, Murray Teigh, "Uncle Sam: Bashful Counterfeiter," *International Journal of Intelligence and Counterintelligence*, 2:3, 345-358, 1998.

Donovan the “primary purpose” of counterfeiting the French currency “was to *discredit* [my italics] the Republican notes and to embarrass the French Government.”³⁰²The Donovan essay on counterfeiting includes instances of counterfeiting during the Russian Civil War, the Polish-Czechoslovakia border dispute in 1920, and during the French occupation of the Ruhr Valley in 1923. He concludes though with speculation on German counterfeiting operations mistakenly saying that “so far is known, Germany has not used counterfeiting as a weapon,” because “fear of retaliation.” Donovan did not know that Germany had been counterfeiting the British pound since 1940.³⁰³

There is no evidence that Roosevelt authorized the plan to counterfeit the Italian lira. Although the allies did create an allied military Italian currency for its invasion of Italy (Operation Husky) this currency was not designed nor developed for purposes of subversion or for undermining Mussolini, but rather for insulating the American dollar from external inflationary forces and for introducing a means of exchange for allied personal to use in Italy. In other words it was neither conceived as a weapon, nor dropped on fascist controlled territory after 1943.

Although the Donovan plan was never implemented the memorandum marks an important shift from previously similar proposals. First, this was the first time that a senior Administration official, had introduced a proposal directly to the President, and had described the operation as being motivated by a strategy of subversion. Second, Donovan’s proposals show a higher degree of nuance and understanding of the delicate nature of currencies and its potential impact on civilians and post-war reconstruction.

³⁰² Ibid, Roosevelt, Franklin, PSF, Box 148

³⁰³ Ibid, Roosevelt, Franklin, PSF, Box 148

Was there a way of implementing a currency warfare campaign for purposes of subversion while also minimizing its overall impact? This overarching question and its corresponding concerns would be revisited again and again over the next few years. Third, the timing of the proposal is striking! Donovan conceived of currency warfare as a means by which to launch an offensive campaign against the Axis at a time when the allies were in no position to mount a serious campaign. The invasion of North Africa (Operation Torch) would not be launched until November 1942 and Italy until the following year. Here was a proposal for striking Europe's "soft underbelly" at a time when the allies were on the defensive.

1943 and 1944: The Debate to Implement Currency Warfare against Germany

The idea that the United States should wage currency warfare against the Axis powers in Europe would not go away—even after several rejected proposals. The idea continued to fascinate many within the OSS as a means of contributing to the overall allied war effort. The idea that the exercise of monetary power could deliver important foreign policy results and was a successful means of coercion was an article of faith believable by many then as it is today. And yet, if we look at the context in which the intense deliberations regarding the implementation of a currency warfare campaign against Nazi Germany was held, the American decision to not counterfeit the *Reichsmark* can seem rather perplexing.

By 1943 and into 1944 the war in Europe was approaching one of its supreme climaxes. The planning of the cross-channel invasion of France was well underway by the end of 1943 and Operation Overlord (D-Day) would be launched on June 6, 1944.

During this time, especially in the months preceding the invasion of France, there was considerable debate over whether to launch a currency warfare campaign by counterfeiting the German Reichsmark. The debate occurred against the backdrop of the Allies decision to implement a strategic air campaign, first against German economic targets (e.g. factories, ball-bearing plants, etc.) which would evolve into indiscriminate bombing of German cities. Thus as the American Eighth Air Force bombed German cities by day, and the British Bomber Command did so at night, the decision to not counterfeit Germany's currency for purposes of subversion is remarkable. Furthermore the objections raised would be more sophisticated versions of previous concerns specifically, the ethical concerns over counterfeiting, second, problems of disbursement and whether it was at all feasible, and finally concerns over post-war reconstruction efforts. Even under these conditions, the United States (diverging from their British counterparts) continued to show restraint in the implementation of currency warfare.

In July of 1943 the idea to counterfeit Axis currencies for purposes of subversion was proposed once again. We do not know the ultimate details of this proposal, but it could not have deviated from previous ones as the acting director of the OSS, G. Edward Buxton's report to President Roosevelt makes clear. Showing concern that any affirmative reply could remove the government's cloak of possible deniability Buxton writes that "It seems to us impossible to reply to this letter in an informative way without

committing the Government to some quotable expression, which either approves the practice of counterfeiting money or refused to consider a plausible war measure.”³⁰⁴

Buxton’s report is informative in that he reveals that there are plans which could be implemented and that the Departments of the Treasury, State, and Justice have knowledge of such plans. However, Buxton writes that there are major problems with implementing a counterfeiting operation. Buxton writes that “Distribution is a major problem as dropping from planes is inefficient, and success seems to depend on a widespread underground penetration of the country by agents.”³⁰⁵ Buxton suggests that “The program seems promising if done on a large scale at a moment of crisis in Germany or Japan” but that “In occupied countries it might produce more distress to the conquered than to the conquerors.”³⁰⁶ If the president wished to have a detailed assessment of the plans on table Buxton would be happy to provide them.

We do not know if Roosevelt asked for such a report, but he more than likely did not need to be already aware of the numerous proposals of the past. This short example in 1943 highlights once again the significance that American planners placed on the ethical considerations of waging currency warfare via counterfeiting against Nazi Germany. Against the security environment the Americans faced in 1943 and the unquestioning belief that currency warfare was motivated by a strategy of subversion, the decision to

³⁰⁴ Report to Franklin Roosevelt from Acting Director of the O.S.S G. Edward Buxton dated 14 July 1943. Report concerns a reply to a Mr. Darwin r. Martin who proposed an idea to counterfeit enemy currencies. The actual proposal has not been found to date. RG-226, M1642 Records of the OSS Washington Director’s Office, Roll 023 of 136 (frame 0644). NARA, College Park, Maryland

³⁰⁵ Ibid, Report to Franklin Roosevelt from Acting Director of the O.S.S G. Edward Buxton dated 14 July 1943

³⁰⁶ Ibid, Report to Franklin Roosevelt from Acting Director of the O.S.S G. Edward Buxton dated 14 July 1943

not wage currency warfare continues to hinge on the implementation costs of doing so, specifically its ethical considerations. We have here, another link going back to 1940 over how counterfeiting could be unethical thus serving as a high cost for implementation. Furthermore, as we shall see in the second half of this chapter the concerns over how to distribute forged currency notes did not play as much a role over the wide-expanses of the Pacific as it does in Europe. As 1944 began this debate would intensify and receive closer scrutiny than ever before.

1944: The Special Plan for Inflating the German Currency

Early in February as Allied attention was focusing on the cross-channel invasion of Normandy the OSS revisited the idea of waging currency warfare against Nazi Germany by counterfeiting the *Reichsmark* in sufficient quantities to cause a decline in the moral of the civilian population and its support for the war effort and the Nazi regime. It was the most comprehensive and detailed analysis of the plan showing a sophistication in the analysis of the merits and limits of counterfeiting German marks. The reason for reexamining the proposal to wage currency warfare against Germany was brought about because individuals within the OSS Planning Group believed that conditions which had previously restrained the implementation of counterfeiting operations had diminished and that the time was right for implementing a currency warfare campaign. Hugh Wilson who was forwarding the proposal for consideration wrote that although “it is realized that a similar proposal has been suggested in the past...It has reoccurred at this time because of

the belief of certain members of the Research and Analysis Branch that the time is now ripe for such an operation.”³⁰⁷

By February 10, 1944 the Research and Analysis Branch of the OSS had finished a report regarding “the use of German counterfeit money in MO (moral operations)” which was conducted to investigate “means of stimulating German inflation by the importation into Germany of German counterfeit money” and which explored the “political and military objectives to this plan.” Although the group left to their superiors whether these concerns were surmountable or not.³⁰⁸ Major Harwood of the OSS, who was the originator of the proposal, had spoken with key figures within the organization to get their views on whether the merits were feasible. The interviews and analysis all indicate that the decision to, or not to, counterfeit the German currency came down to the perceptions of the implementation costs associated with the plan, specifically, the concern over potential retaliation by the Nazi’s against Great Britain and if whether sufficient amount of counterfeited currency could be inserted into Germany by the 8th Air Force and the RAF.

All of those interviewed by Major Harwood agreed that the plan should go forward, including Stanley Lovell. The summary of Lovell’s opinions on the matter are

³⁰⁷ Letter forwarding a “Special Plan for Inflating German Currency,” by Hugh R. Wilson, Acting Chairman, SS Planning Group, Dated 26 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³⁰⁸ Ibid, “The Use of German Counterfeit Money in MO,” R & A 1872, 10 February 1944. This page appears to be part of an Appendix to the proposed plan for inflating German currency. It describes the report in the following manner: “The study investigates means of stimulating German inflation by the importation into Germany of German counterfeit money. The political and military objections to this plan are raised but not discussed.” RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

representative of how the rest of the group thought about the proposed counterfeiting plan:

“(3) Dr. Stanley Lovell, R, & D. Dr. Lovell has been enthusiastically in favor of such a program since 1940 when he first suggested it. He ran into strong Treasury opposition. Aside from opposition on general grounds to counterfeiting, the Treasury feared retaliatory measures aimed at War Savings Stamps. Dr. Lovell was confident that the German currency could be counterfeited. He was convinced that the program could be carried out with devastating effect. The Estimated time required is as follows:

- (a) Three months with a staff of 50 or 60 men to prepare plates for currency that would pass in retail channels;
- (b) Six months for currency acceptable to branch bankers;
- (c) One year to deceive the Reichsbank experts.”³⁰⁹

The interviews also provides insights into which groups and government departments continued to have reservations if not downright animosity towards the plan. Douglas Miller who had proposed a similar plan in the past said “that there was opposition in the Treasury Department and from New York Bankers,” and Walter Adams of the Political Warfare Executive (a British organization) stated that the Office of Economic Warfare had opposed the plan.³¹⁰ All of the men agreed that such a plan could work and should be put into effect. Here we perhaps see how perceptions of currency warfare influenced the decision-making process. From the perspective of the Treasury Department, as we have seen with Henry Morgenthau, the idea of waging currency warfare by counterfeiting seemed unethical—after all such an effort was in violation of the law. The same was true of the State Department, and although there were solicitations

³⁰⁹ Interoffice Memo from Kennett w. Kinks, Lt. Comdr. USNR to The Planning Group on the subject: “Plan for Promoting Inflation in Germany,” Date 15 February, 1944. Those interviewed by Major Harwood include Mr. Douglas Miller, OWI; Mr. Walter Adams of PWE; Dr. Stanley Lovell, R & D, Major Graham Aldis, MO, Lt. Col. Culberston, and Mr. Eugene Anderson and Dr. Franze Neumann, R & A. All were in agreement that the plan should move forward. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹⁰ Ibid, RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

sent to Cordell Hull, Secretary of State, no documentation has been found indicating the Secretary even considered the plan. Furthermore, the Secretary's resistance to interfering in the Gold market to prevent Germans supplies of it for purchasing in neutral countries leads us to believe that he would not have supported a counterfeiting campaign (citation).

Those in the OSS however, were not bankers and did not view money as sacrosanct. They viewed it as a weapon of war to be deployed against the enemy. They were motivated by a strategy of subversion to undermine the Nazi regime, and targeting their money was one of way doing it. If it had been up to these individuals, as it as with their colleagues in the Pacific (who had much less oversight) there is no doubt that the OSS would have counterfeited the German currency.

On 18 February 1944, the plan titled a "Special Plan for Inflating the German Currency" was submitted for consideration. The strategic motivation and "the primary purpose" was "to cause serious price inflation in Germany and a condition of general demoralization among the civil population, by dropping from the air large quantities of counterfeited German marks."³¹¹The planners argued that the German experience in the 1920's with hyper-inflation had conditions the German population to fear inflation. Hyper-inflation in Germany had been so traumatic that "every adult German either lived through this period or has had first-hand accounts of it from older people."³¹²The planners argued that such a fear could be exploited to undermine credibility in the regime writing that "There is probably nothing more disruptive to established controls in a state

³¹¹ "Special Plan for Inflating the German Currency" submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹² Ibid, Special Plan for Inflating the German Currency" submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

than a run-away inflation. Established values vanish in thin air. The very foundations of society appears to be slipping, and the general feeling becomes one of despair and panic.”³¹³

Furthermore, inflating the German currency presented one of the remaining economic targets which could be attacked. Because “much of the tangible wealth of Germany is now in the process of being destroyed” presumably by the 8th Air force and RAF day after day bombing of Germany, it was the “Intangible values, such as bonds of various kinds, mortgages, insurance policies, annuities,” which continued to maintain their value” and if inflation could be triggered than “the value of such intangibles” is reduced.³¹⁴

Other structural factors were considered by Major Harwood as to why Germany was vulnerable to currency warfare. Citing among things the fact that the allied bombing of Germany was creating a shortage in the consumption of available goods which was creating “further strain on prices” of which increased circulation in the money supply did nothing to help.³¹⁵ Also, the allied bomber offensive was destroying Germany’s banks. Inflationary pressures were already occurring because of the destruction of German banks because of the allied strategic bombing campaign. With banks being destroyed, Major

³¹³ ³¹³ Ibid, Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹⁴ ³¹⁴ Ibid, Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹⁵ The document states that “(4) It is reported that the amount of German currency now in circulation is approximately 11. 33,000,000. It has also been reported that air raid damage to the limited supply of consumption goods has caused a further strain on prices as well as on increase in the currency in circulation. The latter is probably due in part to the fact that people in the cities carry more money on their persons in view of the danger of banks being destroyed in the air raids and the consequent impossibility of drawing out savings on short notice. “³¹⁵ Ibid, Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

Harwood, and his team, surmised that Germans were withdrawing their money from banks and keeping it at home or on themselves, thus increasing the amount of German currency in circulation.³¹⁶

Earlier concerns over Nazi retribution against its own people for having and using counterfeited notes for the purchasing of goods was considered to now be less probable.

As the report indicates:

“the German currency can be counterfeited, and it is believed that no amount of exhortation from Nazi officials would stop the masses in the cities from searching for and picking up counterfeit German notes which would then be indistinguishable from the currency already on hand and would pass into circulation.”³¹⁷

Further analysis indicated that Nazi's were losing grip on their economic policies, especially their ability to maintain price controls on rationed goods. A thriving black market had developed in Germany contributing to inflation already. This factor combined with counterfeiting could ensure the success of the mission. As the report indicates:

“If large quantities of counterfeited German marks are distributed the effect on rationed goods might be negligible at the outset depending on the efficacy of the Nazi controls. The combination, however, of the shortage of goods together with any appreciable increase in the amount of currency would undauntedly put an added strain on price of rationed goods. Prices of luxury goods that are not rationed would almost surely advance at once.”³¹⁸

Although there was agreement that counterfeiting German marks and infiltrating them into Germany via the 8th Air Force was feasible and would subvert the Nazi regime, Major Harwood and his team were not oblivious to the fact that counterfeiting currency

³¹⁶ Ibid,³¹⁶ Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹⁷ Ibid, Page 2. ³¹⁷ Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³¹⁸ Ibid, Page. 2 Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

was a rather difficult undertaking, costing significant money, costing nearly two and a half million dollars for producing the proper plates and printing the currency. Also, the time necessary to produce sufficient quantities of forged marks would take months, and the quality of the forged notes would have to be good enough so that the average German would not know they were dealing in worthless notes (although experts might). The rationale here is important for understanding the delicate balance between producing forgeries that Germans would use without hesitation, but also indicating that the value of the currency they were using might be worthless: As the report says,

“In view of the time element it would not appear advisable to devote a longer period of time to making plates which even a German currency expert in the Reichsbank could not distinguish from the genuine German notes. Moreover (original spelling), if the counterfeit notes are well enough made to pass as genuine in the ordinary channels of retail trade but could not meet the test of the expert the result would be that no one could be sure the notes he had were genuine.”³¹⁹

The implications of this balancing act “would tend to destroy confidence in the currency and stimulate the exchange of the paper money for whatever tangible goods could be purchased on the black market or elsewhere (original spelling).” In other words it would subvert the German monetary system and undermine the confidence Germans has in the Nazis.

The planners also confronted the obstacle of how to insert counterfeit marks into Germany by revisiting earlier plans to drop by air the forged notes. Previous proposals

³¹⁹ Ibid, Page. 3 Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

had indicated that there was not sufficient aircraft for the dropping of enough notes over Germany to have any meaningful impact. This time, Major Harwood's team estimated that "10 planes each carrying 5 tons of notes would make a total of 40,000,000 notes having face value of 11. 2,000,000 (if the average was N. 50) or N. 1,000,000,000 (if the average was 11.25)."³²⁰ The authors estimated that this would increase the German currency currently in circulation by six percent, and even though "allowance...would have to be made for some percentage of notes which would not be found, and thus never would enter into circulation" there was no doubt that enough forged bills could be dropped over Germany to cause the inflationary effects.³²¹

The report concludes by outlining the impact that a successful counterfeiting campaign against Germany would look like. First, "That demoralization among the civil population of Germany can be brought about by destroying whatever confidence the German people have in their currency," which would occur by increasing the money supply which would reflect in inflationary prices of legitimate and black market goods.³²² Second, inflation will add an increased burden on the ability of the Nazi's to maintain price controls. The authors argue "that a heavy additional burden will be placed upon the Nazis system of controls by forcing them to cope with the problem of

³²⁰ Ibid, Page. 3 Special Plan for Inflating the German Currency" submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³²¹ Ibid, Page. 3 Special Plan for Inflating the German Currency" submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³²² Ibid, Page. 4, Special Plan for Inflating the German Currency" submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland. The financial mechanism which would cause an increase in inflation was described as follows: "That an accelerating rise in prices in Germany, especially of goods sold on the black market, will result from large-scale inflating of the German currency by dropping counterfeited notes from the air." Furthermore, the report says that "That any large increase in the currency in Germany with no corresponding increase in the supply of consumption goods will greatly stimulate black market operations thus further reducing the quantity of rationed goods available for distribution through legitimate channels.

fluctuating prices as well as with the physical problem of trying to deal with great quantities of counterfeit bank notes being distributed from the air.”³²³

The authors made it clear that they viewed the waging of currency warfare as an approach to hasten the end of the war. If successful the “run-away inflation and weakened Nazi controls in Germany will lead to chaotic internal conditions resulting in a collapse on the home front and an earlier termination of the war.”³²⁴ The only hurdle was to get approval from the Secretaries of State and the Treasury (who had earlier been opposed to such plans), and then to move forward with the plan.

The plan to wage currency warfare against Nazi Germany by counterfeiting the Reichsmark was never implemented, although evidence suggest that the OSS did ask their British counterparts for samples of their German currency printing plates. Major Alcorn (An OSS agent responsible for “Special Funds”) approached Wing Commander John Venner who was tasked with the “obtaining of all foreign currencies for the British and American Air Forces and British Intelligence Services” among other government agencies, Venner played ignorant and demanded to know from who the OSS had obtained the notion that the British had such plates?³²⁵

³²³ Ibid, Page. 4, Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³²⁴ Ibid, Page. 4. Special Plan for Inflating the German Currency” submitted 18 February 1944. RG 226 Entry UD 144 Field Station Files, Box 21, NARA, College Park, Maryland

³²⁵ The letter is dated March 21, 1944 and is addressed to “Dear 1006” and written by agent “One twenty-eight” which is a code number for a particular agent (although we do not know who this agent may be at this time), but is someone perhaps associated with the planning group which developed the Special plan for Inflation German Currency.” The letter begins by saying that “Sometime (original spelling) ago we asked our London Office to send us samples of German bank notes of several denominations. We wished whatever issue of the Reichsbank which were obtainable, as well as those of the Rentenbank and the Reichscreditkassen. From the attached you will learn our views as to the safe usability of the issues of the respective banks.”

Winston Churchill famously said that the truth was so important that “it should be guarded by a multitude of lies.” (Check quote). Even at this stage in the war, the holding of plates to produce forged enemy currency was seen by some as a secret to be guarded, even when it came to their closest ally. There was natural skepticism to Venner’s ignorance over Britain’s ownership of the printing plates. In March 1944 agent 1006 was instructed to continue to work with British authorities to ascertain the existence and the plates for the counterfeiting operation. As the letter indicates “We would request you to be guided by this request, since we believe that Venner will attempt to obtain as much information as possible from his co-workers in the field who might consult you,” but the original letter (which has not been found) also indicated the concerns over full-disclosure of the operation. The letter says that “While we are anxious to share our knowledge with the British, we do not think it good business to show this letter.”³²⁶ Such is the nature of waging clandestine currency warfare.

The Pangburn Proposal (July 1944)

Further evidence demonstrating that the counterfeiting campaign was not approved is that in July of 1944, a month after the allies had cross the channel and landed on the beaches of Normandy, and where now bogged down in the regions hedgerow country, William Donovan received another proposal for conducting currency counterfeiting operations against Nazi Germany. Major Clifford H. Pangburn of the U.S.

³²⁶ Ibid, Letter to 1006 from 128 dated March 21, 1944.

Army Air Corps wrote to Donovan of his “suggestions for possible development by the Office of Strategic Services” of a plan to counterfeit German currency.³²⁷

Major Pangburn did not know that his plan was less than original writing that “It is a well-known (original spelling) fact that increase in money in circulation and hence in purchasing power contributes to inflation.”³²⁸Pangburn’s idea was to have the Bureau of Printing and Engraving to produce “a great quantity of counterfeit German paper currency” which “should be so perfect as to paper, engraving and all other characteristics that experts could not distinguish it from bonafide (original spelling) German issues.”³²⁹Pangburn again promoted the popular mean of distribution of having currency rain from the sky, courtesy of the U.S Air Force, over German cities. If this plan was successful, Pangburn reasoned, “It would result in a spending spree that would cause great confusion” of which the Germans would have “to recall outstanding issues and provide new currency,” which would create further hardships for the German government.³³⁰In other words if the German government was forced to call in its issued

³²⁷ Letter addressed to Major General William J. Donovan by Clifford H. Pangburn, Major, Air Corps dated July 6, 1944. RG 226 Office of Strategic Services, Entry# UD 92 COI/OSS Central Files 1941-1946, Box #555, Folder 15. NARA, College Park, Maryland

³²⁸ Ibid, Letter addressed to Major General William J. Donovan by Clifford H. Pangburn, Major, Air Corps dated July 6, 1944.

³²⁹ Ibid, Letter addressed to Major General William J. Donovan by Clifford H. Pangburn, Major, Air Corps dated July 6, 1944.

³³⁰ Ibid, Letter addressed to Major General William J. Donovan by Clifford H. Pangburn, Major, Air Corps dated July 6, 1944. Pangburn writes that “The currency should be patterned after the latest type found on German prisoners. On every bombing mission large volumes of this counterfeit currency would be dropped over cities and other heavily populated areas. The currency should be crumpled and treated to look as if it has been in circulation for some time.” And that “If this procedure were carried out systematically, it would result in a spending spree that would cause great confusion. The only remedy for the Germans would be to recall outstanding issues and provide new currency. This would be a formidable operation and could not be efficiently carried out in time to prevent important repercussions from the sudden appearance of the new money.” (Incidentally, if we recall from chapter three, calling in outstanding currency notes is what the United States was forced to do in 1779 when the British counterfeited the Continental Dollar which is tantamount to a successful example of currency manipulation directed against an enemy).

notes because of fear over its value, such a refutation of their currency would be detrimental to their ability to maintain effective functions of governing and be unable “to prevent important repercussion from the sudden appearance of the new money.”³³¹

At this point it would be unsurprising if readers did not interpret the Pangburn proposal as yet another plan, in a long series of similar plans (this would constitute the eighth plan for counterfeiting either German or Italian currency), to subvert the German government by undermining the value of their own currency. However, the Pangburn proposal is not insignificant because we know that William Donovan had Pangburn’s proposal and an adjoining report which further shines light on why the United States did not implement a currency counterfeiting campaign against the Germans.

The adjoining report which William Donovan is reported to have had with him when reading over Pangburn’s plan, reveal that the plan for disseminating forged currency from the air had reached high levels of debate and frustration among those who viewed such a plan as impractical and unethical.

The report’s title “General Plan for Morale Operations Against Germans as Holders of Cash” indicates that the plan viewed the targeting of Germany’s money as motivated by undermining the moral of the German people—in other words, subversion. The authors of the report, whose name(s) have been lost to history make the case that such a plan is not only impractical but unethical, if not downright immoral. They write that “objections to this project take the following lines. Dropping money is not a moral or proper way to fight a war and is in the same class as gas.” There was also the continuous

³³¹ Ibid, ³³¹ Ibid, Letter addressed to Major General William J. Donovan by Clifford H. Pangburn, Major, Air Corps dated July 6, 1944.

concern over retaliation by the Germans against the British and their own people for using the forged notes.³³²

1945: One Last Attempt at Currency Warfare

From the beginning of January 1945 until Nazi Germany's surrender on May 7, the war in Europe experienced its final destructive events. By January 1945, Germany's last major offensive in the West, what has come to be known as the Battle of the Bulge, had been won by the allies, but at heavy costs. The early months of 1945 would see the Western Allie's attention now turn to the securing the final defeat of Germany in the West by invading the Third Reich itself. This however, was to be no easy undertaking. The Germans, although greatly depleted in men and material, and with Allied superiority in the skies, continued to resist the Allied armies with, in some cases, fanatical determination. It would not be until March 1945 that the American Army crossed the Rhine River, Germany's last major natural obstacle in the West, at Remmagen. Further north the British and Canadian Armies pushed into Germany's Ruhr region, attempting to destroy that countries large industrial centers. Heavy, house-to-house fighting would be seen in and around the ancient city of Aachen, where a large German army had been surrounded. It would not be until the end of April that American and Soviet forces, approaching from the East, and at that time preparing for the final assault on Berlin, met on the Elbe River, severing Germany in two. Germany, its cities destroyed, its Fuhrer

³³² Document titled "General Plan for Morale Operations Against Germans and Holders of Cash," dated 6 July 1944. RG 226 Entry UD 144, Box 33. Field Station Files, Folder 208. National Archives, College Park, Maryland.

dead at his own hand, and now largely occupied by foreign armies sued for peace on May 7, 1945.

The final months of the war, particularly the period between the Battle of the Bulge of December 1944 and Germany's surrender in May 1945 may appear from the distance provided by time that the war seemed all but won, the war's quick and successful conclusion preordained. This is not how it felt to soldiers on the ground, nor to those who belonged to the O.S.S. Even at this stage of the war, members of the O.S.S saw the potential for waging currency warfare against Nazi Germany as a way to bring the war to a successful conclusion and save American lives.

The final proposal for waging currency warfare against the Nazi's was presented on January 29, 1945. The plan was to again produce a fiat alternative German currency as a way to undermine the regimes by placing doubt into the minds of Germany's military that the war was lost. However there were important differences that distinguish this last attempt from previous ones. Whereas previous plans to counterfeit German currency where expressed in broad subversive terms aimed at crippling German society as a whole, this particular plan was directed specifically at the Wehrmacht itself! These particular banknotes would serve not only as legitimate currency which would maintain its value after the war, but more pressingly, serve as a direct appeal to German soldiers to abandon the fight by promising safe conduct into captivity and a promise to return home after the war.³³³

³³³ Banknote Project, January 29, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote.

This Banknote Project was proposed by Elbert Baldwin, who was working with anti-Nazi German's who were called Sauerkrauts, proposed the following plan combining both white and black moral operations to undermine the will to fight of German soldiers.

According to Baldwin:

“This project take the form of a simulated banknote, printed front and back. (What soldier will let a piece of money lie or, if it is given to him, will ever throw it away as long as he thinks that it may have value?)”

But as Baldwin continues, this was to be no ordinary banknote, it was, as he put it

“3 things in 1.”First:

“The back of the note constitutes, first of all, a safe-conduct through partisan country and the allied lines to the nearest, allied “Meldestelle” or outpost where “volunteer prisoners” can report. (The word “prisoner,” voluntary or otherwise, is avoided throughout, in the wording of the note).

“Secondly, the back also constitutes what might be called a “priority certificate” (Bevorzugsrecht) in point of (a) postwar return home as well as (b) an exemption certificate from forced labor abroad after the war (the dread of every Germany soldier, say the Sauerkrauts).

Lastly, on its face, it IS a banknote in that, after the armistice, it is, according to (original misspelling) immediately exchangeable for food and goods stamps to the value of \$100.”³³⁴These notes were to be directed at undermining the German army by targeting German soldier directly. The banknotes would be “designed to make the man feel” that this piece of paper would provide a means by which the individual soldier could leave his unit with promises of humane treatment and avoid destitution after the war.³³⁵Naturally, Baldwin reasoned, many German soldiers might view this as a trick, which is why he envisioned through radio transmissions, and other forms of communication, to inform the German's of this alternative fiat currency “all advising German soldiers that clandestine distribution of these banknotes is being made and stating that they are no trick.”³³⁶This particular means of sowing doubt in the German soldiers mind was preferable to other forms of moral operations because “without the banknote, MO (Moral Operations) would be without its “news peg” and a double one, namely using the note as occasion for further propaganda and further, building up the effectiveness of the note by countering distrust as briefly suggested...”³³⁷

³³⁴ Banknote Project, January 29, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote, Page. 1.

³³⁵ Ibid, Page 2. January 29, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote

³³⁶ Ibid, Page 2. January 29, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote

³³⁷ Ibid Page. 4 January 29, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote

Baldwin also personally sketched out what these banknotes would look like (see appendix) but there is no evidence to indicate that the plan was orchestrated. The reasons why the plan was not implemented are given in a subsequent follow up report written in mid-February 1945, and titled “Banknote Project Reversed” in which an Eddy Zinder did not approve of the idea. The reasons are as follows:

“1) Defeat its own purpose as far as the average German soldier is concerned. That is, he thinks the German soldier will feel, “Do they think they can BUY my surrender?” Instead of luring him, the banknote, Zinder thinks, will instead arouse his self-respect and hostility, let alone distrust”

and,

“2) Such a “banknote” would give German counter-propaganda concrete opportunity for a blast along such lines as, “

Our enemies, failing to win the war with arms, are now trying to BUY victory” They are sneaking over a fake banknote into our lines, promising \$100. To every German soldier who surrenders...but valid only when he surrenders! Is there a man who cannot see through a transparent trick like that? Do you suppose a single one of these banknotes, presented by a German deserter, will ever be honored? Let him present one, and himself. Our enemies will laugh and tear up the scrap of paper in his face. That will serve him right, too.”³³⁸ Furthermore, Zinder believed, the Nazi’s would invoke patriotism and use it as a means to distinguish the Nazi’s from the capitalist Western allies who thought in terms of money alone. Zinder believed Nazi propagandist would say “But our plutocratic enemies, unable to fight as men, would buy a victory, which they cannot win with honor, by corruption and with their filthy Jewish wealth.”³³⁹

Ultimately, a rather chagrined sounding Baldwin writes “Eddy thinks that the proposed banknote would boomerang upon us both in its effect upon the individual German soldier and still more in the handhold it would afford German counter-

³³⁸ Report from Elbert Baldwin to Eugene Warner regarding the response to his Banknote idea from Eddy Zinder titled “Banknote Project Reversed” in which he outlines why Zinder thinks the idea is a poor one. Dated February 10, 1945. RG 226 Entry 144 Box 87 Project MTO Banknote

³³⁹ Ibid, RG 226 Entry 144 Box 87 Project MTO Banknote

propaganda for a really effective blast.”³⁴⁰ However, Eddy provided a potential way forward for Baldwin’s idea. What if the banknote was made to appear as originating from the Nazi party itself rather than from the Americans?

From this approach, German soldiers would lose faith in the Nazi party itself because “just as our proposed banknote might afford a hand-hold for German counter-propaganda, this “Nazi banknote” would afford us a propaganda opportunity of demeaning the Nazi party in the eyes of the Germans and of showing-up to what desperate means they have been forced to resort.”³⁴¹ Presumably, the reasoning went, that this banknote would be interpreted by the German soldier, who knowing the war was lost, would use the note to surrender and then become part of a post-war Nazi underground movement, which itself would be demoralizing.³⁴²

The idea to create an alternative fiat German or Nazi banknote was considered feasible, when taking into account Eddy’s objections. Ultimately, Baldwin indicates that this idea was sent up the chain of command “to discuss the relative merits of both of these bank-note ideas” and that maybe a “better idea may develop from such discussions.”³⁴³

There is no evidence to indicate that the proposal was approved and implemented. Given the previous and more sophisticated analysis that went into the previous proposals to create counterfeit currencies, it seems unlikely that this version would be approved.

³⁴⁰ Ibid, RG 226 Entry 144 Box 87 Project MTO Banknote

³⁴¹ Ibid, RG 226 Entry 144 Box 87 Project MTO Banknote.

³⁴² Ibid, RG 226 Entry 144 Box 87 Project MTO Banknote

³⁴³ Ibid, RG 226 Entry 144 Box 87 Project MTO Banknote

However, this final proposal to wage currency warfare is instructive for the following reasons.

First, the context in which this proposal was made shines light on how the existing threat environment prompted the consideration for the creation of an alternative propaganda fiat currency. The discussion of the post-war world indicates that the end of the war seemed probable, and that the moral of the German soldier was hard pressed and thus susceptible to this particular type of moral operation. If successful, this could lead to fewer German soldiers facing the allies reducing the potential costs of lives and shortening the war.

Second, although the strategic motivation is one of subversion, in this particular case the object of coercion is the German army directly, and not the civilian population as in earlier plans. There is no discussion of the potential vulnerability of the German financial system in this proposal as in the one's considered on previous occasions, especially those of 1944. At this point, the Reichsmark was practically worthless for all intents and purposes, and so creating inflation may not have factored into the analysis. But the creation of fiat currency was a way of transmitting information into German soldiers themselves, a form of information warfare in which easily recognizable banknotes could be used to signal that the end of the war was near so why continue fighting for a lost cost?

Finally, the idea that a fabricated bank note could be created in order to embrace the Nazi party was just another attempt and using monetary instruments to undermine the legitimacy of the enemy. This time, rather than counterfeiting a Reichsmark to create

inflation which would than undermine the Nazi's legitimacy, the O.S.S planners conceived of a banknote which would signal to their soldiers that the war was lost and to prepare for some form of resistance after the war, which would instill further hostility towards the Nazi regime itself—from the O.S.S perspective. The overall lesson to be learned from this final and eighth attempt at currency warfare was to demonstrate the versatility in which monetary instruments can be conceptualized as weapons being adaptable to changing security conditions and strategic considerations.

Conclusion: Why There Was No Currency Warfare Against Germany

From 1940 through 1945 there were no less than eight proposals to wage currency warfare against the Axis currencies in Europe. These proposals were the result of first, the growing threat to American national security presented by Nazi aggression in Europe and its early success in the war which placed Great Britain as the final independent country in Europe capable of fighting the Nazi's and thus maintaining the war away from American soil. The threat to the United States would escalate once Germany declared war on the U.S on December 11, 1941 and which would continue until Germany surrendered in May of 1945.

Second, all the proposals were conceptualized and motivated by a strategy of subversion. Waging currency warfare by counterfeiting currency in most cases was motivated by the belief that doing so would undermine the Nazi and Italian regimes from within. By causing monetary inflation which would undermine the purchasing power of individuals, and the regime itself, and thus instilling doubt in the minds of the German and Italian people that their government was losing control of its monetary policy would

result in diminished governing legitimacy undermining the moral and support for the war. It was to be subversion on a large scale.

Third, even though the first proposals to wage currency warfare against Germany and Italy were made before the United States official entry into the war, the objections first raised in 1940 by Treasury Secretary Morgenthau and his British colleagues remained fairly constant through the war, although evolving in sophistication. But as the preceding pages show, the decision to wage currency warfare against the European Axis powers could have gone either way. Policy makers debated the cost/benefit analysis of waging this particular form of warfare, with arguments made for and against it, with many arguing that the benefits outweighed the costs. Ultimately, the arguments that waging currency warfare would (1) create the possibility for German monetary retribution against Great Britain, (2) that the logistics, quantities, and means of distributing sufficient counterfeit currency against Germany and Italy was unavailable, and (3) that it was unethical to counterfeit currency because of the harm it would cause non-combatants, and its seemingly immoral nature carried the day against waging currency warfare against the Axis in Europe. That the British abandoned its ethical restraints sometime in 1942, and that the most sophisticated and engaging debate regarding the counterfeiting of Reichsmarks occurred while the Allies were bombing German cities and in preparation for the cross-channel invasion of France indicates that the intensity in which the ultimate decision makers held their views against waging currency warfare. Ultimately, the implementation costs of waging currency warfare in Europe were just perceived as too high by American policy makers.

And yet in the Pacific, American policy makers *did* wage currency warfare against the Japanese on multiple battlefields and on a wide scale. As with in Europe, the decision to wage currency warfare against Japan was the result of security threat posed to American interest before December 7, 1941 and then after Japan's attack on Pearl Harbor and its rapid conquest of much of the Pacific and Asia. Furthermore, the decision to wage currency warfare in the Pacific was motivated by a strategy of subversion to undermine Japanese authority in occupied territories from China, Indo-China, the Philippines, and Malaysia, and to the Japanese home islands towards the end of the war. As in Europe, the O.S.S would take the lead, although General MacArthur would also wage his own currency warfare against Japan, in formulating and arguing for the counterfeiting of Japanese currencies. However, unlike in Europe, the O.S.S in the Pacific *did* wage currency warfare by counterfeiting. As we will see policy makers in the Pacific perceived counterfeiting as a mostly legitimate means by which to wage war, overcoming arguments against conducting this particular form of war. It is to the Pacific War that we now turn to.

Case II, Part I Currency Warfare Against Japan

The waging of offensive currency warfare against Japan was the result of the Japan's aggression against the United States and other powers in the Pacific. The strategic mission given to the O.S.S of subverting the Japanese authority in the occupied territories, and overcoming the implementation costs to waging currency warfare, was as we have seen authorized by Roosevelt. Central to overcoming the implementation costs was the mindset of the O.S.S officers who viewed currency warfare as a legitimate means

by which to take the war to the Japanese. Facilitating this view was the overall limited oversight of the O.S.S in the Pacific which gave O.S.S agents and other military units the freedom to implement this controversial form of warfare.

On December 7, 1941 the Japanese attacked Pearl Harbor, Hawaii and the United States officially entered the Second World War. The attack against the U.S. Pacific Fleet at Pearl Harbor was but one part of a much wider campaign of conquest in the Pacific by the Japanese Empire. Japanese forces invaded Malaysia, Thailand (known as Siam), Hong Kong, and the Philippines, and other European and American territories in the Pacific. The American Battleship fleet was crippled, but its vital aircraft carriers were, fortunately not at Pearl Harbor and were thus saved from destruction. Admiral King who assumed command of the U.S. Fleet shortly after the disaster would say that “the way to victory will be long. The going will be hard. We will do the best we can with what we’ve got. We must have more plane and ships at once. Then it will be our turn to strike. We will win through—in time.”³⁴⁴

Although Admiral King’s words would be prophetic in the long term, from December through May of 1941 the strategic objective in the Pacific, from the American, British, Dutch, Indian perspective’s was to check the Japanese advance if possible, and more importantly—to survive. It was under these conditions that the decision to wage currency warfare was approved. Stanley Lovell, who in his memoirs *Of Spies and Stratagems*, and who was recruited by William Donovan to lead the research unit within the O.S.S remembered that it was in 1942 when Franklin Roosevelt gave the secret, and

³⁴⁴ Costello, Joh, *The Pacific War*, (New York: Rawson, Wade Publisher’s, Inc. 1981), 187. For a history of the Japanese offensive in 1941 and into 1942 See Costello’s chapter’s nine and ten.

non-written go-ahead order to begin counterfeiting operations against the enemy. When the United States entered the war it's clandestine and intelligence gathering services were far behind any of the other major powers already in the war. In July of 1941 Franklin Roosevelt, seeking to correct this deficiency, had appointed William Donovan to be the Coordinator of Information (COI) and was tasked with engaging not only in intelligence collection and analysis but in engaging in "black" and "subversive" operations.³⁴⁵

³⁴⁵ Sacquety, Troy J., *The OSS in Burma: Jungle War against the Japanese*, (Lawrence, Kansas: University of Kansas Press, 2013), Page. 13

Table 4. The United States and Currency Warfare in Asia and the Pacific

Currency Warfare Plans against Japan	Decision Makers	National Security Threat	Strategy of Subversion	Implementation Costs	Outcome
1942-1945 Burma, Thailand, China, Malaysia	William Donovan, Stanley Lovell, Col. Eifler, (O.S.S), Goodfellow	Yes: At War Considerations: Japanese conquest of Pacific and Asia	Yes: Directed against Japanese Occupation Governments	Low: Considerations of acquiring sufficient material and distribution	Implemented
1943-1945 Philippines	General Douglas MacArthur (Southwest Pacific Area command)	Yes: At War With Japan Considerations: Part of MacArthur's plans to retake Philippine Islands	Yes: Directed Against Japanese Occupation Government	Low: No real considerations expressed other than acquiring materials for counterfeiting	Implemented
1944-1945 Dutch East Indies	O.S.S	Yes: At War with Japan Considerations: Japanese occupation of Dutch East Indies	Yes: Directed Against Japanese Occupation Government	Low (but debated) Consideration: Dutch Approval	Implemented
1943 (Japanese Imperial Yen)	O.S.S	Yes: At war with Japan Considerations: O.S.S Mission to China	Yes: Directed Against Japan's Central Reserve Bank of China	Initially Low but later High Consideration: Feasibility of using forged notes because of Japanese prohibitions against Yen being used in China	Implementation: Initially yes, but subsequently stopped
1943 (Japanese Yen by Submarine)	O.S.S	Yes: At War With Japan	Yes: Directed Against Japan	Unknown evaluation but no evidence, and taking into account other explanation probably not feasible	Not Implemented
1944-1945 Plan to Drop Forged Yen from the Air	O.S.S, U.S. Federal Reserve	Yes: At War and contemplating invasion	Yes: Directed against Japan	High: Concerns include morality, feasibility of introducing sufficient notes to cause inflation	Recommendation: Not to Implement Not Implemented
1945 Propaganda Notes/Rhetoric Campaign	O.S.S/MacArthur's Command	Yes: At War and contemplating invasion	Yes: Japanese Government	Low (but no evidence of deliberation)	Implemented Rhetoric (Unknown)

To Donovan, the strategic objective of the OSS was “increasing the enemy’s misery and weaken his will to resist.”³⁴⁶ However, although the director of the COI and later OSS he was to be administering an organization fighting a war on two fronts, Donovan spent much more time overseeing European operations when compared to those in the Pacific (citation). Donovan’s greater focus on the European theater than on the Pacific reflected the position of the Allies in early 1942, which was to consider Nazi Germany as a greater threat than Japan. Thus, the Grand Strategy of the Allies (American and British) was to hold the Japanese, while a massive military buildup would begin in the United Kingdom for the eventual invasion of Europe.³⁴⁷ Reflecting on the significance of the Arcadia Conference historian John Costello wrote that “Most important of all, the Allies were committed to the Atlantic First objective of defeating Hitler—at the expense of an improvised strategy to meet the continuing Japanese advance in the Far East.”³⁴⁸

Allied Grand Strategy and the Early Decision to Counterfeit Japanese Currency

The Europe First strategy would be sustained even after events in the Pacific were reaching its nadir. By February Java and Hong Kong had fallen to the Japanese, and on February 15 Singapore too fell. Winston Churchill, who had promised Roosevelt that

³⁴⁶ Ibid, 14

³⁴⁷ See Chapter 10 in John Costello’s *The Pacific War* in which at the allied conference in December 1941, code named Arcadia by Winston Churchill the Allies agree to a defensive posture in the Pacific while they focused on offensive operations against Germany. Costello, Joh, *The Pacific War*, (New York: Rawson, Wade Publisher’s, Inc. 1981)

³⁴⁸ Ibid, 201

Singapore defense could withstand a six-month siege were proven hollow. In the Philippines the American and Filipino forces would soon be pushed off the Bataan Peninsula and onto the Island Fortress of Corregidor in Manila Harbor fighting until early May of 1942. In March and April the Japanese had pushed into Burma severing the Burma Road and the West's land route into China. India was threatened.

Although the decision to wage currency warfare was made in 1942 it would not be until 1943 that a currency warfare campaign would be launched. Several factors seemed to have informed this delay. First, Even though the Japanese expansion had been halted at the Battle of the Coral Sea in May 1942, and the Japanese had suffered a crippling defeat at the Battle of Midway a month later, it was not until November 1942 that the United States was able to launch its first real offensive in the Solomon Islands, in around Guadalcanal. For most of 1942 the security environment was dictated by defensive survival strategy not an offensive one.

More importantly, even though it took the Americans time to get organized and prepare offensive operations, the task of counterfeiting the numerous types of Japanese currencies proved to be rather difficult. Counterfeiting currencies is a difficult undertaking. The proper paper must be found, the plates upon which the forged currencies are made must be exact (including the measurements). Furthermore, the appearance of the currency notes must be made to appear as they had been in circulation and not new so as to avoid immediate suspicion. Ultimately, counterfeiting is an artistic balancing act seeking to produce a currency note which will evade notice by most, except government professionals. Currency warfare via counterfeiting will work if people can't

recognize the difference between an authentic or illegitimate bill, which will cause suspicion in the currency and difficulties for the enemy's government. This was to be a recurring theme from 1942 through the closing months of the war.

It was against this backdrop that the COI would begin its clandestine operations and adopt the policy of waging currency warfare against the Japanese. The currency warfare campaigns would stretch from China to the Dutch East Indies, from Indo-China to Japan, and play an important role in General MacArthur's return to the Philippines in late 1944. On the whole no less than five separate Japanese occupational currencies would be targeted by the O.S.S through counterfeiting them. From the perspective of currency warfare the war in the Pacific and Asia constitutes the longest and most expansive currency battlefield in history.

Currency Warfare 1942-1943: Developing a Strategy of Subversion

As we saw previously, the authorization to counterfeit Japanese money in the Pacific (both occupational currencies and Yen notes) was given in 1942 following America's entry into the war on December 7, 1941. But even though Roosevelt had given his authorization many problems confronted William Donovan in the early months of 1942, some of those directly related to the concept of waging currency warfare. In addition to building an organization from the ground up, one without precedent in American history, developing and defining the new organizations strategic and operational doctrines, recruiting men and gathering materials, perhaps the most important question confronting the Coordinator of Information was what exactly made the COI and later O.S.S different from other organizations gathering materials for counterfeiting

currencies, and deploying men and material the most important question confronting the Coordinator of Information, and soon after, the O.S.S was what exactly would be its strategic mission and how did it differ from other organizations like the Board of Economic Warfare?

Much like today, economic warfare was generally understood to be the practice of depriving the enemy of war materials (e.g. raw materials) and of the obtaining of those materials for one's own side, and gaining an economic advantage over your rivalry. But conceptualizing economic instruments (like currencies) as something to be weaponized for purposes of attacking the enemy and viewing its economic consequences as a means to an end rather than as an end in itself met with resistance early in the war. Because of this, William Donovan in February of 1942 (the same month he proposed counterfeiting the Italian Lira to destabilize Mussolini), wrote to Franklin Roosevelt to clear up the conceptual challenge and outlined what made weaponization of economic instruments different from those of traditional economic warfare.

As Donovan put it to Roosevelt, "I spoke to you some months ago of the fear I had that there would be a tendency in certain quarters to eliminate our Economic Section because of a seeming duplication with the work of the Board of Economic Warfare."³⁴⁹ Donovan pointed out that although there was overlap in the gathering of economic intelligence the reason the COI would need its own economic department was because its strategic rationale was different than the Board of Economic Warfare. As Donovan put it:

³⁴⁹ Memorandum for the President, From William J. Donovan, Dated February 2, 1942; PSF: OSS Reports 1/26-2/7 (1942) Box 147 (Report Numbers 187-223), Franklin Roosevelt Presidential Library, Hyde Park, New York

“The distinction between the economic work of the Coordinator’s Office and the economic studies of the Board of Economic Warfare does not turn primarily on the character of the materials which are studied or on the area of the world which is covered. The distinction is based fundamentally on the nature of the operating functions which are served by the information collected in the two agencies.”³⁵⁰

The fundamental difference from Donovan’s perspective was that:

“The operating function of the Board of Economic Warfare is, speaking generally, the denial to the enemy of supplies which are necessary or useful to him, and the securing to the United States of supplies which are necessary to us and to our allies...the operating functions by the information assembled in the Coordinator’s Office are (1) *psychological warfare and sabotage* (my italics) in enemy territory- functions which are located in the Coordinator’s office.”³⁵¹

The President agreed and in so doing Donovan achieved an important conceptual victory for the new clandestine organization. Donovan clearly viewed his work and that of his agents and those of economists rather differently, going beyond the idea that economic warfare was about gaining war supporting materials at the expense of the enemy, and conceptualizing economic instruments (including currencies) as a means to undermine the moral and legitimacy of the enemy.

In the Pacific, as well as in Europe, America’s clandestine services were motivated by a strategy of subversion. As one report titled “Summary of Proposed Psychological Warfare Undertaking in East Asia” indicates the OSS was to establish bases in Australia to which they were “to carry on subversive activities designed to harass the enemy, including physical and morale subversion and black propaganda.”³⁵²Black

³⁵⁰ Ibid, Page. 1

³⁵¹ Ibid, Page 2

³⁵² Report titled “Summary of Proposed Psychological Warfare Undertaking in East Indies.” RG 226 Entry 92, Box 578, NARA, College Park, Maryland.

propaganda was the more sinister form of psychological warfare involving the clearly unlawful and perceived sinister means of conducting warfare. As one report put it the list of “black’ Operations” included:

“Bribery and subsidies, blackmail, *counterfeiting of currency* (my italics), ration cards, passports, personal papers of enemy prisoners or dead, rumor, abduction, chain letters, poisoning...assassination by suggestion or agents, illness and epidemics by suggestion or agents, and divers manipulations such as black market in neutral countries, etc.”³⁵³

However, the implementation of a currency warfare campaign was a difficult undertaking and would take some time. Although the authorization to wage counterfeit currencies was given in 1942 it would not be until 1943 that the proper samples of the various Japanese currencies, the plates, the correct fibers, and the number of productions would be ready for deployment. These problems were exacerbated because of the multiple currency warfare campaigns which were occurring simultaneously in the Pacific. There were at least five currency warfare campaigns being implemented on an ongoing basis throughout the Pacific. From China, to the Burma-India-Thai-Siam theater of operations (generally described as Indo-China) to Malaysia, and the former Dutch Colonies, and the Philippines.

Currency warfare was implemented by OSS units such as Detachment 101 on the Indo-China front or assisting the British Force 136 in Malaysia. In the Philippines, the prerogative of General MacArthur’s Southwest Pacific Area (SWPA) both the OSS and MacArthur’s own units were the ones tasked with waging of currency warfare.

³⁵³ History Project, Strategic Services Unit, Office of the Assistant Secretary of War, War Department, Washington D.C., with an introduction by Kermit Roosevelt, *War Report of the OSS (Office of Strategic Services)*, (Walker Publishing Company: USA, 1976), Page. 213.

Furthermore, although initially being motivated by a strategy of subversion, the counterfeiting of currencies also had a benefit that the most efficient way of introducing the replicated notes into Japanese occupied territory was for agents to use them as a means of purchasing materials thus solving the issue of lack of official currency. We now turn to those campaigns to see how the strategy of subversion was conceived and how decision makers debated whether or not to implement those campaigns.

The China-Burma-India (CBI) Theater: Detachment 101

Although the authorization to counterfeit Japanese currencies was given in 1942, it would not be until 1943 when the counterfeit currencies would be deployed on the battlefield in South East Asia and the Philippines. One of the first units to deploy counterfeit Japanese occupation currency was Unit 101 operating in the India-Burma Theater led by its aggressive Colonel Carl Eifler who had no qualms about counterfeiting the enemy's currency. Carl Eifler's background and career before the war molded him to view currency counterfeiting as a viable means of war, and would differ significantly from those from the financial sector who viewed such acts as illegal and unethical. To Eifler the reasons that would be cited by officials in the Treasury Department against counterfeiting—that it was an unethical, illegal, immoral practice, was for Eifler the reasons why it *should* be done.

Before the war, Carl Eifler had been a Los Angeles police officer, and worked at a customs agent on the U.S.-Mexican Border, engaging in what amounted to intelligence gathering operations in Mexico where he witnessed in the 1930's a growing presence of Japanese. Shortly after the attack on Pearl Harbor, Eifler was contacted by Colonel

Goodfellow in 1942 (who the previous December had been relayed the proposal to counterfeit German currency, but had jokingly dismissed the plan) informing him that he was being appointed to the Coordinator of Information, and that he would be dispatched to the Far East and be under the command of legendary commander Joseph Stillwell.³⁵⁴ By March Eifler was given his marching orders, principally to lead a group of men to sabotage the Japanese in China. As Eifler recalled understanding his mission as engaging in “assassinations, forgery, robbery, and the like” overcoming his reservations, the result of his law career and embracing his military instinct that order were orders and he would carry it out to the fullest.³⁵⁵ The mission of the COI at this point was to gather intelligence and “to manufacture propaganda for use in enemy-occupied countries...anything that would hurt the enemy was fair game.”³⁵⁶ It was the “propaganda branch” (later renamed the Office of War Information, or OWI) which would attract the individuals who devise weapons for purposes of subversion. As Eifler’s biographer recalls “the talents of a man dedicated to justice, fair play, and law enforcement turned 180 degrees.”³⁵⁷ From now on, Eifler’s

“Skills developed in ferreting out the most clever smugglers were combined with those same illegal tactics to develop ideas to harass the enemy. For the duration of the war there was no such thing as honesty, integrity, or even decency. The rules of warfare were to be abolished for this organization. The thin veneer of civilization was set aside, and the code of the troglodytes was reinstated.”³⁵⁸

³⁵⁴ Moon, Thomas, and Carl f. Eifler, *The Deadliest Colonel: OSS*, (New York, NY: Vantage Press, Inc. 1975), Page. 31

³⁵⁵ Ibid, 37

³⁵⁶ Ibid, 38

³⁵⁷ Ibid, 38

³⁵⁸ Ibid, 39

What this meant in practical terms was that “ideas that might have been suggested before but rejected as too foul were brought back for reexamination” and those who could engage in previous criminal activity, like forgeries, were recruited.³⁵⁹ Once in Burma Eifler’s altered ethical perceptions were applied to the waging of currency warfare against the Japanese. The Japanese as recalled earlier were the first to implement currency warfare in their wars in China, and in their offensive campaign in the Winter and Spring of 1941-1942 deployed occupational fiat currencies while at the same time outlawing the national currencies of the states they conquered as part of their campaign to establish Japanese sovereignty in those countries. In Burma, the Japanese used their new legal tender to build relationships and undermine British rule issuing what can be described as promissory currency notes which served as currency. For Eifler and Detachment 101 Japan’s new Burmese money presented an opportunity to wage currency warfare. The OSS after capturing samples of the money “flown to Washington, and counterfeited by the hundreds of thousands.”³⁶⁰ The counterfeiting of Japanese-Burmese currency “was deemed so important that OSS purchased a paper mill to make sure they got the right paper.”³⁶¹

Colonel Eifler, and his Detachment 101 began operating in the China-Burma-India Theater in 1942 because it was one of the few areas in which the COI and later OSS could find a role for itself in the war. At some point in 1942 (the precise date is not known) Eifler began counterfeiting Japanese occupied currencies from India. By the end

³⁵⁹ Ibid, 39

³⁶⁰ Ibid, 144

³⁶¹ Ibid, 144

of 1942 the OSS was fighting in really the only theater it was allowed to do so, and with little resources and men devoted to it. It would take some time for the unit to get firmly established, have its operational jurisdiction established, which in the early months constituted practically all of the Asian mainland occupied by Japan, and finally begin waging war against Japan.³⁶²Eifler made the decision to counterfeit Japanese Burmese Rupee occupation currency in 1942 (although when exactly remains uncertain). The counterfeiting campaign would last through the remainder of the war and the forged currency notes solved two operational challenges for the OSS. First, the idea of targeting currencies by counterfeiting was motivated by a strategy to subvert the Japanese quest to establish sovereignty in the occupied territories, and second, by giving the spurious money to its agents to operate behind enemy lines and for those agents to use the fake money allowed for the OSS to carry out its operations while at times being short of funds, and being the primary method by which to insert forged currency into the Japanese occupational economies. It was a win-win proposition for Detachment 101 and the OSS in general.

However, the beginning of the operation indicated some of the challenges faced by Eifler and the OSS in counterfeiting Japanese currencies. The primary challenge was the quality of the fabricated currency notes, specifically, could they fool the everyday person or Japanese soldier enough for the currency to be effectively disseminated. As Eifler himself put it in January 1943 “Counterfeit money that I have made over here

³⁶² For an excellent study of the OSS in Burma and the Indo-china region, especially in its early phases of the war see Troy J. Sacquety’s *The OSS in Burma: Jungle War against the Japanese*, (Lawrence, KS: 2013), Chapters 1-2

(India) although it would pass the inspection of the average laymen, would not pass the inspection of an expert and I consider it too dangerous to allow my agents to use it.”³⁶³His initial request of 20,000 Burmese Rupee notes would be approved (the first of many orders) but it would take some time to produce the requested amount.

The decision to counterfeit the Japanese currencies in 1942 had the approval of Donovan, Dr. Lovell, and most certainly other high ranking officials including General Stilwell and Magruder’s. There is little evidence (other than Eifler’s memoirs that he initially viewed such a practice as criminal but ultimately necessary to win the war) that much thought was given to the question of whether counterfeiting currencies *should* be done. Rather the OSS files reveal concern more for overcoming the implementation cost (i.e. cost in production and delivery) with no mention of potential blowback economic effects, although those would surface towards the end of the war years after the currency warfare campaign had become a consistent feature of the war in the Pacific and Asia.

But those concerns were in the future. The immediate objective was to produce sufficient quantities of the requested currency notes, deliver them to Eifler and other units, and begin the process of distribution behind enemy lines. The problem was that the original ‘merchandise’ produced by the OSS was not done well. The problem reached William Donovan in early May of 1943. In an official dispatch Donovan writes the following to his group in Karachi:

“Production Merchandise referred to our #50 March 4th Unsuccessful. We need about 100 Samples Each of all types your letter January 26th. Also about 100

³⁶³ Letter to Colonel Ellery Huntington, Office of Strategic Services, Washington, D.C. Dated, Subject: Request for Counterfeiting of Money,” 26 January 1943. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

additional samples merchandise your letter February 17th. There's must be as clean as possible. Under no circumstances folds or perforates.

Regret delay exceedingly. Do you wish to give us a new priority for manufactured schedule?"³⁶⁴

This was not the only dispatch the Director of the OSS sent on May 6, 1943 demonstrating that the counterfeiting of currencies was a significant operation for the agency in South East Asia. In a subsequent dispatch, Donovan request for samples of "Jap Money used in China" but also "Bank of Japan Currency."³⁶⁵

In the meantime frustration with the lack of produced merchandise was becoming heard within the OSS. The request for perfect bills from the field had resulted in a frustrated Eifler crafting a request that would be seen by Donovan and others, that "he was not a magician" which in turn was interpreted as unnecessary "sarcasm" by Davis Halliwell who was coordinating the counterfeiting operation from the top.³⁶⁶ Ironically for Eifler who had previously worked for the U.S. Treasury as a customs official, and his previous police work was familiar with the criminals who had forged American dollars in the past saying that "names and locations of these individuals could be gotten from the files of the secret service units and the Treasury Department." We can imagine what the Treasury Secretary, Henry Morgenthau, response was. However, Eifler's request reached

³⁶⁴ Office of Strategic Services, Official Dispatch from Director, Office of Strategic Services to Aitken, Karachi, dated May 6, 1943. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

³⁶⁵ This Official Dispatch is from the "Director, Office of Strategic Service" but was written by R. Davis Halliwell, Lt. Commander, USNR. In this document it becomes clear that the William Donovan who was the Director of the OSS placed much importance to the counterfeiting operation. It also demonstrates the ongoing and potential for multiple currency counterfeiting fronts, including Japanese Yen notes itself. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

³⁶⁶ Letter to Allen Abrams (Acting director of OSS Research and Development, OSS) in which Halliwell quotes Eifler saying that "he was not a magician" and that the tone was "sarcastic." Dated May 13, 1943. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency). Eifler had sent a terse one sentence response saying that "I am not a magician with reference to your number 93." Dated May 10, 1943.

the highest levels within the OSS although we cannot be certain that the Treasury Department or any other organization released former criminals to join the OSS, a response to Eifler of which Donovan was included in the list of those to receive the communication indicates that the OSS now has the means by which to produce the forged notes and that “we have conducted delicate and extensive negotiations with very high authorities and have emphasized your needs.”³⁶⁷

Eifler’s January (1943) request was not the only counterfeiting operation which had reached Stanley Lovell’s desk. Lovell had also been in correspondence with Donovan, and other OSS officers about producing Japanese Yen. It was no easy task to fabricate one currency let alone Eifler’s request for Japanese Burmese Rupee’s. The question pressing on Lovell’s mind was not about whether to do so but how to do it? In February of 1943 Stanley Lovell wrote to William Donovan on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries.” Just as he would argue in the Europe for counterfeiting German Marks, Stanley Lovell saw no reason why the Japanese currencies could not be targeted. Lovell went straight to work on producing the “merchandise” which was code for the counterfeit currency.³⁶⁸ For Lovell the challenge was in getting enough counterfeit currency notes to his units in the field, which was well beyond Eifler’s original request for Burmese Rupee. Lovell informed Donovan that,

“Since the Office of Strategic Services is directed to conduct Psychological Warfare, it is deemed a vital function to furnish our agents with

³⁶⁷ This correspondence is between Colonel Eifler and Hoffman dated May 11, 1943 where Eifler request for the hiring of counterfeiters to do the job, and the response that indicates, or at least suggests, that his plan was taken to Donovan and others dated May 13, 1945. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

³⁶⁸ In the correspondence between OSS officials the term “merchandise” was used as a code word for the counterfeiting of Japanese currencies. RG 226 Entry 92, Box. 525

adequate enemy paper money and documents. For example, Japanese occupation money (samples attached) is vital to operations in Occupied China.”³⁶⁹

The problem was that although his “office is equipped to produce this money” it “is unable to procure the raw fibers used by the Japanese in making their currency paper.”³⁷⁰ What Lovell needed was a special type of “fibre ingredient” found in Japan called “mitsumata” which the O.S.S had thus far been unable to duplicate.³⁷¹ Although some quantities of this fibre was available it was surely not enough, and even though the United States had imposed price controls and began to regulate the American economy for purposes of war, it was a still a market economy and he was concerned that “any attempt by us to buy up these desired papers will start a run by speculators and will divert these stocks to non-essential issues.”³⁷² Lovell recommended that all “enemy-controlled” paper which originated from the enemy be frozen. Lovell would also begin to researching how “to produce the nearest equivalent paper made from all American fibre.”³⁷³

³⁶⁹ Interoffice Memo from Stanley P. Lovell to Colonel William J. Donovan, on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries,” Dated February 19, 1943. OSS Classified Sources and Methods Files “Withdrawn Records” Wn13216-WN13250, WN13376-WN1338. RG 226 Entry A1-201, Box 327.

³⁷⁰ Interoffice Memo from Stanley P. Lovell to Colonel William J. Donovan, on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries,” Dated February 19, 1943. RG 226 Entry A1-201, Box 327

³⁷¹ Interoffice Memo from Stanley P. Lovell to Colonel William J. Donovan, on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries,” Dated February 19, 1943. RG 226 Entry A1-201, Box 327.

³⁷² Interoffice Memo from Stanley P. Lovell to Colonel William J. Donovan, on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries,” Dated February 19, 1943. RG 226 Entry A1-201, Box 327

³⁷³ The complete paragraph from the Lovell to Donovan memorandum cited here reads as follows: “This office is equipped to produce this money but is unable to procure the raw fibres used by the Japanese in making their currency paper. Specifically the principal fibre ingredient is “mitsumata” fibre which is indigenous to Japan. The “feel” tear-strength and printing quality of this paper has not yet been duplicated by employing American fibres. There exist in American warehouses a small quantity of imported Japanese paper made from misumata fibre. These paper stocks can be reworked and rebeaten and will then furnish a currency paper of satisfactory quality. Many of these papers may be usable just as they are.” Interoffice

My March, however, Lovell and the OSS were devoting considerable energy and resources to gathering samples and preparing for production. In addition to the proper paper fibers, the OSS had to produce the exact printing plates for the production of the currency, and consider even the exact weight of each fabricated note to match that of the original samples. All this would take time, an estimated three months.³⁷⁴

The plan to fabricate the multiple Japanese currencies was well underway by the summer of 1943, but it was taking time, and it would not be until July that we have indication that Eifler received his “merchandise.” According to Halliwell, Donovan had done what he could to rush the printing job to deliver Eifler his requested funds from the beginning of the year, “expediting as much as possible the request for the rush printing job of fifty items.”³⁷⁵ “The complex job” of fabricating Japanese Burmese Rupee’s was well underway by mid-1943 and by August Stanley Lovell could write Halliwell that the ‘merchandise’ was its way to Eifler.³⁷⁶ By the end of 1943 and into 1944 the O.S.S was counterfeiting Japanese occupational Thai (Siamese) currency known as Bahts, Burmese

Memo from Stanley P. Lovell to Colonel William J. Donovan, on the subject of “Freezing of Paper Stocks Made in Enemy-Controlled Countries,” Dated February 19, 1943. RG 226 Entry A1-201, Box 327

³⁷⁴ Correspondence between S.P. Lovell, Lt. Col. Reddick, and Comdr. Halliwell indicates that considerable time, resources, and thought was given to the counterfeiting of Japanese currencies. By March 23, 1943 a “Report on Japanese Currency” had been produced by Commander Halliwell of 30 samples of currencies had been analyzed including the size of the bill, weight of printed bill, paper, how many bills produced per ream, and value of bills in ton which they estimated at .23 cents per yen. Furthermore, Halliwell writes on March 30, 1943 that authorization was given to produce the fabricated notes. In a memorandum to Lovell Lt. Commander Halliwell writes that “Now as to the specific merchandise, we have discussed this matter with Mary also, and he is agreeable to having you proceed with that specific merchandise designated by Lt. Colonel Halcomb of the Marine Corps in his conversation with yourself and Colonel Reddick.” RG 226 Entry 92, Box 525 (COI/OSS Central Files 1941-1946).

³⁷⁵ OSS Official Dispatch dated June 3, 1943 from Halliwell saying the following that “...General Donovan, we are expediting as much as possible the request for the rush printing job of fifty items,” saying that it will take “two months” if not longer because the “job is extremely complex.” RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

³⁷⁶ Letter from Stanley P. Lovell to Comdr. Halliwell, on the subject of “BA Merchandise” Dated 25 August 1943, saying that “Subject Merchandise is now ready to deliver to you upon your execution of a receipt.” RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

Rupees, Malaysian Straights Dollars, Central Reserve Bank of China Notes, Dutch Guilders, and Japanese Imperial Yen.

By 1944 counterfeiting operations would expand to the Dutch East Indies where the occupational Guilders would be fabricated and with the help of their British counterparts the SOE better duplicates of Thai currencies would be produced in London and sent to New Delhi for distribution.³⁷⁷ As 1944 progressed, the OSS was waging currency warfare across the Pacific and South East Asia. However, the idea of waging currency warfare by counterfeiting Japanese currencies was not the sole prerogative of the OSS. General MacArthur, who had wanted nothing to do with the OSS would also wage currency warfare against the Japanese and the Philippines.

General MacArthur and Currency Warfare

The decision to implement a currency warfare campaign against the Japanese Occupation Currency in the Philippines originated in 1943, once the islands had fallen, and Douglas MacArthur had been appointed Supreme Commander, South West Pacific Area. MacArthur had left the Philippines in April of 1942 before the Island fortress of

³⁷⁷ For evidence indicating the counterfeiting of Malaysian Japanese currency see Memorandum from Eifler to Hoffman of 5 October, 1943. For evidence of manufacturing Thai Bahts see Memorandum from Lt. Charles N. Fisher to Commander A.B. Leggett dated 26 November 1943. For evidence of counterfeiting the Siamese Bahts see "Memorandum for files" dated November 20th 1943 and letter to Mr. J. M. Scribner from J. Freeman Lincoln regarding the production of "Siamese merchandise" Dated 6 December 1943. Also, by December 14, 1943 Stanley Lovell was receiving request to counterfeit Indo-China Money: 2 twenty Piastre notes, 2 Five Piastre Notes, 2 One Piastra Notes, and 2 Fifty Cent Notes (Memorandum dated 14 December 1943). By 1944 the OSS production of counterfeit currencies was well underway and in cooperation at some levels with the British in producing Thai notes (see Memorandum to Files from Charles N. Fisher, 15 April 1944). By 1944, Lovell reports that 100,000 of Thai Bahts were to be shipped to Lt. Col. Heppner and that there would probably be no need to produce local "Bangkok t type" notes which were of inferior quality (See Memorandum by Charles N. Fisher 8 June 1944). Furthermore, by January 1944 Eifler was receiving his flow of counterfeited Burmese Rupee notes, 85,000 10 unit denomination notes (see Memorandum dated 29 March 1944 with title of "BA Merchandise." Which says that Eighty-five thousand (85000) notes of 10 unit denomination were shipped to Colonel Carl A. Eifler, U.S. Military Headquarters, Calcutta, India on 29 January 1944. RG 226 Entry 92 (COI/OSS Central Files 1941-1946) Box 525 (Japanese Currency).

Corregidor had fallen. The waging of currency warfare in the Philippines was conceived as a means to assist in fulfilling his promise to “return” to the Philippines.

By 1943 the Japanese had established their own currency as the only legal tender in the Islands. This fiat currency was unbacked by gold and produced in large quantities which made them a tempting target. Colonel Parsons of MacArthur’s SWPA command, and undoubtedly with the General’s permission, raised the idea of waging currency warfare in the Philippines. The following memorandum written in September of 1943 deserves being quoted at length as perhaps the only source directly attributed to a Military Commander outlining the waging of currency warfare by counterfeiting. Parson’s begins by describing the potential currency battlefield:

“We now have a full line of the Jap currency in circulation in the Philippines. While recent reports indicate that a serially numbered series has just been or is about to be issued, our information is to the effect that there is (of the notes of which we have specimens) from one to two hundred million pesos already in circulation.

There are areas of the Philippines under enemy occupation in which it is unsafe to use anything but this Jap currency. It may be that such a condition will exist in CEBU if the enemy succeeds in overpowering all organized guerilla resistance. In such areas, our efforts, without a supply of the currency in use, will be materially handicapped if not rendered completely impotent.”³⁷⁸

³⁷⁸ General Headquarters Southwest Pacific Area, Memorandum titled: “Procurement of Jap Currency” dated 26 Sept. 1943. RG 16.B63.F5 “P.R.S Admin., Aug-Sept. 1943.” General Douglas MacArthur Memorial Archive, Norfolk, Virginia

Because of this, Parson's argued that General MacArthur would perhaps in some future moment decide to wage currency warfare as a means to subvert the Japanese government on those islands. Parson's writes:

“It is, furthermore, possible that the C-in-C may at some time find the ability to destroy the enemy's economic hold on the Islands through the carefully planned and systematic injection of large amounts of enemy currency therein, a strong weapon to rely upon—a double edged weapon with which he could provide the only possible aid to people in occupied areas, while, at the same time, gradually rendering the spurious currency (which we have repeatedly and publicly repudiated) on which the enemy has built its economic hold, worthless.”³⁷⁹

Parson's recommended asking for authorization from Washington and for the printing of Japanese Occupation Money in the amount of ten million Pesos which would “held by this headquarters” and “subject to such use as the C-in-C may from time to time determine upon.”³⁸⁰ MacArthur's request was approved quickly by the Joint Chiefs of Staff (Original request was written on September 26, 1943 and approved on October 1, 1943), with the caveat that the printing of the currency notes “be handled by a U.S. agency” specifically, the G-2 (Military Intelligence).³⁸¹ The task of producing the fabricated Japanese money fell to Stanley Lovell and the OSS.

By this time Stanley Lovell, who William Donovan had asked to head the OSS Research and Development department went to work. But the request from MacArthur's headquarters was easier said than done. In his memoirs, *Of Spies and Stratagems*, Lovell recalled that “We knew how extremely difficult it was to manufacture the money, even

³⁷⁹ Ibid, Memorandum titled: “Procurement of Jap Currency” dated 26 Sept. 1943. RG 16.B63.F5 “P.R.S Admin., Aug-Sept. 1943.” General Douglas MacArthur Memorial Archive, Norfolk, Virginia

³⁸⁰ Ibid, Memorandum titled: “Procurement of Jap Currency” dated 26 Sept. 1943. RG 16.B63.F5 “P.R.S Admin., Aug-Sept. 1943.” General Douglas MacArthur Memorial Archive, Norfolk, Virginia

³⁸¹ RG 16 B63. Folder 6 “P.R.S Admin, October 1943). General Douglas MacArthur Memorial Archive, Norfolk, Virginia

with the proper Japanese fibers on hand” with “the “banana tree” engraving on the bills was of the most intricate and involved piece of art work, and the issue had several color engravings.”³⁸²

Adding to the difficulties was that the Japanese had implemented a policy of stamping currency with a particular mark linking the money with a particular area of the Philippines. Because of this policy, if a currency note was stamped in Davao for example, but used in Manila, the person carrying the note would be arrested on the spot, and thus endangered American agents or those loyal to the American cause. From an implementation cost perspective, it added a new layer of difficult in the mass production of currencies.³⁸³

However, the costs and difficulties of producing Japanese currency, including the finding of sufficient paper (which former Supreme court Justice James Byrnes assisted in locating)³⁸⁴ was created in such quantities that “a large cargo plane” filled with these notes was flown to MacArthur’s headquarters and distributed there.³⁸⁵ MacArthur soon had his agents in the Philippines distributing these notes. Perhaps the principle method of disbursement of the counterfeited Japanese money was through the landing of American

³⁸² *Of Spies and Stratagems*, 26-27

³⁸³ Lovell writes that “Even more baffling was the fact that all Japanese money in the Philippines was surcharged or over stamped to identify the particular city or district in which, alone, it was valid as money. This was almost ingenious method of immobilizing the entire population and controlling all travel. If a bill marked or surcharged for Davao were offered in payment in Manila, its possessor was arrested at once and force to explain what he was doing, and why he was in Manila. Each Filipino was frozen in his two nor city as completely as if Barricades surrounded him. This curtailment of travel made MacArthur’s organization of any resistance forces all but impossible.” From *Of Spies and Stratagems*, Page. 27

³⁸⁴ *Ibid*, 26

³⁸⁵ Lovell writes that “We engraved a quantity of money sufficient to fill a large cargo plane, the currency being surcharged in direct proportion to the last population census. The precious stuff was delivered to MacArthur and distributed by his staff to the Philippine underground. We were justly proud of our job. The fibers were crisp kudsu and mitsumata, the inks had identical fluorescence under ultraviolet light and all secret marks were exactly duplicated.” *Of Spies and Stratagems*, Page. 27

agents on the islands via submarine. There were several submarines whose purpose was “to run supplies, gear, insurgents, and spies into the Philippines for the duration, part of MacArthur’s plan to support the guerillas and pave the way for retaking the archipelago...”³⁸⁶One such mission included an American named Chick Parsons who in November of 1943 was landed with “a contingent of commandos” in Paluan Bay.³⁸⁷In addition to unloading Parsons and the commandos, the submarine also delivered “counterfeit Japanese occupation currency, which would buy supplies for the guerrilla operations, counteract inflated prices for food and supplies, and undermine attempts to regulate the economy.”³⁸⁸

In addition to MacArthur’s counterfeiting operations, Americans who had remained in the Philippines after the surrender of Corregidor and who had hidden Filipino silver pesos also engaged in currency warfare to subvert the Filipino puppet government and their Japanese overseers. Just before the surrender of Corregidor, about \$8.5 million worth of silver pesos were hidden in the surrounding water to avoid the treasure’s falling into Japanese hands. Eventually, some Americans retrieved the silver pesos and used it on the black markets, which “Chinese money changers” were more than happy to exchange “Dai Nippon’s occupation currency for genuine silver pesos.”³⁸⁹The silver pesos served to “undercut the Japanese yen” and eventually as historian William Breur writes “so much silver got into circulation in Manila that the rate

³⁸⁶ Eisner, Peter, *MacArthur’s Spies: The Soldier, the Singer, and the Spymaster who Defied the Japanese in World War II* (New York: Viking Press, 2017), Page. 191

³⁸⁷ Ibid, 190-192

³⁸⁸ Ibid, 192

³⁸⁹ Breur, William B. *MacArthur’s Undercover War: Spies, Saboteurs, Guerrillas and Secret Missions*, (Edison, NJ: Castle Books, 2005), 70. For a complete story of this event see chapter seven.

of exchange fell to thirty to one and few wanted any part of the Japanese occupation currency.”³⁹⁰By saving the silver pesos and introducing them into Manila the American’s had effectively manipulated the Japanese exchange rate and undermined their attempt at establishing monetary sovereignty on the islands.

Currency Warfare Against the Yen and in China

As MacArthur’s campaign in the Philippine’s was approaching its climax with American forces bitterly engaged in the fight for Manila beginning in February, in China the OSS was preparing to open a new front in the war against Japan’s occupational currencies. China was the first to experience currency warfare by the Japanese when after the invasion of China in 1937 the Japanese established a competing Chinese Bank known as The Central Reserve Bank of China which issued its own ‘Chinese Yuan ‘making the official Chinese National currency illegal in Japanese occupied territory, and was used to undermine the sovereignty of the Chinese State. In 1943 the Japanese began a counterfeiting campaign against the Chinese National currency for the intent purposes of destroying the Chinese monetary system and subverting its legitimacy.

In the late 1930’s both the United States and Great Britain implemented a defensive currency campaign by purchasing silver to bolster the Yuan which was under attack by the Japanese fiat currencies issued by The Central Reserve Bank of China. As the United States officially entered the war, the OSS targeted the Japanese Imperial Yen in China but it appears that a campaign to target the Japanese produced fiat currency in China was not implemented until 1945 (further research may change this analysis). As

³⁹⁰ Ibid, 70

1945 began the OSS began to consider implementing a campaign of subversion by targeting the Japanese currency in China.

The counterfeiting of Occupied Chinese currency known as the “Green-goods” project was approved by Col. Richard P. Heppner of the OSS in China for the purpose of conducting moral operations (MO) and by his superiors in Washington D.C.³⁹¹The reason for counterfeiting the ‘Occupied-China currency’ as Paul Adams (MO Chief) explained was so that Detachment 101 could use the “currency” in “occupied areas by agents for “business” purpose, buying up supplies to keep them out of Jap hands, paying off stooges, and generally for disrupting the economy of certain target areas.”³⁹²As with the other counterfeiting operations, one of the central problems was having samples that were in sufficiently good condition to replicate. By late February both impediments to the implementation of the counterfeiting operation had been overcome. Approval was given from Washington and the OSS was able to produce the forged Occupied Chinese currency.

As the Adam’s memorandum indicates, the OSS Moral Operations was tasked with an overall mission to undermine the moral of the Japanese and one way of doing so was by attacking their currencies. The question of how to insert the spurious currency in

³⁹¹ Letter regarding “Green-goods” Project, from Lt. William L. Magistretti to Capt. Charles E. Shrewsbury, dated 5 February 1945 which says the following: “1. Col. Richard P. Heppner, Strategic Services Officer for the China Theater, has agreed that the “Green-goods” Project, referred to in the enclosed memorandum from Paul Adams, may be used by MO if clearance can be obtained from C & D in Washington. It is our understanding that this “Green-goods” Project is already en route to the Special Funds Officer, Kunming. Your early help in obtaining this clearance would be most appreciated. It is understood that the currency would only be used for the purpose outlined in Mr. Adams’s memorandum.” RG 226 Entry 92 Box 602: COI/OSS Central Files 1941-1946. NARA, College Park, Maryland.

³⁹² Ibid, The memorandum by Paul Adams sent to Lt. Magistretti, Chief, MO Production Unit, OSS Su Det. 101 APO 465. We can infer that the counterfeited currency would be used by Detachment 101 which had already been using counterfeited Japanese Occupational currencies in Burma, Siam, and Thailand.

Japanese occupied China was solved by giving the “currency” to OSS agents who would pass it off as ‘real’ money thus not expending American or allied funds, and more importantly undermining the Japanese economy in China. Further the OSS’s counterfeiting campaign also incorporated a rhetorical campaign against the Central Reserve Bank Notes by stamping subversive messages on the currencies. These subversive messages include: “those who really love their motherland will never let reserve notes circulate in our market” and “He who expects poverty and bankruptcy, reserve puppet money.” Other messages on the currency reads “The reason why the Japanese issue these reserve notes is to catch our legal tender and valuable goods” and that “if reserve notes be accepted as money, ghost money and toilet paper could also be used as paper money.” Finally, one other inscription reads that “the war has entered its last stage and it has already been obvious which party is going to win. Better get rid of reserve notes you have in your possession for goods and materials and ship them to a safer FREE CHINA.”³⁹³ Playing to a Chinese sense of patriotism other propaganda currency notes read “The Japanese aim of issuing puppet money bills is to (unreadable) blank paper to exchange our National currency and material.”³⁹⁴(I can insert pictures of these currencies in the final project)

³⁹³ Samples of Central Reserve Bank of China bank notes with subversive messages stamped on them have been found in RG 226 Entry 144 Box 109: Field Station Files (MO Production THRU Propaganda Handbills China). These bills found are also highly similar if not identical to those found in RG 226 Entry A1 99 Box 87 with an attached report dated September 1, 1945 which reads that “PYTHON reached tis base at Hanching 25 July and by the 5 August had dispatched agents to cover the general area and had established on the spot production of a subversive nature.”

³⁹⁴ Sample currency with propaganda messages to accompany the notes. RG 226 M 2108 A1 Entry 93 Sample Bach 10, Roll 5.

By April of 1945 the OSS counterfeiting operation was in full swing. However, there was disagreement with the British, who were also party to the counterfeiting operation, most likely as part of Operation Greenville the British (later joined by the American OSS) to counterfeit Japanese currency, disagreed on whether the implementation costs, specifically the time, cost, and effort warranted further counterfeiting of the “Federal Reserve Chinese notes (puppet government notes).”³⁹⁵ As one rather frustrated but determined American agent put it the “British have the plates and samples but will not produce because they do not consider operational value of sufficient urgency to establish top priority for production” which the British believed would take nine months to implement.

We do not know why the Americans asked for British help considering as the agents knew that the Americans had been producing the Reserve Bank notes before because as the document indicates “Venner again questioned status CRB notes which he believes we are making since he furnished original plates last May.”³⁹⁶ Either way, the Chinese Reserve Bank Notes were fabricated and used in China (even if the British ultimately did not assist or where at a minimum hesitant to do so). What the counterfeiting operation against the Occupied Chinese currency indicates is that the decision to ultimately engage in that type of warfare came down to whether the implementation costs could be overcome, and if the benefits outweighed the costs associated with the plan. As in other cases, there was not a uniform consensus (in this

³⁹⁵ Top Secret Memorandum from ALCORN to REHM dated 24 April, 1945. RG 226 Entry A1-211 Box 6 (Withdrawn Records, OSS, Classified Sources and Methods).

³⁹⁶ Ibid, Top Secret Memorandum from ALCORN to REHM dated 24 April, 1945.

case between the American and British allies) as to whether the counterfeiting plan should move forward, with the Americans ultimately deciding that it should.

In addition to counterfeiting the numerous Japanese Occupational Currencies across the Pacific and South East Asia, the OSS also waged currency warfare against the Japanese national currency itself—the yen. This fact is important because an argument could be made that it is less unethical, or problematic from political or economic considerations to counterfeit new fiat currencies used in the conquest and occupation of countries than long legally established currency. If we recall from the European discussion, American policy makers did have ethical qualms with counterfeiting *Reichsmarks* in addition to the empirical debates about how much forged notes needed to be produced to cause inflation and whether such notes could be delivered from the air. As we shall see the discussion in Europe were similar to those in the Pacific. Unlike in Europe, did counterfeit the Japanese national currency on more than one occasion. However, there were at least four proposals to counterfeit the Yen to undermine the Japanese government with at least two plans being implemented one at the beginning of the war and one towards the end. Examining this currency warfare episode allows us to examine how perceptions of implementation costs were discussed in regard to waging currency warfare, and how they initially stopped the initial plan and resulted in serious debate about whether it could and should be done in the invasion of the Japanese home islands. We now turn to this story.

As we read earlier, Stanley Lovell was given authorization to manufacture forged Japanese currency in 1942 and he had faced early difficulties in acquiring the proper

paper and materials used by the Japanese to create credible fabricated notes. In addition to overcoming the material challenges with fabricating Japanese currencies, Lovell and the OSS had also overcome the concerns of Henry Morgenthau and the Treasury Department to move forward with the plan. The secrecy of the operation continued well into 1943 restricting the plans details even with the British.³⁹⁷ But by August of 1943 when the OSS was turning out counterfeit Burmese notes, the OSS had to decide on whether to continue counterfeiting Japanese Yen for use in China.

In 1942 the United States had signed intelligence sharing agreement with the Chiang Kai Shek known as the Sino-American Cooperative Organization (SACO). By 1943 the monetary situation in China was being further aggravated by the Japanese policy of introducing new fiat and counterfeit currencies in China. Captain Miles (USN) who used the pseudonym Mary in his correspondence with Donovan and other OSS officials, reported that as of August 13 “three different kinds puppet money in use since my trip Washington” which in “four months value of puppet dollar decreased in value from two dollars Chinese to between sixteen and forty cents Chinese according to section of country.”³⁹⁸ Because of the rapidly depreciation of the currency, Mary advised further

³⁹⁷ Letter from R. Davis Halliwell to J.M. Scribner on the subject of “Merchandise” dated September 10, 1943 in which Halliwell writes that “I informed Major Leonard that while I have not had an opportunity to discuss this matter with your highest echelon, I had been informed by Stanley Lovell that it was questionable whether or not any complete disclosure could be made because of the objections of the Treasury Department and other governmental agencies in the highest echelons which had provided us with the necessary promises.” It is unclear exactly which currency is being discussed here, but it is in the collection of OSS records which discusses Japanese Currency generally, and which includes discussion over counterfeiting Japanese occupational currencies in Burma, Thailand, Malaya, Siam, and the Japanese Imperial Yen. We can assume that the letter was referring to all forms of currency counterfeiting operations. RG 226 Entry 92, Box 525 COI/OSS Central Files 1941-1946 (Japanese Currency)

³⁹⁸ Document dated 13 August 1943, RDH from Mary (Captain Miles) reporting on the depreciation of Japanese introduced currencies. RG 226 Entry 92, Box 525 COI/OSS Central Files 1941-1946 (Japanese Currency)

duplicating the puppet Japanese currency but “also against more duplication Japanese Imperial Yen since restrictions of use make it extremely hazardous.”³⁹⁹

Mary’s analysis of the monetary situation in China led to him advising that efforts should be directed at providing Eifler with the necessary merchandise because of “(A) the use it may be to us and our friends for actual purchases (B) the effect that potential dilution of enemy’s system will have when as and if it is desirable to proceed along this line.”⁴⁰⁰The same day that Halliwell received Mary’s analysis he forward the recommendation to Stanley Lovell. Paraphrasing Mary Hariwell writes that “Samples which we have tried to secure from the Coast take so long in getting to Headquarters that it is reported they are obsolete before arrival.” Furthermore, Halliwell informs Lovell of the multiple implementation costs facing the OSS in China because of the Japanese ability to refute their own currency and make it difficult to keep up with new denominations. Halliwell writes:

“Since Mary was in this city, the provisional government set up by the enemy has used three different kinds of merchandise. Its value deteriorates rapidly, recent samples decreasing in value from two dollars Chinese equivalent to between forty and sixteen cents Chinese, dependent upon in which area. Accordingly Mary advises against work in this line. He further advises the merchandise used in Burma, Siam, and Indo-China will not be available for several months. Mary advises against duplication of the enemies’ Imperial merchandise because its dissemination makes its use extremely hazardous. He further states that occupational merchandise is now illegal in the theater in which he is operating and it has been withdrawn.”⁴⁰¹

³⁹⁹ Ibid, Telegram dated 13 August 1943.

⁴⁰⁰ Letter from Miles to Halliwell dated August 16, 1943. RG 226 Entry 92, Box 525 COI/OSS Central Files 1941-1946 (Japanese Currency)

⁴⁰¹ Letter from Halliwell to Lovell, Subject: Merchandise dated August 16, 1943. RG 226 Entry 92, Box 525 COI/OSS Central Files 1941-1946 (Japanese Currency)

Mary's recommendation to stop the counterfeiting of Imperial Yen in China because of the numerous implementation costs the OSS is indicative of the challenges facing currency warfare campaigns. First, there was the problem of securing the samples and producing them in time to be introduced into the battlefield with sufficient time for the Japanese to not alter the currency, or refuting existing notes, making those already fabricated worthless. This second challenge was the result of the Japanese exercising their territorial sovereignty in occupied China decreeing what currency was legal tender and which was not. The ability to decide what constitutes legal currency was an important weapon to blunt the counterfeiting campaign against the Japanese. But as with other forms of monetary power, the fiat Japanese puppet currency also quickly depreciated to the point that, as Mary saw it, fabricating further currency was unnecessary or would be a waste of resources to produce paper currency whose value was already significantly diminished. Efforts could be devoted to other areas where the currency warfare operations would have a greater chance of success, mostly in Burma where Eifler's Detachment 101 was in the first stages of deploying its counterfeit currency. The implementation costs of 1943 was sufficient to put a stop to the counterfeiting of Japanese Yen.

But by 1944 another plant would be introduced with the target being not the monetary system in China but that of the Japanese home islands themselves. The plan and the subsequent debate that would ensue over the plan to inflate the Japanese Yen was practically identical to the similar plan to inflate the German Mark in the same year. Just as in Europe, we see that that the plan to target the Japanese currency was motivated

by the existing war environment and by a strategy of subversion. Ultimately the decision to implement the plan came down to the perceptions of the implementation costs and if the benefits of targeting the Yen outweighed the costs (material and ethical) of doing so.

1945: The Plan to Inflate the Japanese Yen from the Air

Shortly after General MacArthur had fulfilled his promise of ‘returning’ to the Philippines and as the American war effort’s was turning to the waging of war against the Japanese home islands, the OSS and its director, General William Donovan and MacArthur’s staff considered plans to implement psychological warfare against Japan by inflating their currency—the Yen both through counterfeiting and a rhetoric campaign. The first plan to undermine Japanese moral by targeting their currency was proposed by General Fellers of MacArthur’s Southwest Pacific Area command.⁴⁰² The plan was practically identical in conceptualization and proposed operationalization as the plan for undermining German moral by inflating their currency through the insertion of counterfeited *Riechsmarks* from the air.

The origins of the plan to wage currency warfare against Japan was taken up by Brigadier General Bonner Feller’s who was MacArthur’s Assistant Chief of Staff and long-term friend. Feller’s had previously worked for the OSS before being retransferred to the Pacific and was leading MacArthur’s psychological warfare operations. We can safely assume that General MacArthur was aware of this proposal and considering his earlier enthusiasm for counterfeiting Japanese money in the Philippines, it is not beyond

⁴⁰² In November of 1944 there was a discussion regarding the waging of psychological warfare against Japan. A report was circulated titled “The Psychology of the Japanese Soldier.” This report has not been located, but is referenced in the correspondence of 11 November 1944 between General Feller’s and William Donovan. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

the possibility that he supported such a plan. Feller's had received a proposal from Colonel John Patton regarding a proposal by a member of his staff suggesting "a possibility of psychological warfare on Japan by means of dropping great quantities of counterfeit currency of all issues so that it's economic structure would be further undermined."⁴⁰³ The plan proposed that smaller denominations be created because it would be easier for the Japanese to pick them and use them without attracting much attention. Colonel Patton believed "the idea has quite a bit of merit."⁴⁰⁴ Whether Patton knew of the counterfeiting operations in other areas of the Pacific by the OSS is not known, but surely Feller's did, and he sent the proposal to his former boss, William Donovan.

When Feller's wrote to Donovan regarding the proposal to counterfeit the Japanese Yen, there was some indication that he already knew Donovan's thoughts on the matter. Fellers writes that he is enclosing a letter (perhaps the one previously quoted) from Colonel Patton "which contains an interesting suggestion" adding that "I am of the opinion that you have taken care of this matter long ago."⁴⁰⁵ Feller's letter was forwarded to Donovan in December saying simply:

⁴⁰³ Letter from John W. Patton to Brigadier General Bonner Fellers, Assistant Chief of Staff, G-5, General Headquarters, Southwest Pacific Command, dated 19 November, 1944. RG 226 Office of Strategic Services, OSS. Washington Director's Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴⁰⁴ Ibid, Letter from John W. Patton to Brigadier General Bonner Fellers, Assistant Chief of Staff, G-5, General Headquarters, Southwest Pacific Command, dated 19 November, 1944

⁴⁰⁵ Letter from General Bonner Fellers to William Donovan dated 24 November 1944. RG 226 Office of Strategic Services, OSS. Washington Director's Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

Attached is a letter from General Fellers, enclosing a proposal for the dropping of counterfeit currency in Japan” and that if Donovan wished to move forward the proposal would be sent to the appropriate departments for evaluation.⁴⁰⁶

Earlier in the war Donovan and the OSS had in fact considered undermining the Japanese economy directly by introducing spurious Japanese notes. The R&D unit of the OSS had in March 1943, when counterfeiting campaigns were in their early stages in Indochina, proposed to “distribute propaganda and large sums of Yen notes to Japanese, Korean, and Chinese fishing junks by means of U.S. submarines in the China Sea.”⁴⁰⁷

Donovan informed Feller’s that he had given “considerable thought to the possibility of promoting inflation in Japan as suggested by Colonel Patton” before. The main obstacle as Donovan recalled was that the amount of currency needed and introduced into Japan to cause inflationary effects was just too large.⁴⁰⁸ But, maybe the situation had changed. Donovan informed Fellers that he had authorized “our people to go over the whole problem again and determine what quantities of currency would be

⁴⁰⁶ Memorandum dated December 1944 to William Donovan. If Donovan was interested the proposal would be sent to the “Planning Staff, the Planning Groups, and MO” for comment. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴⁰⁷ Memorandum Prepared by the Office of Strategic Services: Psychological Warfare Staff titled “List of Proposals Received by Psychological Warfare Staff” submitted to Donovan for consideration. William J. Donovan Papers: Europe, Miscellaneous Group, Volume 27-Book No. 1 J.I.C-C.IC., Miscellaneous Reports, Volume 28-Book No. 2, Box 93A. U.S. Army Military Heritage Center Archives, Carlisle, PA

⁴⁰⁸ Letter from William J. Donovan to Brigadier General Bonner F. Fellers, dated 12 December 1944. Donovan writes that “You are quite right that we have given considerable thought to the possibility of promoting inflation in Japan as suggested by Colonel Patton. One great difficulty is the large quantity of currency to produce the required degree of inflation. I have considerable doubt as to whether anything can be done about it. That was the conclusion at the time we worked on the subject when you were here...” RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

needed and whether or not arrangements could be made for sufficient paper and the engraving and printing.”⁴⁰⁹Donovan also told Fellers that “if the currency can be produced in great enough quantities,” he would ask Feller’s for his help “in determining whether transport can be made available for its distribution.”⁴¹⁰

Donovan did not commit himself one way or another to Fellers proposal and cited his previous reservations of whether sufficient currency could be produced and the difficulty in distributing the currency into Japan (two of the same issues which had been raised in the proposed plan to counterfeit German Reichsmarks). However, Donovan promised to look into the matter once again, and true to his word, sent the proposal to counterfeit Japanese Yen for reevaluation. The report produced is the most complete analysis so far uncovered which evaluates the merits of implementing a currency warfare campaign via counterfeiting in the Pacific.

The other plan was introduced early in August 1945 and required the approval of the Joint Chiefs of Staff. The suggestion was for the OSS to cause inflation through a variety of rhetorical means including the use of “rumors,” and “black radio” which was to “emphasize inflationary meaning of projected new note issue” and “newspaper items and rumors” stating that “all clever people are putting money into tangible goods, as a means of avoiding inflationary loss.”⁴¹¹Presumably, both of these proposals to drop notes from the or to implement a rhetorical campaign against the Yen required approval from the

⁴⁰⁹ Ibid, Letter from William J. Donovan to Brigadier General Bonner F. Fellers, dated 12 December 1944.

⁴¹⁰ Ibid, Letter from William J. Donovan to Brigadier General Bonner F. Fellers, dated 12 December 1944.

⁴¹¹ “Memorandum of Information for The Joint Chiefs of Staff,” 2 August 1945” in William J. Donovan Papers, Miscellanea, Box 121A.

joint chiefs.⁴¹²Evidence suggest that the notes were dropped over Japan but it remains unknown if the rhetorical campaign was implemented or not.

1944-1945 Debating Implementation Costs

The discussion of whether to launch a currency warfare campaign against Japan in the winter of 1944/45 represented a departure from how previous American counterfeiting operations were discussed. Whereas previous discussions regarding currency counterfeiting operations against Japanese currencies in the Pacific and Asia revolved around *how* to implement such a policy, the 1944 proposal against the Japanese yen centered on whether the policy *should* be implemented. The produced report titled “Japanese Currency Inflation” considered both moral arguments against counterfeiting, but also practical considerations of whether such a plan was operationally feasible. Furthermore, the report makes it clear that the Federal Reserve and the Treasury Department had a say in determining whether or not the plan should be authorized, ultimately recommending not implement the scheme.⁴¹³

Two principle arguments were advanced *against* implementing a currency warfare campaign. The first point was an ethical one arguing that counterfeiting the Japanese Yen would constitute a violation of international morality, saying that:

⁴¹² Ibid, Memorandum for The Joint Chiefs of Staff. “Subject: Morale Subversion Activities Directed Against Japanese Resistance to Unconditional Surrender.” Dated 7 August 1945.

⁴¹³ Report titled “Japanese Currency Inflation” written by Kennett W. Hinkes and W. Norman Brown say the following about who was present in the discussion. They write “the proposal emanating from SWPA to impair Japanese economy by introducing into Japan sufficient counterfeit currency to cause monetary inflation has been discussed by me with Mr. E. Martin of OSS/R&A, r. Frank Tamagna of the Federal Reserve System and the PBA, and Mr. F. Stone of OSS/R&D. The General Conclusion of these conversations is that the project is not feasible. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

“According to Mr. Tamagna, no case is known of any government counterfeiting another government’s currency. Such an action would be considered unethical. The U.S. Treasury has refused to endorse any proposal so far presented to it to counterfeit the currency of an enemy country.”⁴¹⁴

Tamagna’s moral and ethical arguments are revealing for the following reasons. First, it provides a window into how certain Treasury and Federal Reserve officials conceptualized the practice of counterfeiting currency as a strategy of warfare. Not surprisingly the practice of counterfeiting which was illegal before and during the war presented an unsavory practice in the minds of those whose task was to defend America’s monetary policy, including the integrity of the currency. Second, if Tamagna’s arguments are sincere (and we have no reason to believe otherwise) it shows a remarkable cloud of secrecy over ongoing counterfeiting operations in the Pacific which by this time had been well underway. Also, we can assume that Tamagna’s declaration that the US has never counterfeited the “currency of an enemy country” maybe an indication as to previous decisions in Europe where there was much more oversight of the OSS than compared to the Pacific. A theme now generally emerges of those whose lives were centered in the financial world differed significantly in their perceptions of the ethics and uses of currency warfare during wartime from those of their military and clandestine service colleagues. Where the treasury officials viewed such a policy as unethical, the military and OSS viewed counterfeiting as a legitimate operation to subvert the moral of the enemy and help bring the war to a speedier conclusion.

⁴¹⁴ Ibid, Page. 1. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

The second objection raised against mounting a currency warfare campaign against Japan via counterfeiting its currency was the material costs associated with the plan, specifically, the ability to produce the proper amount to cause inflation in Japan.

The authors argue that:

“The quantity of counterfeit currency which would be needed to produce any appreciable effect is exceedingly difficult to determine. Mr. Tamagna felt that probably the lowest amount likely to be at all effective would be in the neighborhood of 10 percent of the paper currency in circulation.”⁴¹⁵

Relying on estimates provided by the US Federal Reserve on the amount of Japanese yen currently in circulation between 1939 and 1941, the authors estimated that 50 million worth of fabricated yen would be the minimum threshold required to have an inflationary effect. However, the authors argued that ‘Manufacture of merely this number...would not be sufficient for the proposed project.’⁴¹⁶ The reason was because in the process of introducing the counterfeited notes, which were to be distributed by air, would suffer from attrition and “some notes would never reach land in Japan; others would be seized and confiscated by the Japanese government” and Japanese patriots would simply collective the money and turn them into the proper authorities.⁴¹⁷ Ultimately, the operation could expect, at best, to deliver half of the counterfeited Bank of Japan notes onto Japan which accounting for the fifty-percent

⁴¹⁵ Ibid, Page. 1. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴¹⁶ Ibid, Page. 2. The report based on U.S. Federal Reserve figures argues that “It can be seen that (1) ten percent of the paper currency circulating in 1941 would amount to about 500 million yen; and (2) the best form in which to produce counterfeit currency would be in the Bank of Japan notes or 10-yen denomination, which is by far the most favored. It would be impracticable to counterfeit the 100—yen note, which his large enough to attract attention when offered by people in average economic circumstances. RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴¹⁷ Ibid, Page 2.

attrition would actually mean manufacturing 100 million yen during the initial phase of the plan, which was seen as a long term operation.⁴¹⁸

Furthermore, Japanese wartime inflation, which had reached over 300 percent, would mean that ever more quantities of currency notes would have to be created and deployed to maintain its pressure on the Japanese currency. Also, the policy-makers had to consider the very likely possibility that the Japanese would eventually learn that their currency was being counterfeited, repudiate their former currency design and manufacture a new Yen, making all previous notes illegal tender, thus denying the efforts of the American planners.⁴¹⁹ Interestingly, the authors did not recognize that if this was to happen it would create significant hardships for the Japanese and would be an indicator that the currency warfare campaign was having a success. The actual costs and production capacity was also cited as a reason for not implementing the counterfeiting operation. If the plan was to move forward the U.S. Bureau of Engraving or some other entity, which was “already operating at full capacity” would have to devote time and

⁴¹⁸ Ibid, Page. 2. The authors argue that “It would be necessary, therefore, to manufacture no less than 100 million notes for introduction the first year.” RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴¹⁹ Ibid, Page 2. The authors write that “since inflation is now steadily increasing under control of the Japanese Government, an even larger number would be required in each succeeding year (from June 1941 to July 1944 it is estimated that the number of Bank of Japan notes in circulation increased by over 300 percent – see Japan, Money and banking.” The report continues. “To maintain a continuing program of inflating Japanese money by the introduction of currency, it would probably be necessary to provide for changes in note design. The Japanese government would discover the program, and might endeavor to combat it by changing the design of the notes or their color schemes, so that newly manufactured and fresh appearing notes of old design could be detected more easily.” RG 226 Office of Strategic Services, OSS. Washington Director’s Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

presumably resources to manufacturing the paper used by the Bank of Japan.⁴²⁰In the end, there just wasn't sufficient paper to produce the required minimum amount of currency notes for implementing the counterfeiting operation.

Ultimately the combination of the ethical considerations (specifically the U.S. Treasury's reservations), the unknown likelihood of success, and the actual costs of manufacturing the bills led the authors to recommend that the counterfeiting plan not move forward. It seemed that by early 1945 the plan to wage currency warfare on the home islands, which since 1943 had been discussed was put on the shelf. But this was not the end of the story. It seems that either Donovan or Feller's working for MacArthur decided the objections raised by the report could be overcome. Before the war ended the United States began dropping propaganda leaflets over Japan, of which included propaganda imitation 10-yen denominations (the denomination recommended the December 1944 study). Ultimately, the arguments against fabricating Japanese Yen were not enough to completely prevent a currency warfare campaign against Japan.⁴²¹

⁴²⁰ Ibid, Page. 3. The reports estimates that at current paper capacities only about "7 or 8 tons of paper" could be produced" which would fall short of the 160 tons of paper required for the operation. RG 226 Office of Strategic Services, OSS. Washington Director's Office Administrative Files, 1941-1945. M1642 Roll 89 (Microfilm). NARA, College Park, Maryland.

⁴²¹ Evidence for the counterfeiting of Japanese Yen as propaganda notes is found in Schwan, C. Frederick, and Joseph E. *Boling's World War II Remembered: History in your hands-a numismatic Study*, (Port Clinton, Ohio: United States, 1995), Page. 536. The authors write that "In 1945 U.S. Psychological warfare leaflets were being dropped by the planeload over Japan. Among the most effective were the four printed to resemble the 1930 ¥ 10 note. Each had the same face, with serial number 1123350941, and was printed on light brown paper. Each back bore a different message and a leaflet number."

Overcoming Implementation Costs: The Japanese Guilders

As in the China-Burma-India (CBI) areas of operations the OSS sought to counterfeit the Japanese Occupation Currency in the Dutch East Indies (Indonesia) for purposes of undermining the Japanese occupation there. What makes the targeting of the Japanese Guilder (name of Dutch currency) when compared to the other counterfeiting campaigns is that there was more attention devoted to analyzing the implementation costs, especially the political costs of securing the Dutch Government's permission to introduce forged or "slush" currency as the Americans called it into their colony. It also appears that there was concern within the OSS that the American produced Japanese Guilders were so good that the Dutch government could have, once the war was over and they called in the Japanese occupation currency to replace them with legitimate Dutch Guilders, to have the U.S reimbursement them for their lost wealth. The operation in the Dutch East Indies provides an opportunity to examine the internal debate regarding the counterfeiting of currencies, the sensitive nature of the plan, and how the O.S.S overcame the implementation costs of targeting the Japanese occupation currency. Evidence suggest that the O.S.S was sensitive to how the Dutch government would respond to a potential violation of its sovereignty in its occupied colonies and also wanted to shield the United States from any loss of reputation and monetary obligations after the war..

On December 20, 1941 elements of the Japanese Sixteenth Army invaded the Dutch East Indies. The territory included Java, Sumatra, Borneo and other large islands rich in oil but also other natural resources of great military and economic value to the Japanese. Initial success by the Japanese against the Australian, British, Dutch, and

American (ABDA) forces turned into a long campaign stretching in late 1942.⁴²²In the summer of 1944 as the American and British were counterfeiting currencies in South East Asia India, the Philippines and China, the O.S.S began to counterfeit the Japanese Guilders. Working with their British counterparts the Special Operations Executive (SOE), and with the now experienced OSS able to produce large quantities of currency notes, the OSS believed it necessary to ask for authorization to deploy its “slush” currency into the region.

In July of 1944 At South East Asia Command Headquarters a meeting was held to consider the overall currency situation in the region and on how to move forward with the waging of currency warfare, especially as it pertained to America’s Dutch allies. Ultimately, “it was agreed that O.S.S should secure confirmation that the necessary authority from the Netherlands Government had been secured” to move forward with the operation.⁴²³Joseph Croll the O.S.S Special Fund Manager in the South East Pacific Area expressed bewilderment as to why the United States had to get authorization from the Dutch to counterfeit a currency issued by the Japanese. As Captain Croll informed Emerson Bigelow in Washington D.C who ran the Special Funds branch of the O.S.S out of Donovan’s Director’s office, ‘The Dutch wish the British and us to get permission from them even though it is in respect to the printing of Japanese military occupation

⁴²² For a good brief summary of the campaign see Pages 612-613 in *World War II: The Oxford Guide* (1995) edited by I.C.B. Dear.

⁴²³“Minutes of Currency meeting held on July 1, 1944 in Hut 10B, A Camp, South East Asia Command” Action 3. Reads as “Capt. Croll reported that O.S.S were already working on production of the 10 guilder Japanese note in the U.S.A. It was agreed that O.S.S should secure confirmation that the necessary authority from the Netherlands government had been secured.” Furthermore, O.S.S reported that Siamese Bahts, 1, 5, and 10 would be available from London by the end of the Month. RG 226 Entry 199 Container 277 (Field Station Special Funds Records) NARA, College Park, Maryland.

guilders.” Croll reports that the O.S.S received “verbal permission from the Dutch Government...to print Japanese Dutch Guilders” but that further contact should be made with Garnon Williams, R.N (presumably Dutch Royal Navy).⁴²⁴Emerson Bigelow also agreed that it seemed rather ridiculous to be asking for permission to print a currency that the Dutch were not producing writing before the verbal authorization that “it is...difficult to understand why...it will be necessary to obtain authorization from the Dutch authorities for us to use Japanese made guilder notes currency.”⁴²⁵

What accounted for the necessity to have Dutch authority to counterfeit Japanese Occupational Guilders? As in the case of the Allied produced French Franc in Europe leading up to the invasion of Normandy, which the French government in exile had seen the act as a violation of its national sovereignty, it is entirely possible that similar political considerations were at stake with the Dutch government. With the legal Guilders put out of circulation by the Japanese and a successful campaign to undermine the Japanese currency which replaced it, could leave the post-war colony in dire monetary situation of having worthless currency floating around, not exactly a good foundation for reclaiming a colony. In its broadest sense increased fiat currency and counterfeited bills would only undermine the Dutch authority and power in its Pacific colonies.

⁴²⁴ Letter to Emerson Bigelow, Special Funds, in Washington D.C. from Captain Joseph Croll from Advanced HDQTRS South East Asia Command, dated 21 July 1944. Confirmation by the Dutch government acknowledged in the following portion of the letter which reads “The Dutch wish the British and us to get permission from them, even though it is in respect to the printing of Japanese military of occupation guilders. We have received verbal permission from the Dutch Government through Captain Garnon Williams, R.,N., to print Japanese Dutch Guilders. Captain Williams will arrive in Washington about the first week in August.” RG 226 Entry 199 (Field Station Special Funds), Folder 1574-1583 Bigelow-Currency THRU I-B Theater Monthly Financial Reports, Container 229. NARA, College Park, Maryland

⁴²⁵ Letter to Joseph D. Croll dated July 4, 1944. RG 226 Entry 199 (Field Station Special Funds), Folder 1574-1583 Bigelow-Currency THRU I-B Theater Monthly Financial Reports, Container 229. NARA, College Park, Maryland.

Stanley Lovell, who had played a leading role in the other counterfeiting operations in the Pacific also saw the monetary and political danger of the excellent quality currency notes produced by the OSS. As Lovell recalled the early decision to move forward with the counterfeiting operation that “It suddenly occurred to me that the large amount of Japanese occupational currency we were making for the Dutch East Indies might have a most expensive end result for Uncle Sam, once the war was won and the Dutch government came back in power.”⁴²⁶ The problem was that “It would then be necessary for the Dutch Government to call in all of the occupational money and exchange it for Dutch golden notes,” because “they could very well claim that much of this Japanese money they had now redeemed was actually our O.S.S counterfeit money, which no one could distinguish from the bills made in Japan.”⁴²⁷ Lovell viewed such a possibility as less than grateful act by the Dutch government considering the United States had fought to free her former colonies, nevertheless Lovell worried that “they would have a case against the United States in asking us to reimburse them for whatever part of the currency on the islands they felt was our production.”⁴²⁸

The solution was to get the Dutch’s authorization for implementing the plan and absolving the U.S. from any monetary obligations. Lovell’s recollection of asking the Dutch for permission to move forward with the counterfeiting operation portrays the Dutch as squeamish in signing a formal authorization, especially when it relieved any possibility of the United States being monetarily responsible for reimbursing the Dutch

⁴²⁶ *Of Spies and Stratagems*, 29

⁴²⁷ *Ibid*, 29-30

⁴²⁸ *Ibid*, 30

government. When the Dutch refused to give their written consent absolving the United States of this “fiscal claim” Lovell cancelled the further production of the counterfeit money. This act, Lovell reminisced forced the Dutch representatives to sign the agreement, and the operation moved forward.⁴²⁹ Whether the Dutch approval was garnished exactly as Lovell says will perhaps remain unclear, but authorization was granted and the operation moved forward. But this was not the only political cost to be overcome in moving forward with the insertion of forged guilders.

For Bigelow and the ISS another cost to implementation was the reputation of the United States. Writing in early 1945 Bigelow warns that “the utmost caution” must be given to how the operation is handled and documented writing that “This whole matter of the a united States Government Agency obtaining these reproductions and using them is a “most secret” one, not only insofar as today’s records are concerned but also so far as tomorrow’s records may be concerned.” Concern for how the United States might be perceived if word got out that it was engaging in the type of operation could be, presumably, detrimental and embarrassing for the United States even if uncovered after the war was over. There was even concern as to how much to inform the British SOE (even though they were cooperating on the project) to minimize potential exposure.⁴³⁰

⁴²⁹ Ibid, 30

⁴³⁰ Letter via Air Pouch Emerson Bigelow to Joseph Croll dated January 2, 1945. Bigelow writes that “This whole matter of a United States Government Agency obtaining these reproductions and using them is a “most secret one, not only insofar as today’s records are concerned but also so far as tomorrow’s records may be concerned. We would ask you kindly to impress anyone working with you to exercise utmost caution. In this connection, you will note that we have classified this material as “Control Secret.” We shall expect you to take particular care to see that any successor of yours handling Special Funds in your Theater be advised of the foregoing.” In the P.S. Bigelow writes that “AS to whether or not you should tell the SSO Officer, the C.O., the Branch Head or the individual going out on the operation that this is slush and is American made reproduction, is left entirely to the discretion of the Special Funds Officer. Our own opinion is that the SSO Officer should be informed but we make even the telling to him permissive and not

We cannot know what the O.S.S or the United States would have done had the Dutch government not granted its authorization or at the very least its blessing, or if such authorization was even truly necessary. What is important here is that O.S.S agents tasked with the counterfeiting of Japanese produced Guilders believed it necessary to get some form of agreement from their Dutch allies. Furthermore, the potential costs to America's reputation if the plan was discovered was ultimately viewed as a risk willing to take, although efforts were taken to hide the covert operation and thus safeguard America's image. That waging currency warfare by counterfeiting an enemy's own artificially produced money could lead to such concern over America's reputation as it fought the most destructive war in human history speaks volumes to this form of war.

Lovell's concern that the Dutch might have laid claims to the United States were, in all likelihood, overly cautious. But, the years of counterfeiting Japanese currencies was, by the end of the war creating a serious monetary situation for the United States, and the region. In the war's final year the United States confronted the monetary blowback effects of its counterfeiting campaigns against Japan. By March of 1945 warnings were being sent to Special Funds Officers warning them that "we are informed that large quantities of spurious paper money notes are circulating freely in practically every area in the Far East, including China, Burma, Thailand, Indo-China, Malay, Netherlands East

mandatory. At this distance we cannot hedge you in with rigid regulations but on the other hand, we would ask you to weigh all elements carefully, not only those of secrecy as to the true status of this money but as to the morale of the individuals actually using it. We would appreciate hearing from all of you as to your opinions on this vital point." RG 226 Entry 199, Container 229, NARA College Park, Maryland.

Indies and the Islands of Oceana.”⁴³¹ The counterfeit currencies were so good that officers were advised that “we are further informed that detection of these spurious notes from the originals is virtually impossible except to a person of wide experience” as a result “Protective steps therefore, have to be taken with respect to the handling and accounting of such notes as might be returned here.”⁴³² The solution was to establish currency controls over the exchange of American dollars for Far Eastern currencies.⁴³³ Naturally, not all of the circulating forged bills can be attributed directly to the United States, but the years of forging Japanese currencies, and the quality of their products certainly contributed to the difficult monetary situation in the region in the last year of the war.

Conclusion: Overcoming the Implementation Costs of Waging Currency Warfare

The preceding two cases studies, both within the same war, the same governments, agencies, and leaders provide an ideal situation for a historical comparison and the analysis supports the proposed Theory of Monetary Warfare advanced in this study.

⁴³¹ Memorandum titled “Special Instructions to All Far East Special Funds Officers,” dated March 14, 1945. RG 226 Entry 199 (Field Station Special Funds Records; Folders 512-519 Vouchers for Mess Hs. Det. Lol. Oct. 1944 Thru Money, Memos re: Counterfeit) Box 66.

⁴³² Ibid, Memorandum titled “Special Instructions to All Far East Special Funds Officers,” dated March 14, 1945.

⁴³³ Ibid, Memorandum titled “Special Instructions to All Far East Special Funds Officers,” dated March 14, 1945. There were exceptions as the Memorandum reads that “To this end, no returnee will receive any credit in dollars or foreign currency for any Far East currencies returned to Washington. In exceptional cases when it is certified that such Far East currency could not be disposed of prior to leaving the Far East Theater because of circumstances beyond his control, Washington will accept the currency and ship it back for settlement against any outstanding account, on the books in the pertinent Theater.” RG 226 Entry 199 (Field Station Special Funds Records; Folders 512-519 Vouchers for Mess Hs. Det. Lol. Oct. 1944 Thru Money, Memos re: Counterfeit) Box 66.

Unlike in Europe, the United States waged currency warfare by counterfeiting Japanese occupation and national currencies. As in Europe the decision to counterfeit Japanese currencies was in response to foreign aggression and motivated by a strategy of subversion. However, in the Pacific-Asia theater of war the United States, specifically the O.S.S and General MacArthur's South West Pacific Area command perceived the implementation costs associated with waging currency warfare as surmountable. Specifically, American decision makers decided that the material costs of producing counterfeit currencies, the potential reputational harm to the United States and the ethical and moral considerations of counterfeiting currencies were costs they were willing to take when considering the benefit of undermining the Japanese currencies. When the implementation costs were considered too high such as in the 1944-1945 debate to inflate the Japanese Yen with forged currency notes from the sky the recommendation was to not implement the plan. However, even by the war's end the United States had dropped replicated currencies over the Japanese home islands. In the Asia-Pacific Theater of war American decision makers within the O.S.S and General MacArthur's command enjoyed considerable freedom in deciding how to wage war against the Japanese. There was little debate as to whether counterfeiting currencies was a legitimate means of waging war. It was not until 1944-1945 that serious political and ethical concerns were raised about counterfeiting Japanese currencies, but with the exception of the 1944-1945 debate to drop forged notes over Japan to cause inflation from the air, the counterfeiting operations continued until the end of the war. As we have seen the decision to wage currency warfare was a constant topic of debate within the American Government and ultimately

approved by President Franklin Roosevelt. However, his at times deferential style of leadership, gave originally and perhaps consistently Secretary Morgenthau and those tasked with the final decision in Europe as to whether to counterfeit German and Italian currencies there. This oversight was not in place in the Pacific thus allowing for the implementation of numerous counterfeiting campaigns to undermine the Japanese government and its war effort.

Chapter Five: Eisenhower and Currency Warfare in the Middle East 1956-1958

On November 5, 1956 Secretary of the Treasury George Humphrey acting with the approval of President Dwight D. Eisenhower initiated currency warfare against the United Kingdom by facilitating, if not openly orchestrating, a run on the pound for the purpose of subverting the Anglo-French invasion of Egypt.⁴³⁴ Secretary Humphrey then informed Her Majesty's government that the United States was blocking the "repatriation" of British deposited dollars in the International Monetary Fund (IMF) which the British desperately needed to stabilize the pound that was in danger of depreciation and eventual devaluation until British forces agreed to a cease-fire and withdrawal from Egypt.⁴³⁵ Within the first week of November the British had lost nearly \$280 million in dollar reserves, and by November 6 the British and French had agreed to a cease-fire. By December 3, British forces would begin the process of withdrawal from Egypt and Anthony Eden's short-lived premiership would come to an end in early 1957.

⁴³⁴ Although there is some debate as to when, or to what extent the American's orchestrated the run on the pound, historians generally agree that the United States had purposeful role in the event. For example, Jonathan Kirshner writes that "On November 5, the Federal Reserve Bank of New York, under orders from Treasury Secretary George Humphrey, began to sell pounds. Nominally this was to avoid losses since sterling was under pressure, but that was a transparent cover story, as central banks do not manage their portfolios to maximize profits." Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International monetary Power*, (Princeton: Princeton University Press, 1995), 68-69; Historian Herman Finer writes that "On November 5, the U.S. Federal Reserve Bank was selling some of its sterling to avoid losses of its holdings. There is no doubt that State Department Officials, now headed by Herbert Hoover Jr., and advised by George M. Humphrey at the U.S. Treasury, suggested that the Federal Reserve Bank do this, as a means of avoiding loss, but also as a leverage over British-Suez Operations." Finer, Herman, *Dulles Over Suez: The Theory and Practice of His Diplomacy*, (London: Heinemann, 1964), 428. Recently, in regards to American action to prevent the British from drawing out their dollars from the International Monetary Fund, William I. Hitchcock writes that "Although no evidence exist to link Eisenhower to this decision, Humphrey never would have taken such an unfriendly position without the president's approval." Hitchcock, William I., *The Age of Eisenhower: America and the World in the 1950's*, (New York: Simon & Schuster, 2018), 333. As we will see from archival material located at the Eisenhower Presidential Library there is no doubt that the Americans openly used its negative power to prevent the British the dollars needed to avoid devaluation until they [The British] agreed to a complete withdrawal on November 29, 1956.

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The American attack on the pound would constitute the most successful and decisive use of monetary power during an armed conflict in history.

When it comes to the 1958 Crisis, it appears that Eisenhower missed an opportunity to implement currency warfare to undermine either Nasser or again towards the British presence in the region. But, a year and a half after the successful waging of currency warfare against the British, Eisenhower, facing a new conflict in the Middle East, did not implement currency warfare at all, including against the British who dispatched troops to Jordan to support the regime of King Hussein, nor against Egypt's Nasser, who the administration blamed for the crisis. What explains the decision to wage currency warfare in one conflict, The Suez War of 1956, but not in the Middle Eastern Conflict of 1958 by the Eisenhower Administration?

In both crisis Eisenhower viewed the Soviet Union's attempt to exploit the crisis for increased influence in the region as the principle threat to the United States. In both cases, the implementation costs of waging currency warfare were low or believed to be surmountable both from a monetary and political perspective. Egypt especially was vulnerable in 1958 to currency warfare, but Eisenhower did not implement such a policy. I argue that what explains the diverging outcomes rests with the changes in the *strategic motivations* of the Eisenhower Administration from the Suez War to the 1958 Conflict. During the 1956 conflict Eisenhower strategic motivation was one of subversion, that is to undermine the British invasion of Egypt, while in 1958 the strategic motivation was defensive in nature, to fortify pro-western governments in the Middle East. Furthermore, Eisenhower's attack on the pound-sterling had a narrow and limited objective—to end the

invasion of Egypt and undermine Anthony Eden, not the British regime as a whole. The implementation of currency warfare in the Suez War of 1956 demonstrates that targeting does not have to be an all or nothing proposition but can be used in a limited capacity in pursuit of narrow aims.

The examination of these two cases, the 1956 Suez War and 1958 Middle East Crisis, provides further support for the theory of monetary warfare advanced in this book, which is that currency warfare is waged when states face a significant threat to national security, there exist a strategic motivation of subversion to address the threat, and the implementation costs are low. It is also clear that the perceptions of America's principal decision maker, President Eisenhower, are key, to explaining the use of monetary power in one conflict but not in the other. Had Eisenhower's attitude been one of destroying Nasser, instead of viewing his version of Arab nationalism as a potential bulwark against the Soviet Union, it is highly likely American offensive monetary power would have been deployed once again, this time against Nasser instead of the British.

As Jonathan Kirshner once observed the Suez Crisis "provides the raw material for a number of possible investigations."⁴³⁶ In addition to the comparative study between the Suez War and the 1958 Crisis to test for the presence of a subversive strategy motivating the use waging of currency warfare, a study of the decisions making process in 1956 allows for the testing for the timing for the initiation of currency warfare. Although the war began on October 29, 1956 and the Americans new of British and French involvement by the 30th, when the two countries began their air campaign in

⁴³⁶ *Currency and Coercion*, 63

Egypt, it was not until November 5 that currency warfare was implemented. Why this delay? It is not a coincidence that currency warfare was implemented when the perceived threat of the Soviet Union expanding the conflict, potentially into a nuclear one, convinced Eisenhower that the conflict had to be brought to an end, and quickly. This explains why the attack on the pound began on November 5, a day after the Soviet re-invasion of Hungary and the Soviet's openly threatened military intervention and the use of atomic weapons.

Eisenhower as Decision-Maker and the Puzzle of Currency Warfare in The Middle East

This chapter emphasizes the executive branch in the decision to implement currency warfare during the Suez War of 1956, but not in the 1958 Middle East crisis. In both the 1956 and 1958 conflicts, Eisenhower was the supreme decision maker, and American foreign policy originated from his perceptions of the Soviet and Arab-nationalist threats (the former being the most serious), to American interest in the region. Eisenhower's threat perceptions coincided with his view that European colonialism and armed intervention in the Middle East served a harbinger or catalyst of anti-American sentiment in the region which would open the door for greater Soviet influence in the region, something Eisenhower was determined to contain. Regarding Arab nationalism, and its principal proponent and leader, Gamal Abdel Nasser, Eisenhower had no love for either, but he believed that the United States could have friendly, or at least, amicable relationships with these twin phenomena, but only if the U.S. restrained European and Soviet Power. For these reasons, when American monetary power was offensively

weaponized in 1956 it was against the colonial powers, especially Britain. Eisenhower even considered providing Egypt with weapons in the immediate aftermath of the Suez War hoping to garner goodwill with Nasser (on the condition he disavowed the Soviet Union).⁴³⁷

In the aftermath of the successful waging of currency warfare in the Suez War it seemed that Eisenhower had found his weapon of choice—monetary power in substitute of military force. In 1958 the United States could have used its monetary power against as a weapon either against Britain, which was behaving rather similar to the 1956 crisis or against Nasser. Both countries were susceptible to a currency targeting campaign, but Eisenhower did not use offensive monetary power in that case, although he did use it to support and prop up the Jordanian and Lebanese government and ultimately assisted financially with Britain's deployment. What accounts for the lack of offensive monetary power in the 1958 crisis?

By 1958 there had been a subtle but significant change in Eisenhower's view of European power in the Middle East. Immediately after the Anglo-French capitulation, the United States filled the power vacuum in the region with the Eisenhower Doctrine which committed the United States to come to the aid of any country in the region facing external aggression. When the Eisenhower Doctrine was tested in the summer of 1958 in

⁴³⁷ Eisenhower, Dwight, *Waging Peace: The White House Years 1953-1956, A Personal Account*, (New York City: Doubleday & Company, Inc., 1965), Page. 96. On November 8, 1956 Eisenhower wrote out some ideas as to how to proceed in the Middle East. Among the ideas he listed was to provide Egypt with weapons writing that “And beyond this, however, are the constructive things that we can do once these nations understand the truth of the immediately preceding paragraphs (which included restoring oil flow and the Canal operationalization, among others)...For example, we can provide Egypt with an agreed-upon amount of arms—sufficient to maintain internal order and a reasonable defense of its borders, in return for an agreement that it will never accept any Soviet offer.”

Lebanon, following the coup against the pro-Western government in Iraq, Eisenhower, although not enthusiastic about the idea, acquiesced to British deployment of paratroopers in Jordan to maintain the stability and safeguard that country against Nasser's subversive activities. In Lebanon, Eisenhower dispatched marines to ensure the stability of that government. The rationale for intervention was the same as in 1956, to stay off Soviet influence in the region. But unlike 1956 where there was a consistent strategy of subversion, the 1958 Crisis was governed by a strategy of fortifying and sustain friendly governments not of subversion. This applied to Nasser and Egypt also as we shall see. Thus, it was Eisenhower strategic motivation of being guided by a strategy of subversion in one case (Suez 1956) but not in 1958.

Two factors facilitated Eisenhower's decision-making policy. First, there was unanimity at the highest levels of the American government over the American response to Anthony Eden and the national interest of the United States. During the Suez War President Eisenhower and his chief associates, specifically Secretary of the Treasury George Humphrey, Secretary of State John Foster Dulles, and Assistant Secretary of State Herbert Hoover Jr., All shared an intense dislike of British colonialism and singled out the British government, headed by Anthony Eden as being the principle culprit in the crisis and blamed him for deceiving the Americans, a not incorrect assertion, that the invasion of Egypt was a spontaneous response to Israeli aggression in Egypt, as opposed to the secret pact signed on October 24 between the British, French and Israeli's concocting a war to provide the excuse for an Anglo-French return to Egypt.

Furthermore, there was almost complete agreement that the use of economic power should be used to pressure the British into acquiescing to American demands to end hostilities. An examination of the material available shows little concern for the monetary or political costs of waging currency warfare against the British. It was not until mid-November that such questions began to be addressed, but even this was not enough to bring the currency targeting campaign to a halt until the British agreed to withdrawal completely on November 29, 1956. Treasury Secretary Humphrey believed implementing a currency targeting campaign was the best way to achieve America's objectives.

The political costs associated with currency warfare were considered but ultimately decided they were costs the administration was willing to take. Throughout the conflict Eisenhower maintained control and oversight over the decision-making process and maintained a watchful eye to ensure his policies were being implemented, at times engaging in personal diplomacy with Eden, Mollet, and Ben-Gurion and meeting with his closest subordinates to implement foreign policy as he believed it should be.

The second important factor is that Eisenhower operate with no real constraints on the formulation and implementation of his policy. Eisenhower formulated policy and the bureaucracies tasked with implementing them, even if they didn't necessarily agree with them. This is particularly true of the State Department and Ambassador Aldrich in the United Kingdom. Aldrich had severe reservations about carrying out Eisenhower's policies, if not necessarily disagreeing with the negative view of the British and French invasion. As Aldrich remembered,

“I myself was surprised at the vitriolic nature of Eisenhower’s reaction to what happened. I think it was unstatesmanlike; indeed, I think it was a dreadful thing, the way the United States Government permitted itself to act towards Eden because of pique or petulance...the President just went off the deep end. He would have anything further to do with Eden at all. He wouldn’t even communicate with him... The problem was solved in a manner which never has been made public even now, although perhaps some people suspected it at the time...Salisbury and Rab Butler and Harold Macmillan were willing to discuss with me the situation which had arisen between the United States and Great Britain and I became the channel of communication between them and Washington.”⁴³⁸

Aldrich carried out Eisenhower’s policies and assisted in subverting Eden’s premiership. At the Federal Reserve, there appears to have been no opposition to Secretary Humphrey’s order to sell of British pounds, or if there was, such information has not been found. Ultimately, Secretary Humphrey got his way, at the Federal Reserve and with the International Monetary Fund. Furthermore, the use of monetary power was the prerogative of the presidency and not subject to Congressional oversight. Eisenhower and his cold warriors were free to wage currency warfare. It is clear that Eisenhower was the principle decision maker during the conflict exercising control over the decision-making process and the development of policy. The decision-making process was a top-down approach with Eisenhower playing a direct role in the development and implementation of American policy.

Chapter Outline

The chapter is structured in the following manner. First, a background to the events is provided to establish the context of the two armed conflicts. Second, I implement a narrative process-tracing approach to the conflict to test for when all three

⁴³⁸ Blackwell, Basil, *Britain and the Suez Crisis*, (Oxford: Joshua Associates, Ltd., 1989), 87

necessary variables aligned to explain the waging of currency warfare by Eisenhower against the British. I also demonstrate that it was the increased threat conditions of potential nuclear escalation by the Soviet Union on November 4-5, 1956 that explains why Eisenhower pulled the trigger on currency warfare against Great Britain for purposes of bringing the conflict to as quick a conclusion as possible. Third, I explore Eisenhower's strategic objectives during the 1958 crisis showing that strategic motivation differed from the conflict in 1956 to 1958. The two cases, with similar leaders, in the same region but with different policy outcomes in regard to currency warfare supports the theory of monetary warfare advanced in this study.

Case I: Background to the 1956 Suez War and 1958 Middle Eastern Crisis

In the 1950's the United States and Great Britain experienced substantive changes in their respective roles in the Middle East. Great Britain having emerged from the Second World War as an empire whose financial and military resources were greatly diminished, but whose imperial identity made it inconceivably to contemplate remaining and acting as a great power in the world, especially in the Middle East. Britain's imperial presence in the Middle East was increasingly undermined by its closest ally, the United States. The United States, during the Eisenhower years, saw itself as the harbinger of peaceful relations between the West and the Arab World, the result of decolonization and the rise of Pan-Arabism increasingly linked with the charismatic Egyptian Colonel Gamal Abdel Nasser which would serve to prevent, or at least minimize Soviet influence in the region. The divergent destinies of both the United States and Great Britain in the Middle

East, one of a declining power the other ascending came to a clash during the Suez Crisis of November 1956.

The catalyst of the conflict which would cause the great schism between the United States and Great Britain, creating the lowest point in the 'special relationship' of the post-war world, was the nationalization of the Suez Canal Company by Nasser on July 26, 1956. The context for this monumental decision had its origins in Arab nationalism, British imperial decline, and the Cold War. In 1954 the British agreed to remove all of its soldiers from the Canal Zone which was completed by June of 1956. This "appeasement" of Egypt was the result of Nasser's increasing alignment with the Soviet Union, purchasing weapons from Czechoslovakia, a Soviet satellite state. Nasser had taken this move in response to the creation of the Baghdad Pact of 1955 "a defensive alliance among Britain, Pakistan, Iran, Iraq, and Turkey" which he viewed "as an anti-Egyptian organization created to promote British power in the Middle East."⁴³⁹ In an attempt to drive a wedge between Nasser and the Soviets, the Americans and British offered to finance Nasser's principal public policy project, the Aswan Dam with a \$70 million loan with a further loan of \$200 million from the bank.⁴⁴⁰ But Nasser overplayed his hand angering both the Americans who believed Nasser was "attempting to play the United States and the Soviets off each other" and the British in exploring "subversive groups" in "Libya, Jordan, Iraq, and Sudan."⁴⁴¹ In Jordan pressure from Nasser resulted in Sir John Glubb removal from the Jordanian General Staff, signaling a break between

⁴³⁹ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton: Princeton University Press, 1995), 64

⁴⁴⁰ Ibid, 64-65

⁴⁴¹ Ibid, 65

the United Kingdom and Jordan. For Anthony Eden, the British Prime Minister, Nasser became Great Britain's principle enemy declaring that "I want him destroyed."⁴⁴²

On July 19th, 1956 John Foster Dulles the American Secretary of State unilaterally and without consulting the British pulled the funding for the Aswan Dam from consideration and a week later Nasser moved to nationalize the Suez Canal. In response to the nationalization of the Canal, of which the British were the company's principal shareholders, preparations for war began almost immediately. In stark contrast to Eisenhower's policy of a peaceful solution to the crisis so as to not open the possibility for further Soviet encroachment in the region, and in secrecy from the Ike, the British, French, and Israeli hatched a scheme by which to remove Nasser and regain control of the Canal. The scheme of October 22, 1956 called for Israel to invade the Sinai and drive towards the Canal. The British and French, would then call for a cease-fire of both countries, of which they knew Egypt would never agree to thus giving the pretext for invasion. Eden counted on the American's being distracted by the presidential election, and thinking that the United States would not work in hostile manner towards the invasion set the date of the war for October 29, 1956. Operation Musketeer the invasion of Egypt would begin on October 31, 1956 with an air attack on Egypt followed by invasion.

But Eden had misperceived Eisenhower's anti-colonial sentiments and his contextualization of the conflict within the lens of Cold War rivalry with the Soviet Union. Eisenhower and his principal advisors actively worked to subvert the British-

⁴⁴² Ibid, 65

French-Israeli' invasion of Egypt, initially diplomatically, and then more powerfully, by waging currency warfare against the British pound. The Eisenhower administration systematically subverted British efforts through the exercise of monetary power against the British pound sterling. Eisenhower attacked the pound simultaneously at the international money markets and by denying the British access to their dollars at the International Monetary Fund, at a time when dollars were needed to keep the pound from being devalued. The currency targeting campaign began on November 5, 1956 and its results were seen the next day when the British and French agreed to a cease-fire, and ultimately succeeded a few weeks later when the British, French, and Israeli's agreed to withdraw from Egypt.

The American war against the British currency had significant consequences. First, it resulted in the Eden's premiership coming to an abrupt end, replaced by Harold MacMillan who had served as Eden's Chancellor of the Exchequer and whose panic at the loss of millions of dollars and the attack on the pound on November 5 and 6 had made him from one of the most aggressive advocates of war to the principal advocate of capitulation. The second consequence of America's attack on the pound was that it strengthened Nasser's prestige and power in the region, and simultaneously the Soviet influence in the region, thus achieving two of the three objectives Eisenhower had set out for itself during the crisis (the other being the end of British colonial power in the region). From the American side its successful waging of currency warfare brought America further into the Middle Eastern cauldron.

On January 5, 1957 Eisenhower announced a new policy towards the Middle East. What would come to be known as the Eisenhower Doctrine, the President made it clear that the United States would come to the aid of any country, including the use of military force, if the country was being threatened? By 1958 Eisenhower's change in mindset towards British power and influence in the region had experienced a significant change. Realizing that his assumptions regarding what would occur once the colonial powers exited the middle East were fundamentally wrong, when Nasser began to cause a serious crisis in Lebanon and Jordan, Eisenhower would not only overcome his hesitation for British military deployments to safeguard King Hussein in Jordan, but would assist Great Britain in doing so. At the same time that marines were being dispatched to Lebanon to prevent that country from collapsing to Nasser's influence the British were being sent to Jordan. What explains these divergent outcomes in the Eisenhower Administration towards the British and crisis in the Middle East? If monetary power was so successful in 1956 why wasn't it used in 1958?

The Suez Crisis: October 29-31, 1956 and Subversion

Monday, October 29 began aspiringly at the White House. Eisenhower and his team believed that the twin crisis which had confronted them, the rebellion against Soviet Rule in Hungary and the Middle East Crisis revolving around Jordan, Syria, and Egypt was quieting down, moving perhaps towards a more peaceful conclusion. By the end of the day Eisenhower would find himself bewildered and angered at America's closest allies—Great Britain and France, as it appeared that they had double crossed him and the United States and were supporting the Israeli invasion of Egypt which began earlier that

day. The next ten days would bring Eisenhower and the world to the brink of a nuclear exchange with the Soviet Union, witness the most decisive use of monetary power against America's closest ally Great Britain.⁴⁴³

Aba Eden, the Israeli Ambassador had characterized Israel's military posture along the Sinai as "precautionary and protective" but in the afternoon of as Eisenhower was attending a campaign rally in Richmond, Virginia, reports began to circulate that the Israel had invaded Egypt.⁴⁴⁴ But evidence suggested that the Israeli's were not acting alone. Evidence provided by American U-2 spy planes had photographed the British and French military buildup in the Eastern Mediterranean, and by the time Eisenhower returned to the White House in the late afternoon it was becoming clear that the French and the British were hiding something from the Americans. To John Foster Dulles, it was almost certain that Israeli action was being conducted in coordination "with the French at last and possibly with the British."⁴⁴⁵

That evening as the knowledge that the British and French were colluding with the Israeli invasion, although not yet knowing the full extent of their partnership, an irate Eisenhower raised the specter of supporting Nasser saying that "nothing justifies double-crossing us" and that "there may open a deep rift between us" meaning the United States

⁴⁴³ Nichols, David A., *Eisenhower 1956: The President's Year of Crisis. Suez and the Brink of War*, (New York: Simon & Schuster, 2011), 199. In the following quote, Nichols captures Eisenhower's mood towards the crisis in Hungary and Israel "seemed a little better this morning than last evening" and contemplated if the Soviet Union "might be willing to talk sense now more than at any time since [this] administration has been in power." National Security Council Meeting 301, October 26, 1956 records that the situation in the Middle East revolved around whether Jordan would fall and if this would trigger a regional war. Also, indications in Hungary that the Soviet Union was fighting in the streets of Budapest. This had changed by the 29th of October. Dwight David Eisenhower: Papers as President 1953-1961, Ann Whitman Files NSC Series, Box No. 8 File: 301st NSC Meeting, October 26, 1956

⁴⁴⁴ Nichols, *Ibid*, 205 201

⁴⁴⁵ *Ibid*, 203

and the British. Furthermore, Eisenhower was concerned that the Soviet Union may exploit the developing crisis to their advantage by establishing themselves as the protector of the Arab world calling for an end of aggression at the United Nations. This was something Eisenhower would not allow, for he saw American moral credibility on the line if he did not uphold the pledge to defend *any* country who was subject to aggression, regardless of who was the aggressor. Ike's moral stance prompted sarcasm among some in his inner circle. Emmet Hughes, Eisenhower's speechwriter exclaimed upon hearing his boss's thoughts on the matter, "a nice moralistic stance...but what does it mean?" As Hughes saw it, the United States had but two choices, either to support Egypt against Israel, Britain, and France "if they move in. Really?" or to support the removal of Nasser. Over the next few days the divisions within the administration would intensify as to who was really the aggressor in this conflict and what the United States should do. At this point few could imagine the lengths that Eisenhower would go to uphold America's moral credibility and stand off a global war.

On October 30 the Israeli invasion of the Sinai was moving swiftly towards the Sinai and according to their prearranged plan, the British and French were about to issue their ultimatum to both Egypt and Israel to suspend hostilities, which they all knew Egypt with decline thus giving the British and French the pretext for intervention to 'save' the canal. Eisenhower "was still ignorant of Britain's role in the conspiracy with Israel, and nurtured faint hopes that he could persuade Britain to stay out of the conflicts."⁴⁴⁶ Eisenhower saw the developing war as providing an opening for the Soviet Union to

⁴⁴⁶ Ibid, 205

increase its influence in the region, especially, if the war was seen purely in the context of the ongoing Arab-Israeli conflict. For this reason, Eisenhower had the language of the proposed cease fire resolution which he planned to submit to the United Nations the next day.

On Wednesday October 31st Eisenhower penned a letter to Eden in which unequivocally stated how foolish he thought the British actions up to date had been. Writing “that it is hard for me to see any good final result emerging from a scheme that seems certain to antagonize the entire Moslem world.”⁴⁴⁷ Eisenhower was also coming to the self-realization that his decision to side against the British could cause a severe rift between the two allies saying to Minority leader “I [Eisenhower] about to lose my British citizenship.”⁴⁴⁸ If there was potential good news from American diplomats in Hungary who were reporting back to Washington that Soviet forces were withdrawing from Budapest and Pravda had printed the Soviet government’s policy of “complete equality” and “non-interference” in the internal affairs of its fellow communist countries in Eastern Europe.⁴⁴⁹ Eisenhower was cautiously optimistic believing that it could be a good thing “if it is honest.”⁴⁵⁰

But if news from Hungary was promising, U-2 spy plans were bringing home the first images of the British and French attacks on Egyptian airfields. The Suez Canal had now been blocked by the Egyptians, causing him to end all campaigning for the presidential election scheduled for Tuesday (November 6), but would maintain his

⁴⁴⁷ Nichols, 209

⁴⁴⁸ Ibid, 211

⁴⁴⁹ Quoting from Nichols quoting of Soviet policy which was published in *Pravda*, Ibid, 211

⁴⁵⁰ Ibid, 211

previously scheduled address to the nation. Eisenhower's speech was calm and measured when it came to attribute absolute blame to the British, French, Israeli's, or Egyptians but politically distanced himself from his closest allies saying that "The United States was not consulted in any way about any phase of these actions. Nor were we informed of them in advance."⁴⁵¹ Furthermore, because the British and the French had vetoed the Security Council resolution calling for a cease fire, the United States would go directly to the General Assembly arguing that "The peace we seek and need...means much more than mere absence of war. It means the acceptance of law, and the fostering of justice, in all the world."⁴⁵² Eisenhower was publicly saying that British and French actions were inherently in violation of international law and the United States would not support such action. But his disclaimer that "There will be United States involvement in these present hostilities" would eventually be disproven, as American exercise of monetary power would be the most deceive implementation of force during the war, by bringing it to an end.

The Suez War: November 1-6, 1956

On November 1, four days into the crisis, Eisenhower convened a meeting of the National Security Council, saying that he "wished to concentrate on the Middle East."⁴⁵³ Events were now moving at a rapid pace since Israel had invaded Egypt on October 29. Since then, and in accordance with the pact made between Great Britain,

⁴⁵¹ Ibid, 214

⁴⁵² Ibid, 215

⁴⁵³ Memorandum: Discussion at the 302 Meeting of the National Security Council, Thursday, November 1, 1956. Eisenhower, Dwight D., Papers as President, 1953-1961, (Ann Whitman Files), NSC Series, Box No. 8, File: 302nd Meeting of NSC 11/1/1956. Dwight David Eisenhower Presidential Library, NARA, Abilene, Kansas

France, and Israel, an ultimatum had been issued by the British and French on October 30 calling for an immediate cease-fire by all the belligerents. Knowing that Nasser would never agree to such a demand, the British and French began airstrikes against the Egyptian Air Force on October 31 in their prelude to invasion. At the White House, the preceding days had focused on what was happening on the ground and attempting to figure out what the British and French were thinking. By November 1, with growing threats of Soviet intervention in the Middle East and renewed fighting in the streets of Budapest, Eisenhower wanted to discuss the “policy problems” facing the United States.⁴⁵⁴

The principle policy problem, which would determine future American action during the crisis, was which side should the United States align itself with? America’s traditional allies Great Britain and France, or Nasser? It was by now clear that the British and French were working alongside with the Israeli’s in their venture in Egypt and were perhaps even the orchestrators of the event. This was a personal affront to Eisenhower, as it was further becoming evident that the British and French had purposefully kept the Americans out of the dark, and even intentionally deceiving the United States as to what exactly was going on. From a policy perspective this put a wrench into the logic behind the Tripartite Declaration of 1950 in which the Americans, British, and French promised to defend any country in the middle east from aggression. But who was the aggressor? In answering this question, and deciding on which course of action to pursue, Eisenhower had to decide whether to support America’s closest allies in NATO, and whether doing so

⁴⁵⁴ Ibid, 2

would throw the Arab World into the Soviet sphere of influence. Could the United States stand with colonial powers that were despised in the region? Secretary of State John Foster Dulles summarized the dilemma by saying “in short, the United States would survive or go down on the basis of the fate of colonialism if the United States supports the French and the British on the Colonial issue. Win or lose, we will share the fate of Britain or France.”⁴⁵⁵

Eisenhower opted to view the crisis from a moral perspective especially the question as to whether international affairs should be determined by the violation of law and the use of force to pursue foreign policy objectives. Would the United States not look hypocritical if she supported Britain and France in their colonial adventure in Egypt, while condemning Soviet aggression in Hungary? This view was shared by most of those present at the meeting and supported the Secretary of State’s assertion “that basically we had almost reached the point of deciding today whether we think the future lies with a policy of reasserting by force colonial control over the less developed nations, or whether we will oppose such a course of action by every appropriate means.”⁴⁵⁶ Surprisingly, no mention of America’s use of force in the previous years to oust governments in Iran and Guatemala were raised in defense of her allies.

Secretary of the Treasury George Humphrey followed the Secretary of State arguing that perhaps the United States should “suspend all our government assistance to everyone concerned—Israel, Egypt, Britain and France.”⁴⁵⁷ George Humphrey had been

⁴⁵⁵ Ibid, 5

⁴⁵⁶ Ibid, 6

⁴⁵⁷ Ibid, 7

Eisenhower's Secretary of the Treasury since 1953 and during the crisis would emerge as one of the most hawkish advocates of a strong stance against Great Britain in particular, stating "that the United Kingdom was the real aggressor, and Israel only a pawn."⁴⁵⁸ Humphrey was well informed of Eden's weakened, if not fragile political position because of the Suez War. Humphrey argued that Eden's actions in recent days was resulting in "fissures in British public opinion," which was coinciding with a split within the Conservative Party itself" and "was convinced...that recent British action was primarily Eden's own creation."⁴⁵⁹ Humphrey's dislike of Eden and of British policy overall would lead him to implementing the most decisive use of forceful monetary power against the British within the next few days.

Not all present were in favor of a strong stance against the British. Governor Strassen who was special advisor to the president was disturbed at how the meeting was focusing on condemning "a vital friend" and that those present were losing sight that the principle enemy and aggressor was the Soviet Union. As Strassen put it "The Soviet Union is still the great threat to the United States" and that there should be a more "calm" approach to the crisis.⁴⁶⁰ Furthermore, and ironically as it would turn out, Strassen raised the question of Britain's monetary Achilles heel—the pound sterling. Saying that Britain's actions in the preceding days should be understood to be driven by "British fear of the effect on the pound sterling of having the Canal in Nasser's hands." Ultimately, Strassen "emphasized that that he could not see how it would serve the interests of the

⁴⁵⁸ Ibid, 8

⁴⁵⁹ Ibid, 9

⁴⁶⁰ Ibid, 8

United States to strike now at Britain and Israel.”⁴⁶¹ But Strassen was waging a losing battle. All of the anti-colonial sentiments which had guided Eisenhower’s understanding of British and French actions, and how they undermined the potential for the United States to create peaceful relations with the Arab world came into play.

Responding to Strassen, the President said that it was “his emphatic belief that these powers were going downhill with the kind of policy that they were engaged at the moment in carrying out” and asking rhetorically, “How could we possibly support Britain and France if in doing so we lose whole Arab World?”⁴⁶² Strassen tried one last time to sway Eisenhower, Dulles’ and Humphrey’s hostile approach towards Great Britain saying “we must still try to save a friend from disaster, even though that friend had brought the disaster on himself.”⁴⁶³ But Eisenhower, by this point had made up his mind that Britain was the aggressor. Ultimately, the President assumed that any rift in the relationship between the United States and Great Britain would not be fatal to the alliance and thus the political costs of siding against Britain were minimal compared to America’s hostile stance against Eden’s adventure in Egypt if not Eden himself. As Eisenhower put it “We must not permit ourselves to be blinded by the thought that anything we are going to do will result in our fighting with Great Britain and France.”⁴⁶⁴ Eisenhower brought the meeting to a close saying that agreed with Secretary of State Dulles and that Dulles “was dead right in his view that if we did not do something to indicate some vigor in the way of asserting our leadership, the Soviets would take over the leadership from us.” He

⁴⁶¹ Ibid, 8

⁴⁶² Ibid, 9

⁴⁶³ Ibid, 11

⁴⁶⁴ Ibid, 13

further reminded those present that this is what he told Eden a week ago that if the British attacked Egypt and “and the Russians got into the Middle East, the fat would really be in the fire.”⁴⁶⁵In the end it would be Eisenhower’s use of currency warfare against the British that would bring the invasion to a halt, undermining Eden, and preserving Nasser in Egypt, which indeed brought about the increased Soviet influence in the region.

The next day John Foster Dulles introduced at the United Nations a resolution calling for an immediate cessation of hostilities. But here Eisenhower suggested to Dulles that diplomacy without force would not bring about the desired diplomatic result of a cease fire saying “You are not going to get a cease-fire by saying everybody please stop.” Historian David Nichols raises the prospect that Eisenhower was already contemplating the use of American monetary power against Britain’s finances writing that “subsequent events suggest that Eisenhower was contemplating the fragile finances of the British government that he had discussed with Anthony Eden in January during the prime minister’s state visit.”⁴⁶⁶If Nichols is correct in raising the specter of Eisenhower considering the targeting of Britain’s finances, of which its currency was its most vulnerable potential target it would not be the first time that Eisenhower had considered waging currency warfare against an adversary.

Early in his Administration, Ike had cooperated with the British in overthrowing the Iranian Prime Minister Mossadeqh. Part of the proposed American plan was to distribute counterfeit currency as part of its campaign to undermine Mossadeqh’s legitimacy. Although no evidence has surfaced that the plan was implemented, the idea of

⁴⁶⁵ Ibid, 14

⁴⁶⁶ Nichols, 221

weaponizing monetary instruments in pursuit of American foreign policy objects was certainly in the Administration's psyche. Eisenhower had been made aware of the importance of currency to national sovereignty and legitimacy when in planning for the Normandy invasions in 1944 a supreme conflict arose over whether to print French Francs, causing much consternation with Charles De Gaulle, and with the American and British ultimately having to get De Gaulle's acquiescence to the plan. (Citations). We cannot determine Eisenhower's complete thoughts at this moment of his presidency in regards to the targeting of the British currency and finances, his diaries are silent on the matter, and as Evan Thomas notes, "no record with Eisenhower's signature has been found approving such a plan." (Citation from Thomas). This is not surprising considering Eisenhower's expertise in practicing plausible deniability.

If November 1 was a day to debate American foreign policy towards the British, French, and Israeli's, then November 2 was a day of contemplating how the conflict could turn into a wider war involving the Soviet Union. On that day, the Administration began to receive reports from CIA Director Allen Dulles that the Soviet Union, after a new wave of protest in the streets of Budapest had resulted in the Soviet Union closing the Hungarian borders and sending tanks rolling towards Budapest. The government of Nagy had withdrawn from the Warsaw Pact and had "appealed to the United Nations for assistance."⁴⁶⁷Such a move the Soviet Union could not tolerate.

Assistant Secretary of State Hoover called Eisenhower in the late morning. John Foster Dulles was in the hospital with a diagnosis of stomach cancer and his deputy

⁴⁶⁷ Ibid, 230

Hoover would now take his place in discussing what to do towards the British. That was the subject of his call with the President. As Hoover saw it “There are 3 possibilities (& here reminded President of Dulles’s absence, & no chance to consult him) of force on the British and French: Economic pressure, military pressure, & moral pressure.”⁴⁶⁸ We do not know what Eisenhower response to Hoover’s inquiries were, but at this point, Hoover who would later be attached to the anti-British faction, was not ready to use economic, and we can presume monetary power against the British or French.

Eisenhower made no decision regarding the use of force against the British and French at this time. Eisenhower was still grappling with Eden’s untimely misadventure writing to a friend that “I [Eisenhower] think the British and French seized upon very poor vehicle to use in bringing Nasser to terms,” justifying his position that he always favored a “negotiated settlement” and that the British and French did not have a just cause for invasion. Writing that “It does not seem to me that there is present in the case anything that justifies the action that Britain, France and Israel apparently concerted among themselves and have initiated.”⁴⁶⁹ That evening Eisenhower spent a sleepless night once again, and November 3 would be no better as it became apparent that the British and French invasion fleets were nearing the Egyptian Coast, Soviet tanks were maneuvering in Poland, and the Soviet Union was increasing its influence in the Middle

⁴⁶⁸ Phone Calls: Friday, November 2, 1956. Papers as President 1956-1961 (Ann Whitman File) DDE Diary Series, Box No. 19, File: Nov ’56 Phone Calls. Dwight Eisenhower Presidential Library, NARCA Abilene Kansas

⁴⁶⁹ Letter to Captain E.E Hazlett (Ret.) from Dwight Eisenhower, Date November 2, 1956. Papers as President of United States, 1953-1961 [Ann Whitman Files] DDE Diary Series, Box No: 20, File: November 1956 (Miscellaneous (4)). NARA Archives, Dwight Eisenhower Presidential Library, Abilene, Kansas

East, by openly supporting the anti-Western government of Shukri asl-Kuwatly, in Syria's defense of the imperial powers.⁴⁷⁰

November 4 began with the Soviet Union vetoing the UN's resolution condemning its actions and Syria and delivering an ultimatum to the Hungarian government to "capitulate" to Soviet demands. By the afternoon of November 4 200,000 Soviet soldiers and four-thousand tanks would be in Hungary.⁴⁷¹ Eisenhower moved quickly to further denounce the Soviet aggression, especially as it began developing in the streets of Budapest, but also warning his allies against further military aggression. Eisenhower also supported UN resolution introduced by Canada to send peace keepers to Egypt. The UN Secretary General hoped that such a move might dissuade further military action in Egypt.⁴⁷² The British and French were not in the mood to accept such a proposal. The invasion would begin the next day.

November 5 and 6, 1956 would prove to be the climax of the Suez War in which currency warfare was initiated in a decisive manner bringing an end to the Anglo-French invasion of Egypt. As Jonathan Kirshner observes, "On November 5, the Federal Reserve Bank of New York, under orders from Treasury Secretary George Humphrey, began to sell pounds."⁴⁷³ The next day, Tuesday November 6, the British and French had agreed to a cease fire citing the run on the pound. As Chancellor of the Exchequer Harold Macmillan recalled "But when the critical moment came and it was clear that we had

⁴⁷⁰ Nichols, 237

⁴⁷¹ Ibid, 239

⁴⁷² Ibid, 240.

⁴⁷³ Kirshner, Jonathan, *Currency and Coercion: The Political Economy of International Monetary Power*, (Princeton: Princeton University Press, 1995), 68; See also, Finer, Herman, *Dulles Over Suez: The Theory and Practice of his Diplomacy*, (London: Heinemann, 1964), 428

against us the whole pressure of the United States, both in Washington and New York, the losses rapidly increased, and in November were to be \$279 million, largely, if not wholly, in the first few days.”⁴⁷⁴ How did it come to this? And why did the United States wait until November 5 to initiate currency warfare against the British?

On Monday November 5 Eisenhower awoke to the expected news that the British and French invasion of Egypt had begun. “At eight o’clock” Eisenhower recalled, “six hundred British paratroopers jumped on Gamil Airfield, to the west of Port Said on the Suez Canal. Five hundred French paratroopers dropped to the south of Port Said.”⁴⁷⁵ U.N Secretary General Dag Hammarskjold had set midnight as the deadline for the British and French to agree to the ceasefire, but they had ignored the Secretary General’s deadline and move forward with the invasion. In London, British Prime Minister Anthony Eden was acutely aware that a growing rift between his government and the United States had developed and in the hours between November 4 and the morning of November 5, he had written Eisenhower “It is a great grief to me that the events of the last few days have placed such a strain on the relations between our two countries.”⁴⁷⁶

Perhaps realizing that keeping the Eisenhower in the dark had been a mistake in the early days of the war, Eden explained Britain’s motives in launching the war. Invoking the memory of appeasement prior to the Second World War, Eden wrote that “Nasser would have become a kind of Moslem Mussolini and our friends in Iraq, Jordan,

⁴⁷⁴ Macmillan, Harold, *Riding the Storm: 1956-1959*, (New York: Harper & Row, Publishers, 1971), 164

⁴⁷⁵ Eisenhower, Dwight, *Waging Peace: The White House Year, 1956-1961*, (Garden City: Doubleday & Company, Inc., 1965), 89

⁴⁷⁶ Letter from Anthony Eden to Dwight Eisenhower, Dated November 5, 1956, Boyle, Peter G (Editor), *The Eden-Eisenhower correspondence, 1955-1957*, (Chapel Hill: The University of North Carolina Press, 2005), 182

Saudi Arabia and even Iran would gradually have been brought down.”⁴⁷⁷To Eden now was the moment to strike arguing that “Here is our opportunity to secure an effective and final settlement of the problems of the Middle East” warning that “if we draw back now, chaos will not be avoided.”⁴⁷⁸ Eden coupled his explanation to Eisenhower with a plea for the United States to understand Britain’s position and to provide its diplomatic support, and to refrain from acting against Britain whose weak financial position and the cost being incurred he made Eisenhower aware of writing that “no one feels more strongly about this than Harold, who has to provide the money.”⁴⁷⁹

But Eden Government had decided to push through and was prevaricating on the UN’s resolution for cease fire. Arguing, not incorrectly that to withdrawal British and French forces now before the peacekeepers could be sent it would create a “military vacuum” and that he resented “being pilloried as aggressors” while there was no discussion as to intervene in Hungary which was under Soviet attack.⁴⁸⁰

Eisenhower met later that day with Acting Secretary Hoover and Vice-President Nixon, among others and argued that the United States should continue the policy of pushing for a cease-fire even if the British and French had begun the invasion. At this point historian David Nichols argues that “Ike was alluding to the two-pronged strategy he had evolved—one public, the other private. The public component, approved by the General assembly, linked a cessation of hostilities with the landing of a token United Nations force. The behind the scenes strategy involved the prohibition Eisenhower had

⁴⁷⁷ Ibid, 183

⁴⁷⁸ Ibid, 183

⁴⁷⁹ Ibid, 183

⁴⁸⁰ Ibid, 242

put in place denying American financial assistance or petroleum to the allies as long as they were still fighting in Egypt.”⁴⁸¹

In his conversation with Eden, Eisenhower had subtly alluded to the financial difficulties Great Britain would soon find herself in saying to Eden that the “Harold’s [meaning the Chancellor of the Exchequer] financial problem is going to be a serious one, and this itself I think would dictate a policy of the least possible provocation.”⁴⁸² Earlier in the crisis John Foster Dulles had indicated that the US would pressure Great Britain through economic means. Dulles remarked to his brother, Allen Dulles “There would be a strain on Britain and France and it would be economic and quickly [sic].”⁴⁸³ On November 6, Harold Macmillan, according to his biographer Alistair Horne, said that “He told the Cabinet that there had been a serious run on the pound viciously orchestrated in Washington,” and that the country’s gold reserves had fallen by some \$280 million.⁴⁸⁴

The emphasis Macmillan placed on the immediate financial crisis would have grave consequences for the Anglo-French invasion. Whether galvanized by the rapid assault on the pound, or by his determination to avoid devaluation, Macmillan placed too much significance in the short term on Britain’s financial woes. Instead of asking if the United States would truly risk the complete undermining of its closest ally’s monetary

⁴⁸¹ Letter to Robert Anthony Eden from Dwight Eisenhower, dated November 5, 1956 in *The Papers of Dwight David Eisenhower, The Presidency: The Middle Way XVII*, (Baltimore: The Johns Hopkins University Press, 1996), Page. 2363.

⁴⁸² This quote is found in David Nichols Eisenhower 1956 page 243.

⁴⁸³ Kun, Diane B., *The Economic Diplomacy of the Suez Crisis*, (The University of North Carolina Press, Chapel Hill, NC, 1991), Page. 127.

⁴⁸⁴ *Ibid*, 131

and economic system, he surrendered to the immediacy of the challenge saying “we must stop, we must stop,” or else “we will have no dollars left by the end of the week.”⁴⁸⁵

Macmillan was not alone in understanding the threatening posture of the United States. On November 6, Eisenhower spoke with Eden threatening to undermine the pound unless Eden ended the invasion. According to Eden who conveyed the phone conversation with Eisenhower that “if you don’t get out of Port Said tomorrow, I’ll cause a run on the pound and drive it to zero.”⁴⁸⁶ In addition to Eden’s phone call with Eisenhower, Macmillan also confirmed that the run on the pound was “encouraged by Washington,” and within the first week of November alone, the British treasury had lost \$85 million in foreign reserves.⁴⁸⁷ The Cabinet was informed that Great Britain would require \$300 “to supply those who had titles to sterling” and in order to maintain Pounds exchange rate of \$2.80 the Bank of England was buying millions of pounds to offset the deprecating pound sterling.⁴⁸⁸

In his memoirs, Anthony Eden reflected on the hypocritical nature of the American stance against his government. As Sir Anthony wrote, “we could not help contrasting the American attitude now with our own attitude at the time of the Guatemala campaign. In that country the United States had encouraged the overthrow of a Communist-influenced government, which it considered a menace to the peace of Central

⁴⁸⁵ Blood and Sand, 383

⁴⁸⁶ Watry, David M., *Diplomacy at the Brink: Eisenhower, Churchill, and Eden in the Cold War*, Louisiana State University Press, Baton Rouge, LA, 2014, Page. 138

⁴⁸⁷ Lucasd, W. Scott, *Divided We Stand: Britain, the US and the Suez Crisis*, (London: Hodder & Stoughton, 1991), 292

⁴⁸⁸ Finer, Herman, *Dulles Over Suez: The Theory and Practice of his Diplomacy*, (London: Heinemann, 1964), 428

America. We had understood her action there and done what we could not to hamper in the Security Council.”⁴⁸⁹Power often dispels such notions as fairness or loyalty.

Next came Macmillan’s turn to experience the full power of the United States. When the cabinet met on November 6, relations between the United States had deteriorated to perhaps its lowest point since the War of 1812. If November 5 had witnessed the beginning of Eisenhower’s attack on the pound by selling its reserve Sterling, the British Government learned the next day that the Americans would also refuse to grant Britain’s removal of its dollars at the International Monetary Fund (IMF). This was a hard blow. As Macmillan remembered,

“We hoped that the United States would now pursue, if not a friendly, at least a neutral and perhaps even a constructive course. We could hardly foresee ‘that the United States Government would harden against us on almost every point and become harsher after the cease-fire than before. Once again we had misjudged the mood of Washington.”⁴⁹⁰

In a conversation with Secretary of the Treasury George Humphrey, Macmillan learned that Humphrey “would maintain his opposition to any drawing from the International Monetary Fund or support by means of loan, until the British and French troops had left Egypt.”⁴⁹¹ The British had asked the Americans for a \$1 billion loan while also going to the IMF for a \$500 million loan (from their own contribution of dollars to the IMF) but Humphrey’s had refused. A despondent Macmillan had, through a third party, pleaded with Humphrey “to go easy on the pound.”⁴⁹²Macmillan’s “had frantically called American officials to get them to release these British-owned dollars...” but the

⁴⁸⁹ Eden, Anthony, *Full Circle*, (Cambridge: The Riverside Press, 1960), 634

⁴⁹⁰ *Riding the Storm*, 166-167

⁴⁹¹ *Ibid*, 167

⁴⁹² Cooper, Chester L., *The Lion’s Last Roar: Suez, 1956*, (New York: Harper & Row, Publishers, 1965), 192

Americans had said no, and “Humphrey never would have taken such an unfriendly position without the president’s approval.”⁴⁹³The Anglo-American rift was taking an emotional toll on Macmillan. The Foreign Secretary, Selwyn Lloyd, believed that Macmillan was “emotionally affected when he was told that the administration of his close wartime friend, Eisenhower, through the mouth of George Humphrey...whom Macmillan also regarded as a friend, was obstructing our drawing from the International monetary fund what was our own money.”⁴⁹⁴ Historian Herman Finer writes that “It was in America’s power to sustain the British finances without asking for a cease-fire; it was America’s policy to use her control over British finances to dictate the cease-fire, to exact it.”⁴⁹⁵But why did Eisenhower and his administration, including the Treasury Secretary, wage currency warfare against Britain?

From the beginning, and before, the Eisenhower administration had been adamant that it would not support the use of force to solve the dispute over the Suez Canal. Eisenhower had made his views clear to Eden as far back as September, if not earlier. Writing to Eden, Eisenhower had said,

“I really do not see how a successful result could be achieved by forcible means. The use of force would, it seems to me, vastly increase the area of jeopardy. I do not see how the economy of Western Europe can long survive the burden of pronged military operations, as well as the denial of Near East oil. Also, the peoples of the Near East and of North Africa and, to some extent, of all of Asia and all of Africa, would be consolidated against the West to a degree which, I fear, could not be overcome in a generation and, perhaps, not even in a century particular having in mind the capacity of the Russians to make mischief. Before such action were

⁴⁹³ Hitchcock, William L., *The Age of Eisenhower: American and the World in the 1950's*, (New York: Simon & Schuster, 2018), 333

⁴⁹⁴ Lloyd, Selwyn, *Suez 1956: A Personal Account*, (London: The Trinity Press, 1978), 211

⁴⁹⁵ Finer, Herman, *Dulles Over Suez: The Theory and Practice of His Diplomacy*, (London: Heinemann, 1964), 429

undertaken, all our peoples should unitedly understand that there were no other means available to protect our vital rights and interest.”⁴⁹⁶

Secretary Humphrey had made the American policy quite clear. The United States did not support the British use of force in Egypt and would work to subvert it. Humphrey, had also been a staunch supporter of challenging the British during the crisis and now his enthusiasm for using American monetary power began to be felt. As he explained. Humphrey explained that “we took a stand against them [Allies] when their action violated the basic principles in which we believe.”⁴⁹⁷ The strategy motivating the attack on the pound was one of subversion, to subvert the invasion, and in the long run, as evident by Eisenhower’s anti-colonialism, the British presence in the region. But why wait until November 5? The answer rest with how Eisenhower perceived the threat from Russia, specifically, the Russian overtones to a third world war pushed Eisenhower to attempt to end the Egyptian war before it could escalate into a much larger conflict.

The Russian Threat

The British and French had ignored the deadline and pushed forward with invasion. More importantly, before the Anglo-French landings had begun in Egypt, at 3:13 a.m., “news arrived of the full soviet assault on Hungary.”⁴⁹⁸ Shortly after the landings had begun the Russians escalated the conflict to a new level. As Eisenhower remembered, “Bulgamin released messages to Eden, Mollet, and Ben-Gurion” stating that “the Soviet Union was prepared to use force to crush the aggressors and restore the

⁴⁹⁶ *The Eden-Eisenhower Correspondence, 1955-1957*, Letter from Eisenhower to Eden, Dated September 26, 1956, Pages 161-167

⁴⁹⁷ Howard, Nathaniel R. (editor)., *The Basic Papers of George M. Humphrey as Secretary of the Treasury*, (Cleveland: The Western Reserve Historical Society, 1956), 485

⁴⁹⁸ Von Tunzelmann, Alex, *Blood and Sand: Suez, Hungary, and Eisenhower’s Campaign for Peace*, (new York: Harper Collins Publishers, 2016), 375

peace” and “warned them that a spread of the fighting could lead to World War III.”⁴⁹⁹The Russians had warned of using “rocket weapons” and that an attack on Egypt by the western powers might be responded to “more powerful states possessing all types of weapons of destruction...and would “crush the aggressor and reestablish peace in [the Middle East] by using force.”⁵⁰⁰To Eisenhower, the Soviet leader wrote that “if this war is not stopped, it is fraught with danger and can grow into a Third World War,” and proposed that a joint Soviet-American force be sent to Egypt to put an end to the fighting.⁵⁰¹This, Eisenhower could not agree to. To have the Soviet Union sending its military to Egypt stood against everything Eisenhower was attempting to achieve—the of a Soviet presence in the region. Furthermore, the not so subtle message that Moscow was contemplating an escalation of the regional conflict into a global war was troubling. The Soviet leader had given the British, French, and Israeli governments a stark ultimatum, specifically saying that “We are full of determination to crush the aggressor and reestablish peace in the [Middle] East by using force.” At the United Nations, Foreign Minister Dmitri Shepilov condemned the British and French for not compiling with the November 2 resolution and made it publically known that the Soviet Union was prepared “to contribute to the cause of curbing the aggressors, of defending the victims of aggression, and of restoring peace, by sending to Egypt the air and naval forces necessary for the achievements of this purpose.”⁵⁰²

⁴⁹⁹ Ibid, 89

⁵⁰⁰ Thomas, Evan, *Ike's bluff: President Eisenhower's Secret Battle to Save the World*, (New York: Little, Brown, and Company, 2012), 228

⁵⁰¹ Von Tunzelmann, Alex, *Blood and Sand: Suez, Hungary, and Eisenhower's Campaign for Peace*, (new York: Harper Collins Publishers, 2016), 89

⁵⁰² Quoted by Nichols in *Eisenhower 1956*, page 244

Eisenhower, like Eden, looked to his experiences in the Second World War to guide his next step in responding to the Russians. But unlike Eden, “all evidence indicates that the threat of the Soviet Union hit Washington with more terror than it did London or Paris.”⁵⁰³ Eisenhower viewed the Soviet threat of World War and the crackdown in Hungary as symptoms of a scared regime. Analogizing the current Soviet mindset with that of Hitler in his final days, Eisenhower commented that “they are scared and furious as Hitler was in his last days. *There’s nothing more dangerous than a dictatorship in that frame of mind* (my italics).”⁵⁰⁴ Eisenhower convened another meeting to determine how to respond to the Soviet ultimatum. Eisenhower understood the gravity of the situation. His telling those around him that,

“We may be dealing here with the opening gambit of an ultimatum. We have to be positive and clear in our every word, every step. And those fellows start something, we may have to hit them—and, if necessary with everything in the bucket.”⁵⁰⁵

The United States “would oppose with force any attempt to violate the U.N. plan for getting a cease-fire.” Eisenhower’s statement further established America’s resolve to use force in the conflict saying that “Neither Soviet or any other military forces should now enter the Middle East area except under United Nations mandate, and that unilateral action “would violate the United Nations Charter, and it would be the duty of all United Nations members, including the United States, to oppose any such efforts.”⁵⁰⁶ The U.S Sixth Fleet stationed in the Mediterranean was put on alert. The Joint Chiefs of Staff

⁵⁰³ Dulles over Suez, 430

⁵⁰⁴ *Blood and Sand: Suez, Hungary, and Eisenhower’s Campaign for Peace*, 90

⁵⁰⁵ *Eisenhower 1956*, 245

⁵⁰⁶ *Ibid*, 246

viewed November 5 as the day in which the United State came closest to war with the Soviet Union since the Second World War.⁵⁰⁷ A frustrated Eisenhower said “there has to be some way out of this impasse,” but how?⁵⁰⁸ As Herman Phleger, Eisenhower’s aid remembered it came down to “Either Nasser must fall—or Eden must fall.”⁵⁰⁹ Eisenhower chose Eden.

Confronting the Implementation Cost of Currency Warfare

It has often been asserted that targeting the pound during the Suez Crisis as a strategy to undermine the Anglo-French invasion of Egypt was costless to the United States, especially when it exercised negative monetary power at the IMF by blocking the desired loan to the British. All the United States had to do was say “no.” The evidence suggest however that this was not quite the case. Between November 6 and through the British agreement to withdrawal completely from Suez, the Eisenhower Administration had to consider the implementation costs of its policy of attacking the pound. The costs were primarily political but also monetary. They were political in the continuing anti-American sentiment being expressed in Britain and France, concern for how the potential collapse of the British would impact NATO and the future of the Conservative Party in Britain, which the Administration favored. Although the initial attack on the pound began on November 5, the British refusal to agree to a complete withdrawal would force the Eisenhower Administration to weight the costs of continued implementation of coercion against the British or to abandon its monetary campaign against the pound.

⁵⁰⁷ I draw on Nichols who writes that “The chiefs viewed the situation as the closest they had come to war with the Soviet Union since World War II, the entire Navy was directed to “maintain readiness to implement emergency war plans.” *Eisenhower 1956*, Page. 246-247

⁵⁰⁸ Blood and Sand, 398

⁵⁰⁹ Ibid, 398

The British decision to accept a cease-fire did not bring an end to the conflict. A number of critical questions remained including when, exactly, the Anglo-French and Israeli forces would withdraw? American foreign policy, and its continuous campaign against the pound hinged on this question and until the Europeans agreed to a complete withdrawal the pound would remain under pressure by the United States. From the American side, the Eisenhower Administration had to decide to what degree it would risk the collapse of the British monetary system and if the risk to U.S.-British relations was worth the continued campaign against the pound. Ultimately, the hardliners within the Administration, specifically Secretary Humphrey, Secretary Dulles and his deputy, Acting Secretary Hoover won the debate actively working against the British until they had accepted a complete withdrawal from Egypt and ensured the collapse of Anthony Eden.

The National Security Council (NSC) met on November 8 to discuss future actions in the Middle East. Two questions were of serious concern. First, what should be done about Britain's oil situation, or rather the lack of oil? Second, and linked to the first, was what to be done about Britain's financial situation, or what they called "the dollar problem." The NSC was split on what to do, and Eisenhower seemed inclined to help the British and French, but attempting to continue his policy of not alienating the Arab world. Hoover, "predicted that there was going to be harsh rationing in Europe, which was

bound to give rise to the extreme anti-American feeling on the ground that we will not seem to have done what is plainly in the vital interest of Western Europe.”⁵¹⁰

For all of his feelings against the British during the previous week, Hoover was adamant about helping provide oil to the British and French, but Eisenhower “reiterated his point that the vital problem now was to induce Egypt to agree to a cease-fire” which would be “much more difficult if we presently announce that we are going to get oil to Great Britain and France.”⁵¹¹ Secretary Humphrey agreed with Eisenhower that the cost imposed on the United States should be kept to a minimum, but more importantly “the United States would have to do what it could for Europe in the near future, but not at the present moment; that is, not until the British and French Governments have got back into a position of compliance with the directives of the United Nations.”⁵¹² Furthermore, it seemed clear that if the United Kingdom did not look out, it would bust itself to a point of bankruptcy and of no return.” Of course, Humphrey and the Administration could avoid that by allowing for the loan by the IMF to shore up Britain’s dollar reserves but he was unwilling to do so.⁵¹³

However, although the United States was debating at what point to assist Great Britain, which was when that country would agree to pull out of Egypt, offensive against Anthony Eden took on an increasingly personal turn and coupled with the continued offensive against the pound, put Great Britain in a difficult situation. Between November

⁵¹⁰ 303rd Meeting of the National Security Council, Thursday, November 8, 1956. DDE Papers as President, 1953-1961 (Ann Whitman Files), NSC Series, Box No.: 8 File 303rd Meeting of NSC 11/9/1956. Dwight D. Eisenhower Presidential Library, Abilene, KS. Hoover’s comments are located on page 4.

⁵¹¹ Ibid, 5

⁵¹² Ibid, 6

⁵¹³ Ibid, 7

7 and the 29th, there was no real communication between the President and Anthony Eden, and the State and Treasury Department's approach to the ongoing situation made it clear that assistance would not be provided until Eden left. Humphrey had put the matter down clearly to the British Economic Minister at the British Embassy, Lord Harcourt, that "For the US to offer financial aid to the UK and France in the light of actions of the last 10 days would be totally unacceptable politically in the US or some considerable time" and Dulles argued that "Even a coverup of disagreement, by an outwards appearance of agreement, would gravely prejudice our own position in the world and would seem to tie us to policies which would be doomed to failure and would expose the Middle East and Africa to almost certain Soviet penetration and dominance."⁵¹⁴

As November pressed on the United States had to consider its "stake in avoiding U.K. Financial Crisis" according to a State Department study.⁵¹⁵ Macmillan feared that the United Kingdom was in risk of becoming another small country like Holland, if the sterling "would depreciate substantially."⁵¹⁶ The analysis depicted Britain's financial position in precarious terms writing that "The Middle East crisis is no placing additional financial burdens on the pound sterling, both in terms of direct and indirect costs related to the military effort in Egypt, and more importantly, of increased speculation against the

⁵¹⁴ *Divided We Stand*, 301

⁵¹⁵ Memorandum From the Officer in charge of United Kingdom and Ireland Affairs (Dale) to the Director (Parsons) and Deputy Director (Lister) of the Office of British Commonwealth and Northern European Affairs, Dated Wednesday, November 26, 1956; Glennon, John P (Editor in Chief), *Foreign Relations of the United States, 1955-1957, Vol. XXVII Western Europe and Canada*, (Washington D.C: United States Government Printing Office, 1992), 668

⁵¹⁶ Telegram from Embassy in the United Kingdom to the Department of State. London, November 19, 1956—10 p.m. FUSA, 1955-1957, Western Europe and Canada, Vol. XXVII, 666

pound.”⁵¹⁷The hemorrhaging of dollar and U.S dollars had in the previous week amounted to \$102 million and Britain’s dollar reserves were “down to just over \$2 billion.” Without “external” meaning U.S. help, “the British will soon enter a most serious financial crisis.”⁵¹⁸What was needed was moral support from the United States in the form of financial aid. “If such aid were not forthcoming now” than “countries as India, Pakistan, and Ceylon, losing confidence in the value of sterling, attempted to force redemption of their sterling claims, the British financial position would uncountable worsen.” A potential remedy was for Britain to reintroduce currency controls including “the blocking of foreign-held accounts” but such an act would pose a fateful injury to “Sterling as an international currency.”⁵¹⁹

The true costs of this potentiality was not limited to the monetary impact within Great Britain, which would be severe. The true costs would be felt in the balance of power between the United States and the Soviet Union. The collapse of sterling would open the way for Soviet penetration in those emerging countries who were currently part of the Sterling bloc, and the IMF was not strong enough to replace Sterling’s weight in those emerging countries.⁵²⁰Furthermore, the financial crisis facing Great Britain could prove to have such a “psychological impact” that the country would see itself with a “diminishing conception of their own significance” which “could hasten a shift in military planning to the point where they would no longer be willing or able to commit the present level of resources to defense.” Such concerns would extend to their

⁵¹⁷ Ibid, 668

⁵¹⁸ Ibid, 668-669

⁵¹⁹ Ibid, 669-670

⁵²⁰ Ibid, 671.

commitments in the Middle East but more importantly NATO. The British who were already pondering a diminished role in Germany would further feel justified in pursuing such a policy of which “the consequences to NATO could be devastating.”⁵²¹

But as of November 20th Humphrey was still withholding U.S financial support from the British and French until they agreed to pull out of Egypt completely. Humphrey had devised a plan by which to assist the British which would require the United States depositing \$750 in the IMF so that there would be sufficient funds to cover the British loan.⁵²² But Humphrey continued to view his withholding of US support as a form to coerce the British from permanently withdrawing from Egypt saying that he had the “fig leaf” for the British “to cover their nakedness in withdrawing from Suez” but that the US would not do so until “they start to get out of the Suez at once.”⁵²³

The President was in full agreement with Humphrey and outlined the next steps in the currency war against Britain:

“First, we are ready to talk about help as soon as the pre-condition (French and British initiation of withdrawal) is established; second, on knowing that the British and French forces will comply with a withdrawal undertaking at once, we would talk to the Arabs to obtain the removal of any objections they may have regarding the provision of oil to Western Europe; third, we will then talk the details of money-assistance with the British.”⁵²⁴

⁵²¹ Ibid, 671

⁵²² Diary, November 19, 1956. DDE, Papers as President: 1953-1961, (Ann Whitman File_ Ann Whitman Diary Series, Box No. 8, File: Nov. '56 Diary (1). Humphrey stated that “Since all the money in the Monetary Fund is in the form of United States bonds, that would compel us to place into the Fund 750 million dollars cash – so that they could take out that much of their own bonds.” The Secretary went onto to say that “In addition, the British government will probably ask for the suspension of their loan payments for one or more years.”

⁵²³ Memorandum of Conference with the President, November 20, 1956; 5:30 P.M. DDE Papers as President, 1953-1961, Ann Whitman Files, Box 19, File: Nov. '56 Staff Memos.

⁵²⁴ Ibid, 2

On November 20, the Americans made their position to the British Clear. Eisenhower called his Ambassador in London, Aldrich, and told him that he should speak with Macmillan and butler, “informing them we have sincere sympathy and understanding for UK financial difficulties and would like to be of assistance,” but “if we undertook commitments before UK and French forces are withdrawn, we would be in a position of going back upon a matter of major principle which we had no alternative but to adopt.”⁵²⁵ The Ultimatum was therefore placed before the British. Withdrawal from Egypt or be on your own.

It appeared that U.S.-British relations had reached their nadir. On November 23 an aging Winston Churchill wrote to his old friend, President Eisenhower. Churchill, warmly, reminded Eisenhower that “to let events in the Middle East become a gulf between us would be an act of folly, on which our whole civilization may founder.” Reminding Ike of the real threat, the Soviet Union, Churchill continued that the “growing misunderstanding” between their two countries “be allowed to develop, the skies will darken and it is indeed the Soviet Union that will ride the storm.”⁵²⁶

Despite Churchill’s letter, Eisenhower’s “blackmail” of the British continued for another week and no US assistance was provided. Meanwhile the British monetary situation worsened to the point that it was a topic of discussion at the following meeting of the National Security Council on November 30. Humphrey attitude underwent a turn

⁵²⁵ “Eyes only Ambassador From Acting Secretary” Sent to “Amembassy London (original spelling)” Dated November 20, 1956. DDE, Records as President, White House Central Files, (Confidential Files), 1953-1961, Subject Series, Box 72, File: State Department (Nov. 1956)(2). Eisenhower Presidential Library, Abilene, Kansas.

⁵²⁶ Letter from Sir Winston Churchill to President Eisenhower, London, November 23, 1956. FUSA, Western Europe and Canada, Vol. XXVII, 667

since the preceding week, appearing more amenable and even enthusiastic about helping the British. Perhaps this was because as Humphrey put it “point in fact the financial aspects of Britain’s problems were even more serious than her physical situation. The British reserves were falling very rapidly. Even some slight indication of a run on currency could spell disaster for Great Britain” telling vice President Nixon that “private assurances” had already been made to the British about American help. This was important because on the preceding day, November 29th, the British Cabinet had finally agreed to announce on Monday, December 3, that Britain would be pulling out of Egypt.⁵²⁷

The Interim Period 1957-1958: Mending the Special Relation and the Eisenhower Doctrine

The origins of the 1958 Middle East Crisis, specifically the American military intervention in Jordan and the British deployment of paratroopers to Jordan, can be found in the immediate aftermath of the Suez Crisis. Two things became clear following Suez. First, that Gamal Abdel Nasser by surviving the British and French invasion had achieved unimaginable prestige and influence in the region, becoming “the hero of the Arab World.” In the months between Suez and the 1958 Crisis, Nasser would strive towards a merger of Egypt and Syria known as the United Arab Republic and actively work to subvert pro-western governments of Iraq, Jordan, and Lebanon. Second, and equally important, the United States emerged clearly as the dominant Western power in the

⁵²⁷ Discussion at the 305th Meeting of the National Security Council, Friday, November 30, 1956DDE Papers as President, Ann Whitman Files, NSC Series Box 8, File: 305 NSC Meeting. Eisenhower Presidential Library, Abilene, KS. See also, *Eisenhower 1956*, 272

region supplanting Great Britain and France. Following Eisenhower's reelection, the administration sought to craft a new foreign policy towards the region. The challenges confronting Eisenhower remained largely the same as before Suez but had grown in degree and severity. These threats included a more powerful Nasser and greater Soviet presence in the region, especially in Egypt and Syria. The response to these changes was what came to be known as the Eisenhower Doctrine. The Eisenhower Doctrine "authorized the president to provide economic and military assistance to Middle Eastern countries" who were threatened by "armed aggression from any country controlled by international communism" showed important similarities with American foreign policy prior to the Suez Crisis.

American anti-colonialism remained constant, although more tempered, and continued to view overt partnership with the Europeans as a liability in favorable U.S.-Arab relations. Second, was the American obsession with viewing the region within the Cold War context (although as we shall see, Eisenhower had a more nuanced view of Arab nationalism than his subordinates). As one historian has put it, Eisenhower and Dulles "rejoiced that European influence in the region was on the wane but feared the Soviets might fill the vacuum." And yet the Americans also seemed to have realized that further subversion of British power was anathema to their interest. To stave off the Soviets in the region the United States needed to bolster pro-western governments and British influence in some of those governments was important. This perspective was also assisted by a new administration in Downing Street which sought to repair the strains

created by the Suez Crisis and which sought to never act independently of the United States.

There was also some changes in leadership on both sides of the Atlantic. In the United States Secretary of the Treasury George Humphrey would leave in 1957, removing an important and supportive advocate of American monetary power. Harold Macmillan replaced Anthony Eden as prime minister in January 1958. Macmillan who was described as “essentially a man of good will” and “a man of energy” took the helm of state at a time when the challenges confronting Great Britain could be described as “mountainous.”⁵²⁸ From the British perspective, Macmillan had to respond to the after effects of the Suez debacle and increased crisis from the Middle East which if left to continue on its present course would result in Great Britain losing vital access to oil, of which it could not do without.⁵²⁹

For Macmillan his principal foreign policy objective was the mending of the Special Relationship with the United States. With relations between the two allies at an all-time low, Macmillan sought to meet Eisenhower, but he would not do by jeopardizing British honor. Macmillan had been direct with Eisenhower saying that the United States had “let down” Great Britain during the Suez.⁵³⁰ Macmillan would meet Eisenhower in

⁵²⁸ Horne, Alistair, *Macmillan, Volume II: 1957-1986*, (Viking: New York, NY), 1989, Page 5-15

⁵²⁹ Ibid, 15: Horne lists several foreign policy crises which Macmillan faced including not only in dealing with the Commonwealth, specifically that of Cyprus, and if he would preside over the dissolution of the British Empire. Horne writes that “Macmillan speculated whether he was ‘destined to be the remodeler or the liquidator of Empire.’ There was the India-Pakistan dispute, The Syrian closing of its pipe-lines, whether Germany would continue to pay for British troops stationed in Germany, and of course healing its relations with the United States.

⁵³⁰ Ibid, 21. According to Horne “From the moment of his accession, Macmillan decided that he had to go to see Eisenhower in person at the earliest possible opportunity, but he was equally determined not to appear in the role of suitor even to his old friend. He would not go groveling to Washington, on ‘a

Bermuda shortly after becoming Prime Minister and building on their friendship mend fences as best as possible. Moving beyond the current anger of both governments, and peoples, Macmillan said that “your government and many of your people think we acted foolishly and precipitately and illegally” and that “many of our people think that you were too hard on us—and rather let us down” and that they should focus on the future and specifically the Canal. Eisenhower more than likely did not agree with the assessment in its entirety, but he faced growing problems in the region—continuing a poor relation with its closest ally could not be helpful.

Following the Bermuda meeting and through the remaining of 1957 the special relationship was reestablished. From the British perspective its interest in the region “the best hope of securing British aims,” was “co-operation with the US.”⁵³¹ Eisenhower in turn proposed “a joint planning operation” for the purpose “to work out a common Middle Eastern policy.”⁵³²In 1958 the US and Great Britain would work closely together, if not always in agreement, than perhaps at any other point since the 1953 operation in Iran.

Case II: The 1958 Crisis in Jordan and Lebanon: From Subversion to Status Quo

The catalyst for American and British military deployments in Lebanon and Jordan was the coup in Baghdad on Monday July 14, 1958. As Eisenhower recalled “this was the country we were counting on heavily as a bulwark of stability and progress in the region” and that “without vigorous response on our part [in the region],” could “result in

pilgrimage to Canossa’ as he put it. He, too, had minced no words to Eisenhower about his sense of hurt at having been ‘let down’ over Suez.”

⁵³¹ Ovandale, Ritche, “Great Britain and the Anglo-American Invasion of Jordan and Lebanon in 1958,” *The International History Review*, Vol. 16, No. 2 (May 1994), Page. 285

⁵³² *Ibid*, 285

a complete elimination of Western influence in the Middle East.”⁵³³The months preceding the crisis had seen Nasser forge a union with Syria known as The United Arab Republic which threatened to envelope Lebanon and undermine Jordan’s pro-western government headed by King Hussein. This threat resulted in proposals for some form of union between Iraq, Jordan, and even Kuwait. Both Lebanon for the Americans and Jordan and Iraq (for the British) represented important pillars to maintaining western interest in the region, including access to oil. Prior to July 14, the Americans and British had been at odds over the urgency of a potential threat to the regimes in Iraq and Jordan,⁵³⁴ although after the coup in Baghdad the two governments became *sympatico* in their analysis of the danger, if not necessarily into how to respond.

Jordan’s owed its existence as a state to the British following the First World War yet by the mid 1950’s British influence was diminishing. Following anti-Baghdad pact riots King Hussein had removed General John Glubb as commander of the Jordanian army and in 1957 the National Socialist Party which had benefited from “liberalization of the electoral process” won a majority and its leader Suleiman al-Nabulsi “abrogated the Anglo-Jordanian treaty in March 1957,” as well as pressing for closer ties Soviet Union.⁵³⁵ King Hussein, sensing not an irrational existential threat to his rule (there were

⁵³³ *Waging Peace*, 269

⁵³⁴ *A Revolutionary Year*, 32

⁵³⁵ Tal, Lawrence, “Britain and the Jordan Crisis of 1958”, *Middle Eastern Studies*, Vol. 31, No. 1, (Jan. 1995), Page. 39

several assassination attempts and plots directed at the King) by the formation of the UAB aligned itself with the US and Great Britain.⁵³⁶

The situation reached a critical point on July 14, 1958 when King Feisal, and its Premiere Nuri-es-Said had been murdered in a coup. As Alistair Horne put it “The Baghdad Pact was no more.”⁵³⁷ Macmillan wrote that the coup was “devastating news, destroying at a blow a whole system of security which successive British Governments had built up, great to the interests of the Iraqi people and supported with generous aid in money, skill and experience.”⁵³⁸

On July 14, 1958 Macmillan wrote to Eisenhower informing him that King Hussein of Jordan had “specifically asked for an assurance both from your Government and from ours, that we will come to his assistance militarily if he thinks this necessary to preserve the integrity and independence of Jordan.”⁵³⁹ Macmillan urged Eisenhower to commit to the pledge sooner rather than later reminding him that “since if our military support is to be effective and have a real impact upon the whole situation in the Middle East, it will have to be given promptly.”⁵⁴⁰ A few days later, Eisenhower responded. The tone could not have been different than during the previous British deployment of its armed forces in Suez nearly a year and a half previously. Eisenhower, writing warmly and in a supportive manner to Macmillan said that “we have of course fully supported your decision,” and that although the future remained uncertain, “we can...face it

⁵³⁶ For an excellent study of the Jordanian Crisis from the British perspective and which gives close attention to King Hussein’s concerns see Lawrence Tal’s *Britain and the Jordan Crisis of 1958* printed in *Middle Easter Studies*.

⁵³⁷ *Harold Macmillan: Volume II 1957-1986*, 51

⁵³⁸ *Ibid*, 51

⁵³⁹ *Ibid*, 162.

⁵⁴⁰ *Ibid*, 163

together with the consciousness, I believe, that we have responded in a manner befitting out traditions.”⁵⁴¹

This however, was somewhat disingenuous on Eisenhower’s part. The United States had acted independently in Lebanon when its dispatched marines to uphold Chamoun’s government, prompting Macmillan’s sardonic issuance to Eisenhower that “you are doing a Suez on me.”⁵⁴² In Jordan the British with American support, the British would not have acted otherwise, dispatched paratroopers to Jordan to uphold the monarchy of King Hussein. Operation Fortitude, the British landing of Paratroopers in Amman began on July 17, a few days after the coup in Iraq. If there was ever an example of how the Eisenhower’s strategy towards the use of British military power in the region and of its role in sustaining Middle East security had changed from one of subversion to one of support, it was the American governments efforts in providing logistical support for the British and working diplomatically to allow for that support to reach them.⁵⁴³

Eisenhower’s Military Intervention in Lebanon July 1958

The decision to support the British was made at roughly the same time that the Americans landed in Lebanon on July 15 following escalating tensions in Lebanon including border crossings from “Arab nationalists” from Syria and movements within Lebanon to modify the constitution to allow Chamoun to run for another presidential term.⁵⁴⁴ From Eisenhower’s perspective the decision of July 15, 1958 came as a surprise.

⁵⁴¹ Ibid, 164-165

⁵⁴² *A Revolutionary Year*, 17

⁵⁴³ According to Tal in a meeting the day prior to the British landings in Jordan, Thomas Wright an American Diplomat stated the American support for the operation stating, “The US would provide fuel and logistical support.” “Britain and the Jordan Crisis of 1958”, 44

⁵⁴⁴ *Waging Peace*, 265

Eisenhower wrote that “In early July it appeared that the Lebanon crisis would pass without military assistance,” but when he was informed “of a coup in Baghdad against the Hashemite monarchy” which like the British, the Americans “were counting on heavily as a bulwark of stability and progress in the region.”⁵⁴⁵ Eisenhower recalled that “overnight our objective changed from quieting a trouble situation to facing up to a crisis of formidable proportions.”⁵⁴⁶

There is no doubt that Eisenhower “was wary of intervention, but the overthrow of the friendly Iraqi government” presented a severe threat to American interest in the region in the form of another crisis. Fearing a “Lebanese Anschluss,” as the New York Times wrote, and of the growing influence of Nasser and the Soviet Union at the expense of the United States, Eisenhower dispatched the Six Fleet and landed the marines.⁵⁴⁷ Furthermore, Eisenhower balked at having a joint U.S.-British military operation in both Lebanon and Jordan, as he wanted to minimize the exposure of cooperation with the British in the Arab world.

The 1958 Crisis: Absence of Subversion

During the 1958 crisis the United States dispatched a powerful fleet and landed marines in Lebanon, the largest naval operation since Inchon.⁵⁴⁸ At the same time, the Eisenhower Administration had supported the deployment of British forces in Jordan to support the regime of King Hussein. The question becomes, why wasn’t monetary power used during the crisis? When the landscape is examined what becomes evident is that

⁵⁴⁵ Ibid, 269

⁵⁴⁶ Ibid, 269

⁵⁴⁷ *From Colony to Superpower*, 678

⁵⁴⁸ Ibid, 678

when all other factors are considered the continuity of perceived threats by the United States from Nasser and the Soviet Union, the use of British military forces to maintain their interest in the region, the same leadership, with the exception of Anthony Eden, as was in 1956 and continued American negative view of colonialism, and the continued weak state of the British economy, including its monetary situation, the answer lies that whereas in 1956 the American's had sought to subvert British military operations in 1958 it embraced a policy of supporting the British. In both Jordan and Lebanon, the United States strategic motivation was one of *upholding* those governments not *subverting* them.

This is not to suggest that Eisenhower was exuberant of the use of military force during the crisis. At one point, when Eisenhower appeared to be vacillating a frustrated Macmillan would write that "it is clear that unless reinforcements are sent there is a real danger that a coup [emphasis Macmillan's] may take place under our very nose," and that the "moment of crisis for Jordan and for our whole Middle East Policy." What was needed was American ground forces side by side with their British counterparts. American soldiers would "increase the military strength of the forces in Jordan, but it will have an extremely favorable political effect," providing "visible proof of our support for Jordan's independence." Eisenhower already committed to Lebanon would not deploy American ground forces to yet another Middle Eastern country, but he would, as we have seen, support them in other ways.

The shaping of Eisenhower's strategy towards the British in the Middle East was the result of the realization that Nasser would never be pro-Western and that his aim was to work against Western interest, including siding with the Soviet Union. A significant

shift in the tone of his memoirs is that whereas prior to Suez he emphasized a neutral stance towards the region and speaking of potentially favorable relations with the emerging states, Eisenhower now wrote of sustaining pro-western governments. Although the events leading to and including the armed interventions in Jordan and Lebanon had been “befitting” American and British traditions the fundamental reason for these interventions, according to Eisenhower was Nasser. As he wrote to Macmillan, “one factor that has helped create for us the serious Mid East problem has been the Western inability to counteract or effectively neutralize the Nasser propaganda in that region.” A complete change in tone from the one expressed in 1956.

What About Nasser?

The explanation as to why the United States did not deploy monetary power against Great Britain when it once again sought to send British forces into the region is clearly explained by the shift in Eisenhower’s view on the role the British could play in helping to maintain the status quo in the region—support for pro-western governments. Although still wary of British colonialism and not wishing to be closely associated with British action, Eisenhower reluctantly embraced a military role for the British in the summer of 1958. But what about Nasser?

If the United States had “learned a lot since Suez” as MacMillan put it in regard to Nasser, why did the United States not wage currency warfare against him? From the American perspective Nasser was fomenting rebellion through a subversive campaign against Jordan and Lebanon. In Lebanon, Eisenhower believed he was directly responsible for the unrest in that country who wanted to increase UAR presence in that

country. Nasser could also have been a community, the mortal sin which could attract American intervention. As Eisenhower put it, “if he was not a Communist, he certainly succeeded in making us very suspicious of him.”⁵⁴⁹ Considering all the trouble Nasser was causing American interest in the region, why didn’t the United States act against him?

Nasser in 1958 presented an ideal opportunity for waging currency warfare. His program for a socialist Egypt costs considerable sums, which the Egyptian economy could not possibly acquire on its own. As a secret Central Intelligence Agency (CIA) report argued:

“The Nasser regime, despite its efforts, is no more likely than its predecessors to cope with the basic economic problems arising from the effects of heavy population pressure on severely limited resources and from heavy dependence on a vulnerable cash crop—cotton. The regime has raised popular expectations for improvement in the standard of living, but, barring major technological advances or the unexpected discovery of exploitable resources, Egypt does not possess the means to fulfill these expectations. Projects adequate to raise, or even to maintain, the standard of living are probably not within Egypt’s present capabilities.”

Furthermore, Egypt lacked the necessary “foreign capital” and the prospects of attracting foreign investment or generating revenue from oil sales seemed minimal. Also, The United States could have used its leverage at the IMF as it had done against Great Britain. As the secret intelligence report suggests “the shortage of foreign exchange occasioned by the blocking of Egypt’s funds in the West has been partially surmounted by assistance from Saudi Arabia, by their imposition of stringent import controls, and by a \$30 million drawing from the International Monetary Fund.” Ultimately, the CIA

⁵⁴⁹ Dowty, Alan, *Middle East Crisis: U.S. Decision-Making in 1958, 1970, and 1973*, (Los Angeles: University of California Press, 1984), 34

concluded, Egypt's economic future depended "in large measure upon Egypt's ability to market its cotton abroad."⁵⁵⁰ Egypt, following its merger with Syria, had already devalued its currency by 21% which although helping in some exports, also resulted in lower purchasing power for its own citizens.⁵⁵¹ Egypt's weak currency had even raised concerns in Syria when the discussion of union between the two countries raised the question of how it would impact Syria's stable currency.⁵⁵²

To stave off severe economic hardship a year in 1958, Nasser had secured a loan from the Soviet Union, of roughly "700 million-ruble" of which the Soviets demanded payment in cotton and "freely convertible currencies."⁵⁵³ So much for government controls. But Nasser had gone further. In January of 1957 Nasser implemented a wage of nationalization of foreign banks especially British and French. According to the regime these banks had "aimed at dominating the country's economy and plotted to impair its trade interest," which provided for immediate use of the "savings" for public expenditures.⁵⁵⁴ However, the scale of the Egyptian public works programs although political popular were economically unattainable. Exacerbating this was the foreign-exchange shortage felt by Egypt leading up to the 1958 crisis. Egypt's sterling balances were "frozen indefinitely and trade with the Communist bloc often conducted on a barter basis" meant Egypt had trouble acquiring hard money, and where they came, as by

⁵⁵⁰ National Intelligence Estimate, Number 36.1-57. "The Outlook for Egypt and the Nasser Regime," 12 November 1957. CIA FOIA Library CIA-RDP79R01012A009800030005-8 www.cia.gov.

⁵⁵¹ International Monetary Fund, Annual Report 1958, Washington D.C, Page. 21.

⁵⁵² Major, John, "The Search for Arab Unity," *International Affairs*, Vol. 39, No. 4 (Oct. 1963), Pages 551-563. Page. 559.

⁵⁵³ Hofstadter, Dan, (Editor), *Egypt & Nasser, Volume 2 1957-66*, (New York City: Facts on File, Inc, 1973), 21-22

⁵⁵⁴ Wheelock, Keith, *Nasser's New Egypt: A Critical Analysis*, (New York: Frederick A. Praeger, 1960), 150.

operating the Suez Canal the currency “was used to defray the cost of western imports.”⁵⁵⁵

It is unlikely that without financial aid from the Soviet Union, that Nasser’s revolution would have survived without unrest, and even then, the Soviet loan was only a momentary reprieve of the problems Egypt was facing. Nasser and Egypt’s main financial hope was in her cotton production, but by 1958 “nearly 65 per cent of Egyptian cotton exports went to the Communist world” which could only observe so much, and with “Western cotton markets” finding new alternative Nasser was in trouble.⁵⁵⁶ Ultimately, Nasser was vulnerable to currency warfare in 1958, so the question remains, why didn’t Eisenhower attack?

The answer to this question rests in the perceptions of Arab nationalism which Eisenhower and increasingly some within his administration held. Eisenhower overall concern was always preventing the Soviet Union from increasing their presence and he began to view the difference between communist and Arab nationalism. Shortly after dispatching soldiers to Lebanon, Eisenhower met with his foreign policy team. The topic concerned the future of American foreign policy in the region, which Eisenhower said, “we have not yet seen an avenue out of our over-all problem in the Middle East in light of the Arab sympathies toward Nasser—which are probably greater than we thought existed.”⁵⁵⁷ The President went on to outline his broad strategy which “was clear we must win them to us, or adjust to them.” Allen Dulles agreed saying he felt

⁵⁵⁵ Ibid, 155

⁵⁵⁶ Ibid, 166-167

⁵⁵⁷ Memorandum of Conference with President Eisenhower, July 20, 1958, FUSA, 1958–1960, NEAR EAST REGION; IRAQ; IRAN; ARABIAN PENINSULA, VOLUME XII, PAGE. 83

“we should make a deal with the new Arab groups. Mr. Allen confirmed that he suggested we learn to live with the new groups. The President thought it was clear we must win them to us, or adjust to them,” also remarking that “the United States could live with nationalism,” although it was pan-Arabism which concerned him.⁵⁵⁸

Ultimately, Eisenhower did not consider the use of force against anti-western governments because he felt the United States could instead build a relationship with Nasser and other Arab-nationalist as a bulwark against the Soviet Union. According historian David Lesch this argument had been floating since 1957 writing that “considering the failures of U.S policy to contain Soviet influence in the Middle East to date, it finally dawned on pertinent policy makers that maybe Arab nationalism in the form of Nasserism could be something of an ally in the area gains Soviet expansions.”⁵⁵⁹ Indeed, following the successful resolution of the 1958 crisis, the Eisenhower’s view of working with Nasser and the Arab nationalism was enshrined in policy with NSC resolution 5820 of October 1958. The new foreign policy interpreted Nasser’s Pan-Arabism as “essential element in the prevention of the extension of Soviet Influence in the area.”⁵⁶⁰

⁵⁵⁸ Ibid, 83

⁵⁵⁹ Lesch, David W. in Poden, Elie and Onn Winckler’s Edited Volume, *Rethinking Nasserism: Revolution and Historical Memory in Modern Egypt*, (Gainville: The University of Florida Press, 2004,) 214

⁵⁶⁰ Ibid, 214

Conclusion: Solving the Puzzle of Currency Warfare in the Middle East

In *Waging Peace*, Eisenhower mentions only in passing the waging of currency warfare during the Suez Crisis and how it contributed to Eden's decision to end hostilities.⁵⁶¹ Eisenhower wrote,

“Eden later announced that he arrived at the cease-fire decision because he had accomplished the British purpose: to separate the combatants and prevent the spread of the war. He also mentioned a great drain in British gold and dollar reserves which had fallen by \$57 million in September 84 million in October, and 279 million in November—an amount equal to 15 percent of the British Reserves total. This cost of war was not irrelevant.”⁵⁶²

Whether Ike's omission to the role American monetary power played in subverting the United States closest ally in its war against Egypt was because of remorse, not wishing to embarrass the British, or simply maintaining America's plausible deniability and secrecy over the matter we will never know. What is known is that the United States waged currency warfare with great success against Great Britain ending its invasion of Egypt and proscribing a mortal blow to Britain's imperial identity and power in the region.

What explains the variation in Eisenhower's decision to wage currency warfare in the Suez Crisis of 1956 but not the 1958 Middle East Crisis? Comparing the two crisis presents an almost ideal situation to test the theory of monetary warfare and allows us to examine how the change in strategic perceptions of the principal decision maker, President Eisenhower, can have on the decision to wage currency warfare. Both conflicts, occurred in the same region, the Middle East, with the same state actors (e.g. U.S, U.K,

⁵⁶¹ Eisenhower writes of the Suez Crisis in Chapters 2 and 3 of *Waging Peace*, the second in his two-volume memoir of his presidency. The first volume being a *Mandate for Change*.

⁵⁶² *Ibid*, 92

Egypt), within the same global context of the Cold War. The only differences were that Anthony Eden and George Humphrey had left power in 1957.

In both conflicts Eisenhower perceived the crisis through the context of the Cold War and viewed the Soviet Union and its attempts to increase its influence in the Middle East as a threat to the United States. In 1956, the Soviet Threat approached conditions of a potential nuclear war, or at a minimum a potential military confrontation between the two super-powers. In both crisis the United States was the dominant economic power, and political and monetary costs associated with implementing currency warfare were either low or deemed surmountable. What explains the decision to wage currency warfare in 1956 but not 1958 by Eisenhower is explained with his strategic motivations during the conflict. In 1956, Eisenhower had made it clear that he would not support the use of force to solve the Anglo-French-Egyptian conflict over Suez. Once the war began the Eisenhower adopted a strategy of subversion to undermine the legitimacy of British, French, and Israeli actions towards Egypt marshalling diplomatic efforts at the United Nations, publicly condemning the invasion, and using personal diplomacy to stop the war. On November 5, several days after the British and French had begun to bomb Egypt, and the day that the Soviet threat reached the point that a nuclear confrontation seemed plausible, Eisenhower decided to act and wage currency warfare against Britain to stop the invasion and reduce global tensions.

Contrast with 1956, the only change in Eisenhower's thinking was that Nasser and Arab-Nationalism could be a potential rival to communism in the region, and perhaps even be an ally of the United States. Eisenhower also had a change of heart in regard to

the British presence in the region. Perhaps realizing that undermining the British in 1956 was a mistake, he now viewed British power as a means to maintain stability in the region. Although Eisenhower never relinquished his anti-colonial sentiments, and sought to minimize open cooperation with the British, Eisenhower ultimately decided to support the British in their deployment of paratroopers in Jordan. An enormous change of mind! Towards Nasser, which was vulnerable to currency warfare, Eisenhower chose not to exercise any form of force (including monetary) because of his more nuanced view of Middle Eastern politics, specifically that communism was not the same as Arab nationalism, and that the latter could be a potential ally against the former. The principal change from 1956 to 1958 was the strategic motivation guiding the use of force had changed from one of subversion to one of supporting pro-western and potential anti-communist Arab nationalism.

Chapter 6: Currency Warfare in the ISIS War (2014-Present) And in Iraq (1990-1995)

In January of 2016, at the height of the war against the Islamic State, reports began to emerge about the United States implementing a strategic bombing campaign targeting the Islamic State's "currency holdings."⁵⁶³ Between 2015 and 2017 Operation Point Blank, the U.S. code name for its currency warfare campaign "struck around 30 ISIS banks and financial centers" or "cash storage sites"⁵⁶⁴ and in its initial phase "destroying tens of millions of dollars" held by ISIS which obtained by their conquest Northern Iraq and through their illicit fundraising schemes and exploitation of the local population.⁵⁶⁵ The air campaign against the Islamic State's currency reserves has been the most visible, and openly discussed case of currency warfare in the annals of armed conflict.

However, the currency warfare campaign against the Islamic State was not the first time that the United States had grappled with the decision to weaponize and target currencies as part of a military campaign in the region. Much less known was the debate over whether to implement currency warfare against Iraq during the Persian Gulf War (1990-1991) and subsequent efforts during the low-intensity war which followed the

⁵⁶³ Starr, Barbara, "First on CNN: U.S. bombs 'millions' in ISIS currency holdings," January 13, 2016. <http://www.cnn.com>. Last accessed February 12, 2016.

⁵⁶⁴ Crawford, Jamie, "US goes after ISIS's billion-dollar revenue stream," June 9, 2016. <https://www.cnn.com/2016/06/09/politics/isis-terror-financing-treasury/index.html>. Last accessed March 18, 2019; For a number of ISIS banks destroyed see "Department of Defense Press Briefing by Colonel Dillon via teleconference from Baghdad, Iraq," Press Operations, August 10, 2017. Briefing conducted by Colonel Ryan Dillon, Combined Joint Task Force-Operation Inherent Resolve Spokesman; Colonel Rob Manning Director, Defense Press Office. <http://www.defense.gov/News/Transcripts/Transcript-View/Article.1274983/>. Last accessed March 18, 2019.

⁵⁶⁵ Pellerin, Cheryl, "Inherent Resolve Spokesman: Coalition Operations Deny ISIL's Caliphate Dreams," Published May 13, 2016. Department of Defense Media Activity. <https://www.defense.org>. Last Accessed June 6, 2017.

eviction of Iraq from Kuwait. During the 1990-1991 Persian Gulf War the United States was prepared to implement currency counterfeiting campaign but was persuaded by its Arab coalition partners not to do so because it would violate Islamic law and possibly destabilize the region. Although the United States acquiesced to its coalition partners request for restraint during the Gulf war, shortly thereafter, in its efforts to topple Saddam Hussein from power, the Central Intelligence Agency went ahead and counterfeited the Iraqi Dinar undermining its value but giving Saddam Hussein the opportunity to use currency warfare against his own people, specifically the Kurds, by repudiating the Iraqi Dinar and issuing new currency therefore wiping out billions in wealth.

This chapter explores currency warfare in the post-Cold War Middle East by examining the American air campaign against the Islamic State's currency reserves in the ISIS War (2014-Present) and the American years of armed conflict against Iraq ranging from the Persian Gulf War of 1990-1991 through the early 1990's. The American implementation of currency warfare in its wars in the Middle East raises interesting questions for the understanding of contemporary currency warfare. For example, if attacking the Islamic State's currencies was such an important aspect of the American strategy to defeat ISIS, as the Obama Administration routinely claimed, why did it take nearly a year and half since the American entry into the war to begin to target the Islamic State's currency holdings? In the case of the Persian Gulf War why did the United States, although implementing a strategy of subverting Saddam Hussein by targeting economic targets such as electrical power centers and bridges, not to mention, efforts to demoralize the Iraq military not deploy its fabricated-propaganda currencies and drop them over the

Iraqi army as was suggested? Furthermore, having decided against deploying propaganda Iraqi Dinars did the United States apparently deploy counterfeit currencies following the Persian Gulf War?

Explaining the Implementation of Currency Warfare Against ISIS

The focal point of this chapter is the American currency warfare campaign against ISIS During the ISIS War (2014-Present) and answers the puzzle of why did it take the United States a year and a half to begin targeting the Islamic State's currency? I argue that the American currency war against ISIS is explained by the theory of monetary warfare advanced in this study, specifically, that the three necessary variables of a perceived threat to national security, a strategy of subversion, and low implementation costs were all present, but only in October of 2015.

To test for the hypothesis, I implement process-tracing to “within-case analysis” of the American decision-making process to wage currency warfare by separating the ISIS War into four distinct stages which allows for variation of the three explanatory variables. Furthermore, applying a “within-case analysis” creates the opportunity “to trace out the causal mechanisms linking variables to outcomes” in the four stages.⁵⁶⁶ The analysis not only establishes the presence of the three explanatory variables but also shows how President Obama and the Defense Department, led by Secretary Ash Carter, agreed on the viability of implementing currency warfare. We also find that individual airstrikes against ISIS cash was left to the discretion of U.S. Central Command who exercised restraint in attacking ISIS currency holdings when the concern for high number

⁵⁶⁶ Brookes, Marissa, “Explaining Employer Responses to Transnational Labor Activism: Indonesia and Cambodia Compared,” *Comparative Political Studies*, Vol. 51(6), 2018, Pg. 702

of casualties was present. As in other wars, the decision to launch a specific currency strikes discussed not only in terms of its political and military viability but also along ethical lines as well. Did targeting currency outweigh the immediate suffering or potential loss of life? As we will see such concerns were sufficient at times to abort an attack on an ISIS cash storage sites.

So as to not obstruct the narrative of how the United States came to implement currency warfare against ISIS what follows is a brief summary of the four stages which trace the occurrence of currency warfare from the early stages of the conflict through its actual implementation in October of 2015.

Table 5. The Four Stages of the ISIS War and Currency Warfare

Time Period of ISIS War from the Obama Administration Perspectives	Threat to National Security	Strategy of Subversion	Low Implementation Costs	Currency Warfare Implemented
Period #1 January – June 2014	<u>No</u> (Threat exists but minimized) <ul style="list-style-type: none"> President Obama refers to ISIS as “jayvee team” 	<u>No</u>	YES (Military Humanitarian Intervention Commences)	No
Period #2 June-July, 2014	<u>Yes</u> (but misperceived as <u>No</u>) <ul style="list-style-type: none"> ISIS conquers large parts of Northern and Western Iraq Establishes a Caliphate Threat to Iraq and regional governments Establishes a Caliphate 	<u>No</u> Initial response is defensive to stop the advance of ISIS into Iraq, and to prevent genocide of the Yazid’s and Christians on Mt. Sinjar	<u>Yes</u> Air strikes commence late July	No
Period #3 August 2014- October 2015	<u>Yes</u> <ul style="list-style-type: none"> Operation Inherent Resolve Launched American journalist killed ISIS threatens Iraqi Regime and neighboring governments like Jordan 	<u>No</u> (<i>No Strategy in Place</i>) <ul style="list-style-type: none"> First year of war, President admits that “we do not have, yet, a complete strategy to defeat ISIS.” Secretary Ash Carter develops strategy 	<u>Yes</u> <ul style="list-style-type: none"> U.S. and coalition launch air strikes against ISIS (including economic targets like oil refineries) But does not target currency U.S. has mastery of the air. 	No
Period #4 October 2015-Present	<u>Yes</u> <ul style="list-style-type: none"> ISIS attacks in Paris, France Expands global reach Reaches maximum territorial reach in Iraq and Syria 	<u>Yes</u> <ul style="list-style-type: none"> Secretary Carter received presidential approval for new strategy and “accelerants” to combat ISIS 	<u>Yes</u> <ul style="list-style-type: none"> Operation Point Blank (The air campaign against ISIS currency implemented) 	YES

The first stage (January through June of 2014) was marked by a period of misperceiving the threat posed by the Islamic State. The now famous description by President Obama of ISIS as the “Jayvee team” of terrorist organizations seemed to embody the understanding that the group was neither a new phenomenon nor posing a threat to American interest in the Middle East or to the region as a whole.

The second stage representing the summer months of June and July 2014, the Obama Administration continues to minimize the threat posed by ISIS to American interest but the ISIS blitzkrieg across northern Iraq and the potential genocide of minority religious sects like the Yazidis sparks limited strikes against ISIS to prevent its slaughter of the endangered population. By this time, ISIS had acquired millions worth of currencies as it overran Mosul and other key cities in Northern Iraq presenting easy targets for fighter-bomber aircraft, but there was no targeting of currency at this time.

Stage three (which last from August 2014 through September/October 2015) sees President Obama reluctantly going to war in the Middle East. Moved by the threat ISIS posed to Iraq and other governments in the region, and the murder of American journalist, President Obama announces that the United States will “destroy ISIS.” But the ensuing year would be marred by unclarified political and military objectives combined with a political rationale to minimize the intensity of the conflict by refusing to say that American ground forces were engaged in combat operations, which minimized the moral of the Armed forces, and more importantly no clear strategy to win the war. As President Obama admitted in one press-conference “we do not yet have a complete strategy for defeating ISIS.” Not a sentiment you wish to hear from a wartime leader.

Stage four (October 2015-Present) represents the climax of the war in which the United States and the Obama Administration turned the war around. To President Obama's credit he saw that changes needed to occur not only in leadership at the Pentagon but also in the overall mindset of the administration. For starters, the lackluster Defense Secretary Chuck Hagel, was replaced by Ash Carter a career defense department official who, with Obama's support, "accelerated" the war against ISIS and with the military leadership developed a clear strategy to defeat ISIS. This point marks when Operation Point Blank became a reality. The American military was encouraged to think creatively as to how to defeat ISIS. Throughout the war the United States enjoyed supreme mastery of the air and was able to launch airstrikes unimpeded against traditional economic targets such as oil refineries. But now, and for the first time in the war, the United States would use its airpower to destroy ISIS's currency. From October 15 through the Trump Administration Operation Point Blank would destroy hundreds of millions of ISIS cash (how much can never be certain) and helped subvert the Islamic State's leadership and political legitimacy in its conquered territories.

To properly understand the eventual motivation behind the strategy of subversion that the U.S. pursued in the ISIS War it is important to stress the link between currency and the Islamic States legitimacy. Currency warfare has always been more than the destruction of an enemy currency and against ISIS it is about subverting the hearts and minds of people in that region and those who flocked to join ISIS. What made ISIS different was that unlike previous terrorist groups, ISIS ultimate goal in the region was "statehood in the Levant" meaning "the consolidation and expansion of the lands and

authority of the Islamic State in Iraq and Syria and other neighboring Muslim countries.”⁵⁶⁷ ISIS objective to create a Shia state ultimately attracted thousands of fighters, perhaps mostly foreigners to the region.⁵⁶⁸ It is of course impossible to have a clear measure of how legitimate ISIS was in the territories they conquered, but whatever it may or may not have been, ISIS legitimacy ultimately rested on being able to act as a functioning Islamic State. As we shall see, once ISIS began to function as a government over a territory, which required money, an important vulnerability opened up. By destroying its currency reserves it could no longer pay for its state obligations (e.g. paying for its military). By destroying its currency reserves from the air, the United States was ultimately striking at its very essence of governance and state legitimacy.

Finally, was there any moment when the United States paused to consider whether or not to implement currency warfare? It will naturally be considerable time before we know all the discussions that occurred within the Obama Administration but what is clear is that American armed forces were and continue to be sensitive to the ethical factors in targeting currencies. As in other conflicts, concern over collateral damage was at the heart of discussing the implementation of currency warfare. On several occasions, ethical concerns, including the killing of too many individuals was considered too high and thus sufficient to call of strikes on Islamic State currency reserves.

⁵⁶⁷ Gerges, Fawaz A., *ISIS: A History*, (Princeton University Press: Princeton, 2016), 7

⁵⁶⁸ Basit, Abdul, “Foreign Fighters in Iraq and Syria,” *Counter Terrorist Trend and Analysis*, Vol. 6 No. 10, (Oct. 2014). It is estimated that at the time that the United States entered the war there was roughly 12,000 foreign fighters fighting for ISIS.

The U.S-Iraq Conflict 1990-1995

If not for a handful of historians and journalist, the debate over implementing currency warfare against Saddam Hussein in the 1990's may never have been known. Even, now studying the records Persian Gulf War is problematic due to the difficulty in accessing the available archival material and its disorganization. Second, currency warfare in the 1990's was also a clandestine operation making it difficult to acquire evidence to trace the decision-making process of currency warfare against Saddam Hussein. However, sufficient evidence exists to establish congruence of the explanatory variables and how the absence of one variable can explain why currency warfare was not implemented in the Gulf War.

In both the Persian Gulf War and the conflict following the successful eviction of Iraq from Kuwait, Saddam Hussein posed a threat to American and regional governments interest. Second, there was a consistent strategy of undermining the legitimacy of his dictatorship and creating conditions in which he be forcibly deposed. Ultimately, what explain the deviation in the implementation of currency warfare in the Gulf War but not in the clandestine war which followed, was how the decision-makers capacity to implement currency warfare was constrained by the concerns of America's Arab coalition partners. The 4th Psychological Operations Groups was tasked with developed in propaganda-counterfeit currencies to undermine the Iraqi military and leadership, but Arab members raised questions regarding the un-Islamic nature of replication currency and also expressed concerns that such a move could impact regional economies after the war. Ultimately, the decision was made in Riyadh to not deploy the fabricated Iraqi

Dinar's. Once the War ended, according to the *New York Times* and other sources, the Central Intelligence Agency had no qualms about counterfeiting Iraqi currency and did so.

The CIA perhaps should have been responsive to the concerns expressed by America's allies in the Gulf War because although counterfeiting currency did damage Saddam Hussein, the dictator was able to use his own power as a sovereign government to turn the ensuing financial crisis into his advantage by engaging in a policy of currency repudiation of his own currency and issuing new currency of which is northern subjects the Kurds, who also wanted independence, would have their wealth destroyed. In other words, the opportunity of Saddam Hussein to implement currency warfare against his own people was facilitated by the CIA's own currency warfare campaign against him. The counterfeiting campaign against Saddam Hussein following the Gulf War and the consequences which resulted from that campaign represent an important cautionary tale of what the unintended consequences of weaponized currency could lead to.

Case I: The ISIS War and Misperceiving the ISIS Threat

In January of 2014, six months before Abu Bakr Al Baghdadi declared the establishment of a Caliphate in Syria and Iraq, and himself as the new Caliph, President Obama described the emerging terrorist organization of ISIS (although often understood to be a new Al Qaeda movement) as a "JV team." Responding to a question by David Remnick about Al Qaeda's black flag flying in Ramadi once again President Obama said that "The analogy we use around here sometimes, and I think is accurate, is if a jayvee team puts on Lakers uniforms that doesn't make them Kobe Bryant" and that "I think

there is a distinction between the capacity and reach of a bin Laden and a network that is actively planning major terrorist plots against the homeland versus jihadists who are engaged in various local power struggles and disputes, often sectarian.”⁵⁶⁹ By summer end, President Obama and the United States would once again be at war in the Middle East, and, in the process, result in the most visible and openly acknowledged currency warfare campaign in history.

The Islamic State of Iraq and Syria (ISIS) also known as Daesh, was the latest manifestation of Sunni extremism in the region who traced their ideological origins to Abu Musab al Zarqawi in Iraq who waged war against the United States and Iraq between 2002-2006.⁵⁷⁰ When Zarqawi was killed by U.S. forces in 2006, his organization known as Al Qaeda in Iraq (AQ-I) renamed the organization the Islamic State of Iraq (ISI) and was almost destroyed by the time the United States ended its war in Iraq in 2011. When the United States ended its involvement in Iraq, the Iraqi democracy was frail, corrupt, and characterized by deep sectarian divisions between Sunnis, Shiites, and Kurds. Out of this weakened Iraqi state, ISI, which had appeared to be destroyed emerged as the most existential threat to Iraq and other regional governments in 2014. By June of 2014, ISI, which renamed itself ISIS (Islamic State of Iraq and Syria) after conquering large segments of Syrian territory during that country’s civil war, and parts of Northern and Western Iraq. Unlike its predecessor Al Qaeda, and other terrorist groups, ISIS was attempting to create a state, a theocratic Islamic Empire called the caliphate with al

⁵⁶⁹ Remnick, David, “Going the Distance: On and Off the Road with Barrack Obama,” *The New Yorker*, January 27, 2014 Issue. www.thenewyorker.com. January 19, 2014. Last Accessed July 7, 2019.

⁵⁷⁰ Rollins, John. W., and Heidi M. Peters, (2015) “The Islamic State-Frequently Asked Questions: Threats, Global Implications, and U.S. Policy Responses,” (CRS Report No. R44276). Retrieved from Congressional Research Service. <https://crsreports.congress.gov/>

Baghdadi as its new Caliph. Not since the Mahdi had in 1883 killed General Gordon and his entire command in Khartoum and established its own Mahdi state had such a group posed such a revolutionary threat to the region.

President Obama instinct was to view the emergence of ISIS as a minor continuation of Islamic extremism posing little threat to the United States. However, by June and into August of 2014, events in Iraq were forcing the presidents hand. In June, Obama declared that “as the terrorist group ISIL began an advance across Iraq—that the United States would be prepared to take targeted military action in Iraq if and when we determined that the situation required it.”⁵⁷¹ In early August, the Islamic State’s forces, which had, in remarkable short time, conquered large territories where approaching a the city of Erbil where American diplomats were stationed at the local consulate. Perhaps more pressing was the impending genocide against Christians and Yezidis who were being targeted by ISIS and whose survivors were seeking refuge on Mt. Sinjar. The impending massacre of these religious minorities moved Obama to authorize military strikes against ISIS. In a speech to the nation on August 87, 2014 President Obama announced that:

“I’ve said before, the United States cannot and should not intervene every time there’s a crisis in the world. So, let me be clear about why we must act, and act now. When we face a situation like we do on that mountain—with innocent people facing the prospect of violence on a horrific scale, when we have a mandate to help—in this case, a request from the Iraqi government—and when we have the unique capabilities to help avert a massacre, then I believe the United States of America cannot turn a blind eye. We can act, carefully and responsibly,

⁵⁷¹ Obama, Barack, “Statement by the President,” The White House: Office of the Press Secretary,” August 7, 2014. Last accessed March 13, 2015. www.whitehouse.gov.

to prevent a potential act of genocide. That's what we're doing on that mountain."⁵⁷²

Obama closed by saying that "when the lives of American citizens are at risk, we will take action. That's my responsibility as Commander-in-Chief. And when many thousands of innocent civilians are faced with the danger of being wiped out, and we have the capacity to do something about it, we will take action."⁵⁷³

By September 10, 2014, the Obama Administration had come to view ISIS as the regions preeminent threat. In August, American journalist American journalist Steve Foley, and Steve Sotloff where murdered by ISIS and the Iraqi Government and State faced an existential crisis at the hands of ISIS which in a matter of months had captured large segments of Iraq and were approaching Baghdad. The United States was once again at war in the Middle East.

In an address to the nation announcing the commencement of military operations against ISIS, President Obama acknowledged the threat posed by ISIS saying that "So ISIL poses a threat to the people of Iraq and Syria, and the broader Middle East -- including American citizens, personnel and facilities. If left unchecked, these terrorists could pose a growing threat beyond that region, including to the United States" and declaring that the goal was to "degrade, and ultimately destroy ISIL."⁵⁷⁴The Obama Administration had gone from viewing ISIS as a minor terrorist organization, to a group with the power to potentially commit genocide, and finally to posing a serious threat to

⁵⁷² Ibid, Obama, Barack, "Statement by the President," The White House: Office of the Press Secretary," August 7, 2014. Last accessed March 13, 2015. www.whitehouse.gov.

⁵⁷³⁵⁷³ Ibid, Obama, Barrack, March 13, 2015

⁵⁷⁴ Obama, Barack, "Statement by the President," The White House: Office of the Press Secretary," September 10, 2014, Last accessed June 6, 2017. www.whitehouse.gov.

America's local partners and possibly the United States itself. Over the next few years, ISIS would become the Obama Administration most serious threat in the region, and the organization would pose a threat to Iraq, Jordan, Egypt and other regional governments, and also launch attacks in Paris, France in 2015 and inspire acts of terrorism in San Bernardino, California.

Strategy of Subversion

Having recognized the threat which, the Islamic State posed to the region, the Obama Administration began conducting military operations against the Caliphate in the late summer and early Fall of 2014. However, it would be over a year before the United States implemented currency warfare against the Islamic State. Considering how instrumental success on the currency battlefield was to the overall success against the Islamic State, the question arises, why did it take so long to implement currency warfare against ISIS?

In answering this question two important elements become clear. First, the Obama Administrations' initial perception of the Islamic States as not posing a serious threat to the region or the United States proved to be wrong. But events have a way of correcting misperceptions and the establishing of a self-proclaimed state, forced the Obama Administration to reverse its predisposition, if not outright reluctance, to confront the Islamic State aggressively. The second element is the focus of this section—the role of strategy in currency warfare. Recognizing a threat is one thing but developing a strategy to confront the threat is another matter. To put it bluntly, the Obama Administrations' reluctance to view ISIS as a threat meant that as the United States entered the war in 2014

there was no clearly defined strategy to destroy ISIS. Ultimately, as President Obama acknowledged, a year into the battle the United States "did not have a complete strategy for defeating ISIS."⁵⁷⁵

Whether the lack of strategic guidance was the result of President Obama himself who had campaigned as the peace president and was reluctant to get dragged into another war in the Middle East, or his rather lackluster Secretary of Defense Chuck Hagel inability to develop, with the military leadership a clear plan for success, what is clear is that the first year of America's war against ISIS was defined by guideless perfunctory airstrikes against traditional military and economic targets with no articulation as to how this would result in ultimate victory. In other words, the United States appeared to be going through the motions of combating ISIS without a clear strategy. The lack of a strategy to defeat ISIS was the result of the Obama Administration's eagerness to demonstrate that the United States was not "engaged in combat operations" and that this was not an American war, an approach which was harming the military's morale and contributing to a victory mentality, needed to win the war. What was needed was a comprehensive strategy to defeat ISIS.

The Emerging Currency Battlefield and ISIS's Finances

The currency warfare campaign against ISIS, and how it was conducted, was the result of how the Islamic State acquired revenue and its political objectives of establishing a territorial state-empire, which was the fundamental distinction between

⁵⁷⁵ Saenz, Arlette, and Benjamin Siegel, "President Obama on ISIS Fight: 'We Don't Yet Have a Complete Strategy,'" June 8, 2015. ABC News. www.abcnews.go.com.

ISIS and previous terrorist groups. Both the means by which ISIS acquired revenue and its desire to act as a state and government imposing upon itself administrative responsibilities which made it vulnerable to a currency warfare campaign. By attacking its currency reserves, the United States would undermine ISIS's ability to function as a state thus creating legitimacy problems vis-à-vis its population and soldiers. The conditions on the ground and the currency battlefield presented an ideal opportunity for American policy-makers to exploit ISIS currency vulnerability to subvert its very credibility and existence.

The currency battlefield, the theatre of operation in which currencies became a military target, was the result of ISIS financial structure and rapid conquest of Northern and Western Iraq which resulted in enormous amounts of cash. At its height, one report concluded, ISIS "controls a variety of public resources and infrastructure in parts of Iraq and Syria, enabling it to assemble a "diverse financial portfolio."⁵⁷⁶ ISIS proved to be robust and diverse in its ability to acquire revenue and at its height was reaching \$1 billion in revenue per year. Generally, ISIS cash came from the sale of oil and antiquities, kidnappings for ransom, "agriculture and energy and water utilities" produced "limited revenue" although "help[ed] the group portray itself as exercising the functions of a legitimate government" where all used by ISIS to generate cash. However, most of its immediate cash came from its looting of banks in Iraq generating hundreds of millions worth of currency. Hundreds of millions of currencies were stored in the captured banks

⁵⁷⁶ Humud, Carl E., Robert Pirog, and Liana Rosen,(2015) "Islamic State Financing and U.S. Policy Approaches," Congressional Research Service Report No. R43980, www.crs.gov. Page. 1

or moved to cash distribution centers. With American air dominance over the battlefield, the cash centers would be easy targets for currency warfare from the air.

Prior to Operation Point Blank--the war against ISIS currencies, the idea that targeting the groups finances was important to the wars effort was being discussed, although along traditional practices of sanctions which may reduce the access to funds but does not target the currencies itself, an important distinction. General John Allen, the U.S. Special Presidential Envoy for the Global Coalition to Counter ISIL argued that military force alone could not defeat ISIL but “highlighted the need to deprive the group of access to financial resources.”⁵⁷⁷ As is often the case with currency warfare, the financial and the military spheres of operation were understood to be separate, and it would take some time before the military, as in previous wars, saw currency as a military target. Although “Targeting the Islamic State’s finances is one of the five core lines of effort to degrade and defeat the terrorist organization”⁵⁷⁸ it remained unclear how, exactly that fit into the war’s broader strategy. Furthermore, although the U.S. and its partners had done significant work in denying ISIS to international financial banking, because most of ISIS finances were done through non-traditional means, it remains unclear how much the financial sanctions actually impeded ISIS.

As Air Vice-Marshal Edward Stringer argued as the war intensified in 2016, ISIS, “it’s a pseudo-state, so we need to think in terms of how you take a state structure

⁵⁷⁷ Ibid, 1

⁵⁷⁸ Ibid, 1

apart...it is economic warfare, like taking apart the Nazi state in '43 and '44, rather than conventional counter-finance.”⁵⁷⁹

However, prior to Operation Point-Blank, the burgeoning idea that the undermining ISIS finances and money supply could lead to a loss of legitimacy was increasingly discussed.

As one report clearly stated:

“U.S. officials have noted that the Islamic State’s financial strength depends not only on its income but also on its expenses, and the extent to which it is able to devote its resources to military operations. U.S. officials have stated that the Islamic State’s decision to hold and govern territory is a financial burden for the group, and thus a vulnerability that the United States could potentially exploit by diminishing the group’s ability to generate and utilize revenue. If the Islamic State cannot afford the expenses associated with governing its territory, some argue that the resulting public backlash would undermine its ability to rule.”⁵⁸⁰

Currency Warfare and the Emergence of a Strategy against ISIS

A year into the conflict, a change had occurred from the American perspective. A new aggressiveness was evident both from the Obama Administration and from the military. Defense Secretary Chuck Hagel was replaced by Ash Carter an experienced public servant of over thirty years in the Defense Department. President Obama asked Carter to become Secretary of Defense in December of 2014. It was a difficult time to take the position. As Carter remembered ISIS “had seized Mosul, Tikrit, and wide swaths of northern Iraq, key oil and gas fields, the cities of Raqqa and Tabqa in Syria, and important border crossings that secured its ability to move forces, money, and material

⁵⁷⁹ House of Commons Foreign Affairs Committee,(2016) “The UK’s role in the economic war against ISIL: First Report of Session 2016-2017” House of Commons, Report No. HC 121. www.parliament.uk/faacom. Page. 6

⁵⁸⁰ Humud, Carla E., Robert Pirog, and Liana Rosen, (2015) “Islamic State Financing and U.S. Policy Approaches,” ,” (CRS Report No. R43980). Retrieved from Congressional Research Service. <https://crsreports.congress.gov/>

between Iraq and Syria Freely.”⁵⁸¹ Furthermore, the Iraqi military was proving to be ineffective and cowardly against ISIS, and the caliphate would expand into the Syrian city of Palmyra and Ramadi in Iraq.⁵⁸² “Meeting the ISIS challenge was clearly going to be a big part of my job” Carter remembered and part of overcoming this challenge was to develop a strategy to defeat ISIS.

In an address to the nation on September 14, 2014, President Obama stated America’s objectives in its fight against the Islamic state declaring that “going forward, our objective is clear: We will degrade, and ultimately destroy, ISIL through a comprehensive and sustained counterterrorism strategy.”⁵⁸³ Although the objective was clear, the destruction of the Islamic State, there was no comprehensive plan as to how achieve this objective, and it would take time for such a strategy to emerge. In the interim between the American entry into the conflict in 2014 and the Fall for 2015 the American military effort appeared to be aimless, launching perfunctory airstrikes at traditional economic targets but with no real conception as to how this would achieve victory.

Days after becoming Secretary of Defense Carter “gradually concluded that the United States and its coalition partners lacked a comprehensive, achievable plan for success.”⁵⁸⁴ As Carter discovered:

⁵⁸¹ Carter, Ash, *Inside the Five-Sided Box: Lessons from a Lifetime of Leadership in the Pentagon*, (New York: Dutton 2019), 228.

⁵⁸²⁵⁸² Ibid, 229

⁵⁸³ Holst, Lindsay, "President Obama: How We're Responding to the ISIL Threat," September 10, 2014, The White House. obamawhitehouse.archives.gov. Last accessed June 6, 2017.

⁵⁸⁴ Carter, Ash, *Inside the Five-Sided Box: Lessons from a Lifetime of Leadership in the Pentagon*, (New York: Dutton 2019), 229

“The coalition lacked both useful tools to fight ISIS and a realistic assessment of the tools at our disposal and was almost totally bereft of accurate intelligence about the enemy. It lacked clearly articulated objective and a coherent chain of command for the operation. An American public stunned by ISIS successes, European nations concerned about ISIS terror attacks by their own nationals, a business community with rising concerns about the effect on tourism and commerce—all these constituencies saw no plan to defeat ISIS and had little confidence in the campaign’s success.”⁵⁸⁵

It would take several months before a plan was developed with Carter acknowledging that “it’s fair to say that we took longer than we should have to get our act together,” but a plan emerged gradually in 2015 of which currency warfare principally from the air but also from Cyber operations would become an integral part of the campaign to defeat ISIS.

October 2015 was an important milestone in the ISIS War. The first American soldier was killed in the war, Army Master Sergeant Joshua Wheeler, prompting the Administration to abandon its rather ridiculous rhetorical political stance that Americans were not engaging in combat operations against ISIS.⁵⁸⁶ Second, a clear strategy was now emerging moving away from a “list” of important tasks like “combating ISIS’s illicit financing and media messaging and the flow of foreign fighters” among others to the development of a comprehensive strategy.⁵⁸⁷ President Obama authorized Carter to

⁵⁸⁵ Ibid, 230

⁵⁸⁶ Ibid, 232. Carter argues that “The president clearly wanted to reassure the American people that we were not involving ourselves in large-scale ground combat, and the people of the region did not want invasion-size forces to return, either.” But as Carter correctly maintains “ But the avoidance of the word “combat” risked minimizing the risk and sacrifices of U.S. and coalition forces. With the press and, above all, with the troops, this hairsplitting didn’t fly.”

⁵⁸⁷ Ibid, 233. Carter’s push to develop a strategy to defeat ISIS is evident in the following paragraph from his memoirs where he writes that “One factor that made our public statements on the ISIS fight so cloudy during my first year back at the Pentagon was that we will still could not describe the actual steps we would take to achieve “lasting defeat.” The anodyne messaging, I inherited revolved around nine “lines of effort.” Two of these lines of effort were the Defense Department’s responsibility: denying ISIS safe haven and

implement “accelerants” (Carter’s quote) or more aggressive tactics against ISIS.⁵⁸⁸ It is at this point that currency warfare enters the scene.

By October 2015 the Pentagon began the systematic destruction of the Islamic State’s currency. Operation Point Blank, the campaign to destroy ISIS’s cash, by attacking the Islamic States currency holdings, its banks, and distribution centers, had become an integral part of war effort to destroy ISIS. Currency Warfare would now be waged from the air with footage showing the literal destruction of ISIS currency reserves through precision airstrikes. Never before had currency warfare been so prominent and so openly lauded as being a significant strategy in a country’s war effort.⁵⁸⁹

Strategy, Currency Warfare, and Subversion

In the summer of 2016, Defense Secretary Ash Carter gave a glimpse into the Obama Administration evolution in the war against ISIS, but also how a clarification of strategy and the decision to pursue a more aggressive overall strategy took hold, of which targeting ISIS finances and cash was at the forefront. As the war was moving towards the

building local partner’s capacity. Other lines of effort belonged largely or entirely to other agencies: strengthening governance in Iraq; negotiating a political transition in Syria; combating ISIS’s illicit financing and media messaging and the flow of foreign fighter’s gathering intelligence; providing humanitarian support; and disrupting terror threats to the United States.” Carter further shows his annoyance with the inherited rhetorical strategy by saying that “All nine were important tasks, but they were far too numerous and “in the weeds.” It was a list, not a strategy.”

⁵⁸⁸ Ibid, 238-239.

⁵⁸⁹ Colonel Steve Warren, Operation Inherent Resolve Spokesman; Captain Jeff Davis, Director, Defense Press Office, Department of Defense, “Department of Defense Press Briefing by Colonel Warren via teleconference **from Baghdad, Iraq**” May 13, 2016.

<https://dod.defense.gov/News/Transcripts/Transcript-View/Article/759199/department-of-defense-press-briefing-by-colonel-warren-via-teleconference-from/>

liberation of Raqqa and Mosul, Carter explained that “so over the last year, we’ve pursued a number of deliberate decision and actions to accelerate this military campaign plan, this strategic approach to hasten ISIL’s lasting defeat” and “introduced an initial series of accelerants to help us gather momentum” which included “supporting an expanded air campaign against new categories of targets,” and “new types of targets” including “ISIL’s economic infrastructure, including oil wells, trucks and *cash storage sites* (my italics).”⁵⁹⁰The American military also demonstrated more confidence one the more aggressive stance was taken, and strategic goals were set. “you don’t hear the word “stalemate” anymore” declared the commanding general, General Sean MacFarland, “because over the past year with our partners, were able to seize the initiative...we spend more time thinking about we will do to the enemy than we spend thinking about what the enemy might do to us.”⁵⁹¹

Interestingly, it took several months for the news media to become aware of the opening stages of the air campaign against the Islamic State’s currency. As early as October The Joint Taskforce for Operation Inherent Resolve was acknowledged, albeit briefly, that "an ISIL cash distribution site" had been struck along with other economic targets in Syria.⁵⁹² By early 2016 with video showing American airstrikes against ISIS’s

⁵⁹⁰ “Remarks to the XVIII Airborne Corps On the Counter-ISIL Campaign: As Delivered by Secretary of Defense Ash Carter, Fort Bragg, North Carolina, July 27, 2016.” U.S. Defense Department. <https://www.defense.org>. Last Accessed June 6, 2017. Carter also revealed other changes in the American war against ISIS showing greater awareness of the ISIS threat. A necessary change was for the first time putting American military operations in Syria and Iraq under a unified command.

⁵⁹¹ “Department of Defense Press Briefing by Lieutenant General Sean MacFarland, commander, Combined Joint Task Force-Operation Inherent Resolve via teleconference from Baghdad, Iraq,” Press Operations. U.S. Department of Defense. August 10, 2016. Last accessed June 6, 2017. <https://www.defense.gov>.

⁵⁹² From a Combined Joint Task Force Operation Inherent Resolve News Release, Published October 22, 2015, Department of Defense. <https://www.defense.gov>. Last accessed on April 20, 2017.

cash sites and banks, the Obama Administration and Department of Defense began emphasizing the currency warfare campaign more regularly, highlighting its success in subverting the Islamic State. In January 2016, the Department of Defense routine briefings on the wars progressed began to speak openly of Operation Point Blank saying that “Additionally, coalition forces have conducted 47 airstrikes in Mosul since Jan. 13, including one on an ISIL cash-collection point, Warren said.” The briefing continued, “This was the second strike in Mosul in as many weeks against ISIL financial targets, he added. We’ve previously struck eight other cash storage and distribution areas across Iraq and Syria.”⁵⁹³

One the currency warfare campaign got underway in late Fall of 2015; the Pentagon began to emphasize the role that undermining ISIS's cash reserves fit into the coalition's more comprehensive strategy. The new Secretary of Defense Ash Carter, who perhaps was responsible for bringing a new degree of aggressiveness to the campaign, stated January of 2016 that "We are dismantling ISIL's war-sustaining finances, targeting its oil production and its industrial base, and we're using some new methods to hit ISIL in its wallet."⁵⁹⁴As the war began to center around Mosul, Iraq, Carter announced that “just this week we hit a major ISIL bulk cash center in Mosul, depriving ISIL of financial

⁵⁹³ Cronk, Terri Moon, “Clearing Ramadi Progresses Despite Obstacles, Inherent Resolve Official Says,” DoD News, Defense Media Activity, Published Jan. 20, 2016. Department of Defense. <https://defense.gov>. Last Accessed June 6, 2017.

⁵⁹⁴ Defense Secretary Ash Carter, “Remarks to the 101st Airborne Division on the Counter-ISIL Campaign Plan: As Delivered by Secretary of Defense Ash Carter, Fort Campbell, KY, Jan. 13, 2016,” U.S. Department of Defense, <http://www.defense.gov>. Last Accessed June 6, 2017.

resources is an essential part of the shaping operation for Mosul, and we will continue these kinds of operation as part of the overall effort to degrades its financing.”⁵⁹⁵

By the Spring of 2016, the air campaign against ISIS's cash was openly acknowledged as being an essential aspect of America's war against ISIS. "Since March, we've conducted 40 airstrikes against 24 financial targets, destroying Daesh cash to the tune of hundreds of millions of dollars," a Department of Defense spokesperson said. Furthermore, the currency warfare campaign had direct results, "our Daesh cash strikes have obviously had an impact and combined with Operation Tidal Wave II, which targets their oil, we've hit them where it hurts.”⁵⁹⁶

Speaking at the State Department in February of 2015 President Obama stressed that ISIL was the Administration's principal target and argued that "we remain relentless in going after them [ISIL]" and that the US was "accelerating this campaign on all fronts" expanding the anti-ISIS coalition, and that airstrikes “continues to destroy ISIL, forces, infrastructure and heavy weapons.” The President than described the strategy of subversion by causing, in effect, hyper-deflation. The President confidently declared that “we’re destroying the storage sites where ISIL holds its cash—*its money is literally going up in smoke* (my italics).” The impact was visible. “As a result, ISIL has been forced to slash the salaries of its fighters, which, increasingly, diminishes their morale. We continue to hear reports of defection, and executions of those who try to defect.”

⁵⁹⁵ Defense Secretary Ash Carter, “Remarks to the 101st Airborne Division on the Counter-ISIL Campaign Plan: As Delivered by Secretary of Defense Ash Carter, Fort Campbell, KY, Jan. 13, 2016,” U.S. Department of Defense, <http://www.defense.gov>. Last Accessed June 6, 2017.

⁵⁹⁶ Press Operations, “Department of Defense Press Briefing by Col. Warren via teleconference from Baghdad, Iraq,” U.S. Department of Defense, May 18, 2016. <https://www.defense.gov>. Last accessed June 6, 2017.

The President then clearly linked the destruction of ISIL's money supply and the impact it had on ISIS ability to govern. Declaring that:

“As its finances shrink, ISIL is also imposing more taxes and fines on those under its brutal rule. *That, in turn, strokes even more resentment among local populations* (my italics). More people are realizing that ISIL is not a caliphate, it's a crime ring. "It's a criminal gang pretending to be a state," said one Syrian refugee. "They turned out to be thieves," said another. ISIL said one Syrian, "has made an enemy almost everyone." So, they're not winning over hearts and minds, and they're under severe pressure.⁵⁹⁷

A few months later, President Obama once again reiterated the Administration's subversion strategy as a motivation for currency warfare. The President informed the American people that “As ISIL continues to lose territory, it also continues to lose the money that is its lifeblood. As a result of our strikes against its oil infrastructure and supply lines, we believe that we've cut ISIL's revenue from oil by millions of dollars per month. In destroying the storage sites where they keep their cash, we've deprived ISIL of millions more.” The President went further saying that "ISIL's cash reserves are down. It has had to cut salaries for its fighters. It's resorting to more extortion of those trapped in its grip. And by ISIL's admission, some of its own leaders have been caught stealing cash and gold.”⁵⁹⁸ In March 2016, Obama remarked that “what has been working is the airstrikes that we're taking on their leadership, on their infrastructure, on their financial systems.”⁵⁹⁹

⁵⁹⁷ President Obama, “Remarks by the President on Progress Against ISIL,” February 25, 2016. The Obama Archives, <https://obamawhitehouse.archives.gov>. Last accessed April 24, 2017.

⁵⁹⁸ Barack Obama, “Remarks by the President After Counter-ISIL Meeting,” June 14, 2016. The Obama Archives. <https://obamawhitehouse.archives.gov>. Last accessed April 22, 2017.

⁵⁹⁹ Garunay, Melanie, “President Obama: “My Top Priority is to Defeat ISIL,” March 23, 2016. The Obama White House, <http://obamawhitehouse.archives.gov>. Last Accessed April 22, 2017.

But airstrikes against ISIS cash was but one part of the overall war against the Islamic State's money. Praising the efforts by the Treasury Department Obama said that ISIL was "cut off from the international financial system," and that "Cutting off ISIL's money may not be as dramatic as military strikes, but it is critically important. And we're seeing the result. ISIL's cash reserves are down. It has had to cut salaries for its fighters...Andy by ISIL's own admission, some of its own leaders have been caught stealing cash and gold."⁶⁰⁰

Although it remains unclear if other coalition partners took part in Operation Point Blank or if they targeted ISIS currency reserves on their own, there was a realization that ISIS currency vulnerability could be exploited. As one report from the UK House of Commons made clear in 2016:

"It is a mischaracterization to describe ISIL as the world's "riches" terrorist organization. ISIL, may have been able to generate more revenue than any other terrorist organization, but it also incurs costs that are unprecedented for such groups. ISIL's ambition to sustain the apparatus of a state, over a large area at a time of war, is expensive. The evidence of our inquiry has shown that ISIL is facing a constant, and increasingly, desperate, struggle to raise money."⁶⁰¹

And linking the attacking of currency and undermining its finances to a strategy of subversion, the report continued declaring that:

⁶⁰⁰ Garunay, Melanie, "President Obama: "ISIL is Under More Pressure Than Ever Before," June 14, 2016. Obama White House Archives. <https://obamawhitehouse.archives.gov>. Last Accessed April 24, 2017.

⁶⁰¹ Ibid, 5

“Although an important aspect of countering ISIL’s narrative is refuting that it is a state, this terrorist organization does possess state-like attributes that should be targeted to counter both its finances and its capabilities more generally. ISIL’s struggle to raise revenue has involved reliance on oil production, taxation, cash storage facilities, and access to national or international financial systems, among other infrastructure and institutions more usually associated with a state. These attributes are key points of vulnerability for this terrorist group.”⁶⁰²

As the Obama Administration was approaching its final weeks, the importance of Operation Point Blank, and the overall currency war against ISIS was emphasized one last time by President Obama. Speaking one last time on the progress in the war against ISIS, Obama highlighted the importance of currency warfare, saying that “We have attacked ISIL’s financial lifeline, destroying hundreds of millions of dollars of oil and cash reserves. The bottom line is we are breaking the back of ISIL.”⁶⁰³

The ISIS War and the Low Implementation Costs

The implementation of currency warfare against ISIS represents the most visible and openly acknowledged example of currency warfare in history. Never before has a country’s wartime leadership openly discussed currency warfare and its significance to an active military campaign as the Obama Administration did since Operation Point Blank was put into effect in 2015. However, the war against ISIS continues, and it will be

⁶⁰² House of Commons Foreign Affairs Committee,(2016) “The UK’s role in the economic war against ISIL: First Report of Session 2016-2017, House of Commons Report No. 121. www.parliament.uk/facom. Page. 5-6

⁶⁰³ Obama, Barack, “Remarks by the President on the Administration’s Approach to Counterterrorism,” The White House. Office of the Press Secretary, December 6, 2016. The Obama White House Archives, <https://obamawhitehouse.archives.gov>. Last Accessed April 24, 2017.

sometime before government records are declassified and made public to fully assess the questions raised by implementing currency warfare against ISIS in 2015. For example, was there any discussion as to the potential monetary blowback effects to the regional economy, perhaps especially Iraq, to targeting currency? Was there concern that this could become a norm during armed conflicts? Was there discussion about the potentiality of destroying American currency during the airstrikes, and also, of any potential ethical questions raised to creating conditions of rapid hyper-deflation which would harm the population? As the history of currency warfare has demonstrated, it is highly probable that these questions were raised during the decision-making process. But, alas, it will take time before we know. What we do know is that the ethical concerns were, at times, sufficient to call of air strikes against the Islamic State's currency reserves.

Although the ISIS War continues, and much remains unknown we are able to understand the decision-making process pertaining to currency warfare against ISIS. First, there is no doubt that the Operation Point Blank, the attacking of ISIS currency, had the full support of President Obama and Defense Secretary Ash Carter. Whatever, inter-governmental discussions or obstacles were raised, the discussions ultimately resolved themselves in favor of the Defense Secretary with the complete enthusiasm of President Obama. As Secretary Carter recalled, President Obama gave the Pentagon his complete support in implementing a new strategy against ISIS. Carter recalls, that "A key turning point came on July 6 [2015], when President Obama visited the pentagon for a National Security Council meeting in which he encouraged DOD to present him with broader and more creative options for accelerating the fight." Carter remembers that "This was just

what we'd been hoping to hear" and that "Over the next several months, we recommended and received approval for additional forces and authorities to intensify the fight."⁶⁰⁴

Furthermore, "In October, the president approved a series of accelerants to replace the failed train-and-equip program for Syria," and the Pentagon received presidential approval for the deployment of special operations forces to work with Syrian Arab Coalition forces, but also the deployment of further air force assets to the region to take the war to ISIS. Certainly, it was during this periods that President Obama authorized Operation Point Blank, the currency warfare campaign against ISIS.⁶⁰⁵ There is no doubt that the Administration completely endorsed Operation Point Blank.

Credit must be given to the Obama Administration and the U.S. military for being as open and transparent as possible in regard to ongoing military operations and the openness in which they discussed currency warfare in the ISIS War which provides the ability to get a measure of the debate over the implementation costs of currency warfare. The Department of Defense's briefings also gives us a glimpse as to how the military weighed the ethical balance between destroying currency and causing immediate physical harm to non-combatants. At first glance, any discussion over the use of precision guided munitions to destroy currency seems to fall under traditional consideration of the Laws of

⁶⁰⁴ *Inside the Five-Sided Box*, 237-238.

⁶⁰⁵ Carter writes that in October of 2015 "Our commanders and I identified more specific steps we could take. We deployed A-10 and F-15 aircraft to Incirlik Air Base in Turnkey, where the Turks had, after months of delays, finally given permission for us to launch anti-ISIS missions. The president also authorized us to employ AH-64 Apache helicopters, if Abadi requested their use, for the fight in Ramadi. Each of these accelerants would strengthen the local ground force we were supporting." Ultimately, between July and October of 2015 appeared to be the crucial months of the war, in which President Obama authorized a more intense campaign against ISIS, of which Operation Point Blank was an Important aspect. *Inside the Five-Sided Box*, 239-240.

Armed Conflict in which a target viability must be evaluated between its military value to winning the war and an undue harm against non-combatants. Just as in previous conflicts, the U.S. military showed an interest in not harming the civilian population, non-combatants, or perhaps causing wider economic turmoil than was necessary.

What is clear is that The United States military devoted considerable attention to minimizing civilian casualties in Iraq and Syria, and that this consideration influenced when and why currency would be attacked. As evident from Pentagon's briefings, the possibility that an airstrike against ISIS's currency could result in high number of deaths of non-combatants, because of the location of the cash storage sites were located in residential areas, was sufficient to call off airstrikes against ISIS currency. For example, in January of 2016, when the fight for Mosul, Iraq was underway and the currency warfare campaign against ISIS had intensified, reports raised questions as to potential human costs of destroying ISIS currency from the air, and there was a point in which the human costs of targeting currencies was so high that it would be sufficient to cancel an airstrike. The following exchange, which is worth providing in full, between a reporter and Department of Defense briefer is indicative of how currency warfare via airstrikes presented its own cost-benefit analysis and how the ethics of waging currency warfare as in previous conflicts, was at times, sufficient to cancel an airstrike against the Islamic State's currency.

Department of Defense Briefing:

January 20, 2016 (Defense Department/CENTCOM Briefing)

Q: "So, Steve, on these strikes against the cash centers. As I recall, the first big one in Mosul required you to accept the risk of a fairly high number of civilian casualties, like 50. Does this most recent strike require to accept a higher number of civilian casualties

than the usual? And if the total now is nine distribution centers hit—which I think is the math—is there any estimate on civilian casualties hitting those cash centers?”

Col. Warren: “I will tell you, yes, we are prepared to accept civilian casualties, in conjunction with the –with this cash strike.”

“It’s tragic, and it’s not something we want to do. One of the burdens of command is to weight the military value of a target, versus the potential for civilian loss of life, and the potential for collateral damage.”⁶⁰⁶

“So, these are tough decisions the commanders have to make. So, yes, we were prepared to accept some civilian casualties in association with this strike. We—if there are investigations ongoing, we need to let those continue.”

“I will tell you, our initial estimates is that, any civilian casualties were extraordinarily low single digit. So, we’re—we always mourn the loss of civilian life, but we believe that the accuracy and the –the measures that we take to ensure the lowest number of civilians casualties possible are appropriate.”

Q: “Is that single digit estimate, is that just for this latest strike that we saw, or is that for all of the strikes?”

Col. Warren: “That’s for all of them.”

The exchange between the reporter and the briefer, Colonel Warren regarding how policy makers view the cost of currency targeting via airstrikes and its potential consequences is remarkable. During this briefing a considerable amount of time was devoted to discussing the currency targeting campaign at length, but the real significance is that Col Warren clearly demonstrated the cost/benefit analysis of the potential to harm civilians during currency targeting strikes. It also becomes clear that targeting currencies was debated regarding its potential harm to civilians, and the presumably, if one reads within the Colonel’s tone, that there is a threshold by which currency targeting would not

⁶⁰⁶ “Department of Defense Press Briefing by Col. Warren via teleconference from Baghdad, Iraq,” Jan. 20, 2016, <https://www.defense.gov>, last accessed 6/6/2017

occur, if civilian casualties were too high. Thus, that could potentially be sufficient to call of a currency targeting strike.

In a April of 2016 the Defense Department released its “civilian casualty assessments” which stated that consistent with the goal to “minimize casualties” that “CENTCOM conducts thorough assessments of all allegations of civilian casualties associated with our airstrikes...our goal is to minimize the risk of civilian casualties to the greatest extent possible.” In regard to targeting cash storage sites, CENTCOM acknowledged that in January of 2016 at least one civilian and several others were harmed as part of an airstrike on ISIL individuals which guarded a “cash distribution site.” We can only assume that the cash also was targeted.

Direct insights into the mindset of policy makers weighing the costs and benefit of targeting currencies is rare, and when they are located, they are invaluable to helping understand under what conditions currency targeting occurs. The lack of economic feedback effects can be understood by both the relatively small ISIS economy, with estimates ranging in roughly \$1 billion in available funds, which is miniscule compared to the American economy. Even though ISIS has declared that its Golden Islamic Dinar are used to undermine the American economy, its sheer smallness makes that proposition rather ridiculous from an economic perspective, although not from a rhetorical one.

However, the small ISIS economy, the lack of any potential monetary and economic consequences to the United States from targeting tis finances, does not mean that currency targeting via airstrikes is costless. Currency warfare by airstrikes results in more traditional forms of cost/benefit analysis focusing on minimizing civilian, or non-

combatant casualties. In my research, the only potential costs which may prevent a strike against ISIS cash from occurring is if there is understanding that such a strike could result unnecessary civilian casualties. Currency Warfare against ISIS indicates that the vast asymmetrical divided between American monetary power compared with ISIS presented the U.S. with an immense strategic advantage on the currency battlefield in which its opponent could in no way harm the American dollar, and the dominance of the American dollar on the world stage meant that potentially destroying millions of its own currency would pose no harm to itself. Ultimately, the evidence indicates that the United States, Great Britain and other coalition partners were immune from economic feedback effects, but that political and ethical concerns regarding civilian casualties weighed more heavily on the decision to implement specific currency strikes or not.

The Islamic State's Currency Warfare

Before concluding on the currency warfare campaign against ISIS, we must remember that The United States was not the only combatant engaged in currency warfare in the ISIS war. The Islamic State implemented its currency warfare campaign, implementing its own currency warfare campaign through anti-currency rhetoric against the U.S. Dollar and using the foreign exchange markets to manipulate the Iraqi Dinar. In November 2014 the Islamic State declared that it would issue a new metallic based Islamic Currency for purposes not only of financing the Islamic State but of combating the “global economic system” which was “satanic” and which “bring an end to the

worldwide domination of the US economy and its worthless paper currency.”⁶⁰⁷ These “golden dinars and silver dirhams” were “modeled upon those minted by Caliph Uthman in 650 CE with “the currency’s purpose” of creating an “alternative to the international financial system deemed corrupt by the Islamic group.”⁶⁰⁸

Although the claim that the Islamic Dinar could cripple the American financial system is absurd, ISIS rhetorical campaign against the dollar, or at least how the Islamic Dinar was introduced, demonstrates an attempt to undermine the value of the dollar within the hearts and minds of potential followers or those within the territorial grasp of Islamic State. Exploiting some of the perceived injustices of American backed international financial system, as the Economists reported, the aim was to “mark the death of this oppressive bank note” the dollar, which will ultimately undermine America’s exorbitant privilege in buying oil in dollars.⁶⁰⁹ According to ISIS “when struck [Islamic Dinar], it will mark the death of this oppressive banknote and bring America the

⁶⁰⁷ Nance, Malcolm, *Defeating ISIS: Who They Are, How They Fight, What They Believe*, (New York: Skyhorse Publishing, 2016), 272-273. According to Nance the ISIS Currency was composed of “21 carat gold 5 dinar coin, which weighs 21.25 grams, is said to be worth around €125 and has (a) a map of the world on its “tails” side and (b) an inscription on it “heads” side that reads: “The Islamic State—A Caliphate based on the doctrine of the prophet.” Also, “the 21-carat gold one-dinar coin, which weighs 4.25 grams, will presumably be worth around €25. It will have an image of seven wheat stalks on it, which is a reference to the Koran that means “the blessing of spending one’s money in the way of Allah.” Furthermore, “Additional would-be coins of the new caliphate include the silver dirham, which has three distinct values and weights: a ten dirham coin that weighs 20 grams; a 5 dirham coin that weighs 10 grams; and 1 dirham coins that weights 2 grams” with “the third variety of ISIS currency is a copper penny, which also has three distinct values and weights.” Page. 272; Some estimates maintain that one Golden Dinar had an exchange rate of \$163. See Daftari, Lisa, “ISIS introduces ‘Golden Dinar’ currency, Hopes it will collapse U.S. dollar.,” The Foreign Desk, Foreign Desk News, <http://www.foreigndesknews.com/world/middle-east>. Last accessed March 18, 2019.

⁶⁰⁸ Oxnevad, Ian, “The Caliphate’s Gold: The Islamic State’s monetary policy and its implications,” *The Journal of the Middle East and Africa*, Vol. 7, No. 2, 125-140 (2016); Page. 125-126

⁶⁰⁹ W.Z, “Why Islamic State’s gold coins won’t replace the global banking system,” *The Economists*, September 3, 2015. <http://www.economists.com/blogs/economists-explains/2015/09>.

symbol of injustice and tyranny to her knees.”⁶¹⁰ Against Iraq, ISIS was using its Iraqi dinars and exploiting the foreign exchange markets in Iraq to obtain dollars, and in the process manipulating the value of the Iraqi currency and directly harming the Iraqi state.⁶¹¹

Of course, ISIS never posed a threat to the legitimacy and viability of the dollar at the international level nor even at the regional level. What is important is the leadership of ISIS viewed the introduction of its own Islamic currency not only as a monetary policy of state creation but also that it was seen as a psychological weapon against the United States. ISIS own strategy was one of limited subversion, that is to undermine the United States monetary position in the region. There was little to no chance of this succeeding, the fact that it occurred is itself an interesting point in the discussion of contemporary currency warfare and continues to support the idea that economic consequences are only the mechanism by which to achieve strategic ends defined by political and military objectives.

Conclusion: Explaining Currency Warfare in the ISIS War

Although Operation Point Blank the Air Campaign against the Islamic State’s currency, was the most visible and an acknowledged importance to the American war against ISIS, this was not the first time the United States had implemented currency warfare in the Middle East, nor is it the only country to do so. As previous chapters have

⁶¹⁰ Mahoney, Gillian, “Islamic State Claims to Mint Gold Coins in Effort to Drive US to Financial Ruin,” Vice News, August 30, 2015, www.vice.com. Last accessed March 18, 2019.

⁶¹¹ See Ellyatt, Holly, “ISIS ‘making millions’ by gaming forex markets,” Thursday 3 March 2016, CNBC News., www.cnbc.com/2016/03/03. Last accessed June 14, 2017; Kalin, Stephen, “Islamic State rigs currency rates in Mosul to prop up finances,” Reuters, February 22, 2016, www.reuters.com.

shown, Eisenhower implemented currency warfare against the British during the Suez War of 1956. During the Soviet Invasion of Afghanistan, the United State's counterfeited the Soviet-Afghan Regime's currency in order to undermine the regime and simultaneously fund the Mujahedeen. As a precursor to Operation Point Blank the Israeli Air Force bombed Hezbollah Operated Banks in Lebanon during the Second Lebanon War of 2006-2007, of which the Americans surely drew inspiration. More recently, Iran was discovered to be counterfeiting the Yemeni Rial in its attempt to undermine that Saudi Arabian backed regime in the country's ongoing civil war. The Haditha itself waged currency warfare through the foreign exchange manipulation of the Rial. Other campaigns of coercion targeting the opponent's monetary and financial systems have occurred in Oman and other Gulf States. Currency warfare is therefore becoming an openly acknowledged and consistent part of conflicts in the Middle East.

Case II: The United States and Currency Warfare Against Iraq 1990-1995

On August 1, 1990 (August 2, 1990 Washington D.C. time) lead elements of Iraq's Republican Guard divisions (the Medina, Hammurabi, and Tawakalna Divisions) crossed the border into Kuwait, and quickly overran the small oil rich country.⁶¹² In the weeks leading up to the invasion, there was considerable hope that the conflict would be avoided and that Saddam Hussein, Iraq's president, would achieve his economic and political objectives without military force. The catalyst for the invasion, from the Iraqi perspective, was its debilitating debt following an eight-year war with Iran, and the historic border dispute with Kuwait over the Rumaila oil field. For Iraq, "Oil exports

⁶¹² Friedman, Norman, *Desert Victory: The War for Kuwait*, (Annapolis: Naval Institute Press, 1991), 36

constituted Iraq's principal source of foreign currency and represented almost half its GNP."⁶¹³ Furthermore, Hussein accused Kuwait and the United Arab Emirates "of exceeding the OPEC production limits and driving down prices" and "claimed that this had cost Iraq over \$14 billion in lost revenue."⁶¹⁴ Hussein also argued that Kuwait intransigence in not solving its border dispute with Iraq, its inability to cancel the Iraqi debt owed to Kuwait (\$30 billion) and its policy of "theft" from the Rumalia oil field, was tantamount to "military aggression."⁶¹⁵s

Yet, war seemed avoidable as regional diplomacy by Egyptian President Hosni Mubarak and King Hussein of Jordan seemed to indicate that Hussein would seek to resolve the crisis diplomatically. The American Ambassador, April Glaspie, after meeting with Hussein cabled Washington that "Although not quite explicit, Saddam's message to US seemed to be that he will make a major push to cooperate with Mubarak's diplomacy, but we must try to understand Kuwait/UAD "selfishness" is unbearable."⁶¹⁶

Arab leaders "were optimistic" and Mubarak had said that "Saddam had personally told him Iraq had no intention of moving forces toward Kuwait."⁶¹⁷ At a meeting in Jeddah, Saudi Arabia, the Iraqi's demanded that Kuwait forgive Iraq's debt, a position the Kuwaiti's were eager to comply with. However, Saddam Hussein, had stated, on July 31, 1990 that the mediation in Saudi Arabia of the dispute between Iraq and

⁶¹³ Bush, George, and Brent Scowcroft, *A World Transformed: The Collapse of the Soviet Empire, The Unification of German, Tiananmen Square, the Gulf War*, (New York: Alfred A. Knopf, 1998), 308-309.

⁶¹⁴ Ibid, 309

⁶¹⁵ Ibid, 309

⁶¹⁶ Ibid, 310

⁶¹⁷ Ibid, 312

Kuwait would continue. Saddam Hussein had lied. At midnight, August 1, 1990 the Iraq Army invaded Kuwait.⁶¹⁸

Iraq's invasion had been unexpected, if not completely, surprising but the question now was what would the Americans and the international community do? On August 4, President Bush convened a meeting of the National Security Council. President Bush outlined the immediate priorities. "Our first objective is to keep Saddam out of Saudi Arabia...Our second is to protect the Saudis against retaliation when we shut down Iraq's export capability."⁶¹⁹ General Colin Powell, Chairman of the Joint Chiefs of Staff opined that "If we got a request from the Saudis, we should do more than simply show the flag."⁶²⁰ The Bush Administration would send defensive forces to Saudi Arabia but only with the invitation of the Saudi Royal family.

Bush recalled that after the meeting "Our stakes and options now seemed clearer. I had a better feel for the military situation on the ground and the strategic implications of the invasion for the United States and for stability in the Gulf. I approved the plan, although we couldn't implement it until the Saudis agreed to accept our troops."⁶²¹ President Bush later spoke with King Fuad expressing his determination to protect American interest in the region, meaning the defense of Saudi Arabia from an Iraqi attack, and promising to "stay until we are asked to leave."⁶²² President Bush had made his decision. American soldiers, if permitted would defend Saudi Arabia from Iraqi

⁶¹⁸ Ibid, 313

⁶¹⁹ Ibid, 328

⁶²⁰ Ibid, 329

⁶²¹ Ibid, 329

⁶²² Ibid, 330

aggression. Returning from Camp David, Bush answered reports questions. Famously

Bush said:

“I am not going to discuss what we’re doing in terms of moving forces, anything of that nature. But I view it very seriously, not just that but any threat to any other countries, as well as I view very seriously our determination to reverse this awful aggression. And please believe me, there are an awful lot of countries that are in total accord with what I’ve just said., and I salute them. They are staunch friends and allies, and we will be working with them all for collective action. *This will not stand, this aggression against Kuwait* (my italics).”⁶²³

A U.S. delegation headed by Secretary of Defense Cheney and General Norman Schwarzkopf (who headed Central Command or CENTCOM and would lead the military buildup and defense of Saudi Arabia) arrived in Jeddah on August 6 to seek permission to deploy American forces in the kingdom as part of the plan to defend Saudi Arabia.⁶²⁴ The King quickly gave his ascent and Secretary Cheney called Bush to obtain the approval to begin the deployment. August 7, 1990 would be “C day, the deployment day for sending forces to the region.” Operation Desert Shield the military buildup to defend Saudi Arabi from an Iraqi invasion had begun.⁶²⁵

Subversion Strategy and the Hurdles of Currency Warfare

Operation Desert Shield would be the largest military buildup since the Vietnam War. Immediately, advanced units of the 82nd, 101st and Marine divisions, along with other U.S. army units, and hundreds of combat and supporting aircraft, and the naval

⁶²³ Ibid, 333

⁶²⁴ Gordon, Michael R., and General Bernard E. Trainor, *The Generals’ War: The Inside Story of the Conflict in the Gulf*, (Boston: Little, Brown and Company, 1995), 51.

⁶²⁵ Ibid, 52-53

forces were sent to Saudi Arabia and the Gulf.⁶²⁶ Within the initial units to be deployed to Iraq was the 4th Psychological Operations Group (POG) which arrived on August 28 and which was augmented by early September when other American Psychological Warfare Battalions arrived. The 4th PSYOP was placed “directly under the operational control of Central Command, CENTCOM, and coordinated directly with CENTCOM’s Operations J-3 staff.”⁶²⁷ As the historian of the 4th PSYOP group said “Persian Gulf War strategic and tactical field-level Psychological Operations supported in every detail the goals and conditions set forth by President Bush and by other coalition leaders upon an international scale.”⁶²⁸ Its objective was to support, initially the objectives of Desert Shield, and presumably later, Operation Desert Storm.⁶²⁹

Part of the 4th PSYOPS group came to Iraq in charge of printing materials. Just as the British had brought on board one of their warships in the early parts of the American Revolution, the 4th PSYOPS would make good use of its printing operations. The 4th PSYOPS went to work printing numerous propaganda and psychological oriented materials aimed at degrading and humiliating Saddam Hussein and the Iraqi military. It is at this point that currency warfare comes into the picture. What 4th PSYOPS implemented was not technically counterfeiting of the Iraqi Dinar. What the 4th PSYOPS did do was create propaganda Iraqi Dinars, usually in the 25 Dinar notes, with messages encouraging

⁶²⁶ The military buildup which was Desert Shield is not the focus of this chapter. However, for an excellent narrative and analysis of the buildup, see Chapter 5 “The Buildup” in Friedman, Norman, *Desert Victory: The War for Kuwait*, (Annapolis: Naval Institute Press, 1991).

⁶²⁷ Johnson, Richard D., *Seeds of Victory: Psychological Warfare and Propaganda*, (Atglen: Schiffer Military/Aviation History, 1997), 20

⁶²⁸ Ibid, 20

⁶²⁹ Ibid, 20. Johnson writes that “The Persian Gulf War’s PSYOP campaign, as is any PSYOP effort, was after all a technical process which accurately mirrored the mission of the theatre’s combatant commander, in this case the CENTRCIM commander, General Norman Schwarzkopf, and alternately the Saudi Armed Forces Commander, Lieutenant General (LTG) Kahlid bin Sultan.”

Iraqi soldiers to defect. As Johnson documents, “In general, the entire Dinar series (leaflets C61, C62, C63 and C64), was conceived as a perk type leaflet, designed to appeal to the class of persons who would stoop to pick up money, which in actuality is nearly everyone.” Johnson continues, “The idea of course was to image one side of the leaflet with an exacting enough specimen of Iraqi currency, and to then have the other side of the leaflet contain a specific propaganda message.”⁶³⁰

As during the Second World War, the principle means of distributing these notes was through the air, and the Dinar notes were to be dropped over the Iraqi soldiers in Kuwait and southern Iraq. The Operations were to be implemented both by CENTCOM but also from bases in Turkey under the command of EUROCOM.⁶³¹ As with previous cases of fabricating counterfeit, or replica currencies, the task was not easy. The printing required “multiple colors and great intricacies of design” and “required paper stock to be passed thru the printing press a full four times, with each pass requiring absolute exactness of alignment, or the leaflets would not appear authentic...”⁶³²

The plan was therefore to undermine the Iraqi military and ultimately, Saddam Hussein. The strategy of subversion or creating the economic and political conditions for Hussein to lose his legitimacy was not only the prerogative of the psychological warfare units but of the wider coalitions objectives, including the air campaign. Since the beginning of the air campaign against Iraq in January 17, 1991 the coalition air forces had been bombing targets in and around targets. The goal was “Decapitation” or the removal

⁶³⁰ Ibid, 29

⁶³¹ Ibid, 29

⁶³² Ibid, 29

of Saddam Hussein. As Gulf War historians Gordon and Trainor argue “The strikes in and around Baghdad” of which targets included, the Iraqi leadership, military, but also, electrical and communications infrastructure, “were an effort both to shut down the Iraqi command structure and to create the conditions for Saddam Hussein’s overthrow by destroying the levers of power and stripping away the security forces that the Iraqi leader depended on for his own survival.”⁶³³

But it wasn’t just subversion that was motivating the Allied strategy, it was also one of killing Saddam Hussein. As one high ranking military official put it, “Not to imply that we were trying to assassinate Saddam, but we were trying to kill him.”⁶³⁴ There were also attempts to at “decapitation” of the Iraqi military hierarchy including Maj. General Salah Aboud Mahmoud who commanded the Iraqi III Corps in Kuwait. The proposed currency propaganda plan was consistent with other plans at undermining the Iraqi leadership and military. Since the beginning, the coalition and the United Nations had also considered how a lack of money would undermine Hussein’s regime. Economic sanctions had been imposed on Iraq shortly after its invasion of preventing the sale of exports to Iraq and the purchasing of its oil. As one historian “In theory, however, the shortage of cash would ultimately damage Iraq more, since even supplier willing to dodge the sanctions might find the absence of Iraq cash unappealing.”⁶³⁵ Although financial sanctions were therefore in place, there is a difference between simply cutting

⁶³³ *The Generals War*, 312

⁶³⁴ *Ibid*, 314

⁶³⁵ *Desert Victory*, 67

off the flow of cash and deliberately targeting its value, which is to some extent what the propaganda currency could do.

Considering the already significant economic sanctions that Iraq was facing plus its intense air campaign against its infrastructure, again designed to create conditions for the Iraqi dictator's removal, it is significant that the propaganda Dinar productions were not implemented? But why?

Operating out of Riyadh, where the coalition headquarters was situated, "Arab Coalition members were expressing very grave concerns at the high quality of the 25 Dinar series and demanded that the leaflet's quality and visual clarity be purposely diminished before dissemination."

Although the details remain unknown, there were two avenues of concern for the Arab coalition partners which were expressed as reasons not to deploy the propaganda-counterfeit currencies. First, and perhaps and more serious was the grave concerns that "the perception which some fellow Arab countries might identify as an active counterfeiting campaign, and the strict Arabic interpretation of certain Islamic religious beliefs which prohibit such acts."⁶³⁶ The second was the concern over the economic feedback effects which deploying the forged notes would create. There was a genuine fear that introducing propaganda counterfeit notes posed a threat to regional currencies and would establish a precedent that counterfeiting was an acceptable form of warfare. In other words, the fear that coalition produced propaganda currency would posed a threat in "to her currencies might possibly have been impacted within future operations, or that it

⁶³⁶ *Seeds of Victory*, 29

might let way to full scale, dual surface counterfeiting.”⁶³⁷As we shall see, the concerns from the Arab Coalition members were not far off the mark as American counterfeiting efforts against Iraq produced conditions that did impact at least one neighboring currency—the Jordanian Dinar, but also would provide Hussein to implement currency warfare against the Kurds.

Officially, the creation of “counterfeit currency was never reportedly entertained” but “that is not to say that Iraq’s allegations of CIA Mass counterfeiting did not occur as reported”⁶³⁸We do not yet have the details of the discussion regarding the propaganda currency notes, as the Gulf War archives are not easy to access or navigate. What is known is that the Arab coalition partners and Saudi Arabia viewed these propaganda currencies, as posing almost exact likeness to a counterfeited currency violating Islamic law. Furthermore, we see how different actors perceive the weaponization of currency differently, and how perceptions matter. Whereas in Riyadh the Saudi’s were able to prevent the implementation of the Dinar propaganda currency operation into play, in Turkey, where the psychological warfare units did not receive the concerns of the Arab Coalition members, the Dinar notes were dropped from bases in Turkey.⁶³⁹

Beginning of Low-Intensity Conflict Against Iraq (1992-2003)

Following the implementation of Operation Desert Storm, and the one-hundred-hour ground war in Kuwait and southern Iraq, the Iraqi army was defeated, and Kuwait liberated. The belief at the time was that Saddam Hussein could would not survive long

⁶³⁷ Ibid, 90

⁶³⁸ Ibid, 29

⁶³⁹ Ibid, 29

after such a crippling and humiliating defeat. Once again, such perceptions were proven incorrect by the ruthless dictator. In the aftermath of the war, uprising in southern and northern Iraq were brutally put down by the use of helicopters and chemical weapons—especially in the north against the Kurdish people. Shortly after, in 1993 a plot to assassinate President Bush (now out of office) was discovered resulting in U.S. airstrikes against Iraq. Combined with no-fly zones instituted in northern and southern Iraq, for the next decade the United States would be engaged in a low intensity conflict with Iraq experiencing periods of intense airstrikes and the targeting of Iraq’s military, and efforts to ensure the regime did not acquire nuclear weapons.

During the Gulf War it was rumored that the Central Intelligence Agency (CIA) may have been engaging in a currency counterfeiting operation against Iraq, although, that will more likely never be known. However, shortly after the war’s conclusion, the *New York Times* reported that “Iraq’s economy is the target of an American-led destabilization campaign to pour vast amounts of counterfeit currency into the region...”⁶⁴⁰ According to the Times, “The fake dinar notes are being smuggled across the Jordanian, Saudi, Turkey and Iranian borders in an effort to undermine the Iraqi economy.”⁶⁴¹ The counterfeiting campaign was largely discussed by the Iraqi population, and the “the fake currency” was “contributed[ing] to Iraq’s severe inflation problem, which is aggravated by the fact that the Iraqi Government is printing money at

⁶⁴⁰ Ibrahim, Youssef M., “Fake Money Flood is Aimed at Crippling Iraq’s Economy,” *The New York Times*, May 27, 1992. <https://www.nytimes.com> (last accessed: January 24, 2019)

⁶⁴¹ Ibid, “Fake Money Flood is Aimed at Crippling Iraq’s Economy”

uncontrolled speed to pay inflated salaries and cover the costs of reconstruction.”⁶⁴²The Iraqi currency was vulnerable to a currency warfare campaign because of the sheer number paper currency being created, and because of the economic sanctions imposed on Iraq, made its official exchange rate to the dollar unsustainable.⁶⁴³Furthermore there were other structural realities that added to Iraq’s susceptibility to currency warfare. Iraq did not print its own currency. Before the war, Iraq had its currency manufactured in Switzerland. As Jonathan Kirshner argued “Iraq found itself vulnerable to currency manipulation not only because its currency was so easily forged; there was also the problem of the so-called Swiss dinars—Iraqi currency that had been produced in Europe before the war and was still in circulation side by side with the government’s new emissions.”⁶⁴⁴Naturally, there was no official acknowledgement that the United States, or any government was responsible for the counterfeiting of Iraq Dinar’s but as we have seen this is standard operating procedure when it comes to currency warfare.

The counterfeiting campaign to subvert the legitimacy of Hussein’s regime failed. Hussein remained in power and remained there until the Second Gulf war of 2003. But, the counterfeiting plot against Saddam Hussein created the conditions in which the craft dictator was able to exploit against his domestic enemies—the Kurds. On May 3, 1993 the Iraqi government “announced a new currency maneuver,” declaring that “all 25-dinar notes printed before the war would no longer be legal tender in Iraq.” The Iraq government closed its borders for one week allowing for Iraqi’s to turn in their now

⁶⁴² Ibid, “Fake Money Flood is Aimed at Crippling Iraq’s Economy”

⁶⁴³ The official exchange rate was \$3 to one Iraqi Dinar. “Fake Money Flood is Aimed at Crippling Iraq’s Economy”

⁶⁴⁴ Kirshner, Jonathan, (2006). Currency and Coercion in the Twenty-First Century. In David M. Andrews *International Monetary Power*, (Ithaca: Cornell University Press), 139-161, 143.

worthless currency notes for new locally produced dinars.⁶⁴⁵This maneuver caused widespread consternation in Jordan,⁶⁴⁶ whose citizens had considerable number of dinars, but more catastrophically, the Kurds in the north would bear the brunt of this currency maneuver.

Since the end of the Gulf War, Iraq's Kurds had exercised sovereignty over Iraq's northern province. But Iraq's strategy of currency repudiation was used to destroy the Kurdish wealth. During the week in which Iraqis were allowed to turn in their pre-war dinars, those residing in the north of Iraq (Kurds) "were prevented from crossing into central Iraq and hence prohibited from participating in the currency exchange."⁶⁴⁷Although the Kurds had essential sovereignty over Iraq, they were not an independent sovereign state and did not have their own currency. As a result the Kurds "had no local currency of its own," and the "repudiation of the Swiss dinar wiped out the Kurd's international purchasing power."⁶⁴⁸The Kurds decried this form of "economic warfare" and the as the Kurds knew, "we don't have the legal power to print our own money" of which had they attempted to do so, would have created an even greater conflict as printing one's own currency represents a strong move towards independence.⁶⁴⁹Also, Turkey which had during the First World War been subject to a

⁶⁴⁵ Ibid, 143-144

⁶⁴⁶ According to Kirshner, "The Jordanian government appealed to Iraq to allow Jordanians to exchange their canceled notes, or at least to provide some compensation to those who collectively had lost an estimated \$250 million." Ibid, 144.

⁶⁴⁷ Ibid, 145

⁶⁴⁸ Ibid, 145

⁶⁴⁹ Ibid, 146

British counterfeiting campaign, saw Saddam's move as a way to destabilize its own country by creating problems in Kurdistan.⁶⁵⁰

In the end there was little the Kurds could do. A unified people, placed between four different countries, questioned, if not despised by its neighbors had to weather the storm by continuing to use the Swiss dinars, which through time would diminish in quality and in value. Although the Kurds attempted to introduce reserve Swiss dinars and also to use the dollar to purchase existing dinars in circulation, there was always the fear that Saddam would unload vast quantities of its recalled Swiss-dinars and flood northern Iraq with them creating rampant inflation and perhaps eliminating the Kurds remaining dollar reserves.⁶⁵¹The Arab Coalition partners concern during the Persian Gulf War (1990-1991) that weaponizing currency could result in potential ethical and economic consequences that could destabilize the region proved to be prophetic. In the end, power is relational, and although Saddam Hussein was significantly weakened in the region, he still enjoyed the trapping of sovereign statehood and all its legal and sovereign powers that entails, including the issuance of legal tender. In a move similar to the one used by the Nigerian Government during the 1967-1970 Biafran War, Saddam Hussein repudiated his own currency, making existing notes in circulation illegal and thus worthless, and issuing new currency which had the legal backing of the government and could be used at will against his much weaker foes. There should be no doubt that Iraq's currency warfare against the Kurds resulted in untold suffering providing a lesson of the unintended consequences which currency warfare can create.

⁶⁵⁰ Ibid, 146

⁶⁵¹ Ibid, 147

Conclusion

In examining the American currency warfare campaign against ISIS, I sought to discover why, although being lauded as an important element in the American effort to defeat ISIS, it took over a year for the United States to implement Operation Point Blank. I argue that variation among the three explanatory levels and how the Obama Administration perceived those variables explained the lag in the implementation of currency warfare against ISIS. In the initial stages of the conflict, the Obama Administration misperceived, first, the threat posed by ISIS, and subsequently did not have a strategy to defeat the regime. Ultimately, changes in the President's mindset about confronting ISIS more aggressively and changes in the Defense Department's leadership, especially, Ash Carter assuming the role of Defense Secretary, created the conditions for a more aggressive posture against the group, but also the development of a strategy which included currency warfare to subvert the regimes legitimacy. As in other conflicts, currency warfare was motivated by a strategy of subversion in which the monetary consequences which included, perhaps for the first time, deflationary effects would serve as the means by which to undermine the Caliphate. Finally, we saw how overall the implementation from a military and political perspective remained low throughout the conflict as ISIS posed no real threat to American aircrews implementing airstrikes from the beginning of the war, and there appears to have been no discussion (of course this could change in the future when further evidence is made available) as to the potential monetary repercussions from attacking ISIS currency holdings which included American dollars, Dinars, and more than likely Euros. It was not until October 2015 that all three

explanatory variables properly aligned resulting in the implementation of currency warfare against ISIS.

There is nothing inevitable about the occurrence of currency warfare as the ISIS War demonstrated. America's prior experience with currency warfare in the region further advanced our understanding of the enabling and restraining factors which explain why currency warfare occurs or not. The United States faced the same adversary in the Persian Gulf War (1990-1991) as it did in the years following that wars successful conclusion. In both conflicts, the United States sought to subvert the legitimacy of Saddam Hussein's regime by weaponizing currency to target the morale of his military and people. However, in the Gulf War Arab coalition members successfully argued that deploying fabricated Iraqi Dinars, even if not exactly counterfeit, posed religious and economic problems for them and ultimately that was sufficient to prevent its use. No such constraints existed following the Gulf War as the CIA acting without the constraints of American allies implemented a counterfeiting campaign against Iraq. The evidence supports the argument that all currency warfare campaigns occur when decision-makers perceive a threat to their national security, there is a strategy of subversion, and the implementation costs are perceived to be low.

Chapter 7: Conclusion and the Future of Currency Warfare

The principal contribution of this dissertation is that for the first time we now have a systematic inquiry into explaining when and why currency warfare is implemented or not. Contrary to popular opinion, currency warfare, or the weaponization and targeting of an enemy's currency during armed conflict is neither "unusual" nor rare occurrence in armed conflicts. As this dissertation has demonstrated currency warfare is a consistent feature of armed conflicts, a policy which decision-makers often consider and implement as a method by which to achieve their political-military objectives. Furthermore, recent evidence from the ISIS War (2014-Present) the ongoing civil war in Yemen, and the use of cyber-capabilities to target an enemy's financial institutions and its corresponding digital currencies indicates that currency warfare will continue to be fixture on the modern battlefield.

And yet, the coercive use of monetary power during armed conflicts has received scant attention. Currency warfare (and broader questions of currency power) remains a largely underexplored and understood aspect of statecraft and armed conflicts. as Benjamin Cohen laments "little energy has gone into serious analysis of when the power of money might be actually used" and we continue to lack a "set of behavioral propositions" to explain when monetary power will be used as an instrument of foreign policy. The few pioneers which have explored the relationship between monetary power and foreign policy have identified two important strands of scholarship on coercive monetary power. One strand focuses on monetary powers' record of success in achieving

foreign policy objectives, while others stress currency powers viability as an instrument of foreign policy which decision-makers have largely neglected to use. Another focuses on the significance of which decision-makers place on safeguarding their state's finances during war. These contributions are immeasurable in their contribution to this neglected area of study, but the existing literature does not explain when and why policy-makers will use and target an enemy's monetary power during armed conflicts.

The contribution of this dissertation is to make a giant leap in bridging this gap in our knowledge of coercive monetary power by addressing the puzzle of why, if currency power is so effective in achieving security oriented foreign policy objectives, why don't policy-makers always resort to it? In other words, why is currency warfare implemented in some armed conflicts but not in others? I present, for the first time, a theoretical framework explored in a systematic way, to explain the occurrence of currency warfare in some armed conflicts but not others. I argue that currency warfare is the result of three necessary variables: (1) a threat to national security; (2) a strategy of subversion; and (3) that the implementation cost (political, economic, military, ethical) are considered low in regards to their ultimate benefits of weaponizing and targeting currencies.

The eight in-depth case studies of both positive and negative cases supports my hypothesis that occurrence of currency warfare is explained when policy-makers recognize that a threat to national security has materialized, that to address that threat a strategy of subversion is required, and the implementation costs of weaponizing and targeting currencies are low vis-à-vis the expected gains (e.g. achieving the political and military objectives) are low. In all of the positive cases the three necessary variables are

present while in the negative cases which did not experience currency warfare, one of the three variables are absent.

Casual Relationships expressed in Boolean Equations

$$X_1 * X_2 * X_3 = Y$$

$$\sim X_1 + \sim X_2 + \sim X_3 = \sim Y$$

Key:

X_1 = Threat to National Security

X_2 = Strategy of Subversion

X_3 = Low Implementation Costs

$\sim X_1$ = Absence of a threat to national security

$\sim X_2$ = Absence of a strategy of subversion

$\sim X_3$ = Absence of low implementation costs (implementation costs considered high)

Y = Currency Warfare Implemented

$\sim Y$ = Currency Warfare NOT implemented

$*$ = The logical AND

$+$ = The logical OR

However, as noted in chapter 2 the establishing of congruence of the three variables is not enough to claim that these variables “really mattered.”⁶⁵² The three variables have been shown to matter because of the causal mechanism—the perceptions of decision-makers tasked with the implementation nor not of currency warfare, demonstrated that each one of the variables was necessary in the decision-making process for currency warfare to be implemented.

Chapter 3 examined the role in which a threat to national security played in the implementation of currency warfare campaigns. The first was the British campaign against the American rebels who were attempting to establish a sovereign state during the

⁶⁵² Brookes, Marissa, *The New Politics of Transnational Labor: Why Some Alliances Succeed*, (ILR Press, An Imprint of Cornell University Press: Ithaca), 2019), 161

American Revolution (1775-1783) and Napoleon Bonaparte's campaign against the Austro-Hungarian Empire in the War of the Third coalition. In both conflicts, there was a clear strategy of subversion motivating currency warfare via counterfeiting, harmful rhetoric, and currency refusion in the British case and counterfeiting in the case of Napoleon. Furthermore, in both cases, the implementation costs associated with currency warfare were low with little to no harm expected by targeting an enemy's currency. What becomes apparent, is that only when the threat to the British Empire or when war actually declared by Napoleon, did the threat to national security rise to such a level that currency warfare became acceptable.

Chapter 4 tackled the puzzling question of why the United States waged currency warfare against the Japanese Empire in the Asia-Pacific Theatre during the Second World War (1939-1945) but not against Nazi Germany or Italy in Europe? Despite being in the same global war, and proposals for counterfeiting the Axis currencies being identical in that they were motivated by a strategy of subversion, the decision to implement currency warfare against Japan but not Against the European Axis rested on the perception of the implementation costs associated with currency warfare. Whereas in the Asia-Pacific theatre commanders like General Douglas MacArthur, and the Bill Donovan's Office of Strategic Service paid relatively little attention to the implementation costs (based on potential monetary blowback effects, and ethical concerns) ultimately decided that the costs (including the actual production of counterfeit bill which was not an easy undertaking) were surmountable and would play an important role in winning the war. It was not until near the end of the war that the political and ethical concerns of currency

warfare where discussed. Initial recommendations against targeting the Japanese Yen in mainland Japan where viewed as unethical (much like in Europe) but ultimately, where overruled, more than likely by General MacArthur's orders.

In Europe, the story was different. Although throughout the entire war proposals where considered at the highest levels (including by President Franklin Roosevelt), the decision not to implement currency warfare was justified in fears of potential Nazi retaliation (even though the Nazi's where engaged in their own counterfeiting efforts against Great Britain), and the ethical cost to the civilian population. Even during the leadup to D-Day in 1944 and the difficult fighting in the Ruhr in 1945 was insufficient to overrule the ethical concerns associated with currency warfare. Ultimately, the implementation costs measured in potential monetary blowback effects, military necessity, and ethical considerations where perceived to be too high for currency warfare to be implemented.

Chapter 5 tackled the role of subversion as a motivating strategy in the implementation of currency warfare and against the backdrop of the most well-known and successful cases in which monetary power played a decisive role in achieving political-security foreign policy objectives—The Suez War of 1956. In November of 1956 The British led by Prime Minister Anthony Eden and in secret collaboration with the French and Israeli governments invaded Egypt to remove Nasser who had nationalized the Suez Canal and threatened the economic and security interest of the three belligerents. Eisenhower, seeing such an invasion as harmful to American interest in the region, and his anti-colonial stance, coupled with how the Suez War escalated into a

nuclear confrontation with the Soviet Union, and genuinely angered at Anthony Eden orchestrated speculator attack on the British Pound to subvert the British Government and to put an end to the invasion. Within a short time, Eden and his Chancellor of the Exchequer Harold Macmillan had capitulated, fearing the ramifications of the continued attack on the pound-sterling. The invaders receded and the nuclear confrontation abetted.

But just over a year in 1958 the Middle East would experience another crisis with the same actors Eisenhower, MacMillan, Nasser, and the increasing threat of Soviet penetration in the region resulting in Eisenhower sending marines to Lebanon and collaborating with British deployment of its own armed forces in Jordan. However, the puzzle remains, if currency warfare was so decisive in 1956 why didn't Eisenhower engage in currency warfare in 1958? The answer to this question rests in that in 1958 Eisenhower no longer wished to subvert the British presence in the Middle East but rather had an overall strategic motivation of maintaining the status quo. Hence although the United States faced the same threats to its political and military interest in the region (viewed in the prism of the Cold War), and the fact that the costs of currency warfare continued to be low, what was different was that the strategic motivation had changed from subversion to maintaining the status quo.

Chapter 6 looked two contemporary conflicts, the ongoing ISIS War (2014-Present) and the Persian Gulf War (1990-1991). The ISIS War, although horrific in its human toll, presented the opportunity to test the proposed explanatory hypothesis under conditions not in the control of the researcher, and which presented its own unique puzzle. President Obama and the Administration as a whole would openly acknowledge

that attacking the Islamic State's currency reserves from the air in Operation Point blank was highly effective in defeating ISIS. However, it took well over a year from America's entry into the war in the late summer of 2014 to the actual implementation of currency warfare in October 2015. Using time-sequencing approaches and dividing the conflict into four distinct stages, I demonstrated that it wasn't until the administration had developed a strategy to "degrade and destroy" ISIS that currency warfare was implemented.

A look at the Persian Gulf War (1990-1991) and the subsequent low-intensity conflict between the United States and Saddam Hussein in the 1990's showed that currency warfare, ultimately depended on the perceptions of those tasked with its implementation. During the Gulf War the American Army was ready to deploy propaganda counterfeit bills to undermine the Iraqi Army and perhaps Saddam Hussein himself. Yet, concern by the Arab coalition partners restrained its deployment citing potential economic effects in the region and Islamic law against counterfeiting. Following the Gulf War (if not before) the CIA apparently waged its own currency warfare via counterfeiting causing significant damage to Iraq, but also allowing Saddam Hussein his sovereign power to engage in currency repudiation, that is declaring one's own currency illegal and issuing new legal denominations. The strategy was catastrophic to the Kurds and those in Jordan who suddenly found themselves with worthless Iraqi Dinars. The event serves to show the role that misperceptions have in the conduct of currency warfare and not recognizing its potential disproportionate destructive qualities.

Table 6. Summary of the Cases

Cases	Currency Warfare Method of Attack	Threat to National Security	Strategy of Subversion	Low Implementation Costs	Currency Warfare Implemented?
The American Revolution (1775-1783)	Counterfeiting Currency Refusion Rhetoric	<u>NO</u> (Before 1775) YES (After 1775)	YES	YES	<u>NO</u> /YES
Napoleonic Wars: War of the 5 th Coalition 1809	Counterfeiting	<u>NO</u> (Before 1809) YES (After 1809)	YES	YES	<u>NO</u> /YES
Second World War (1939-1945) The Pacific Theatre	Counterfeiting	YES	YES	YES	YES
Second World War (1939-1945) European Theatre	Counterfeiting	YES	YES	<u>NO</u>	<u>NO</u>
The Suez War 1956	Foreign Exchange Manipulation	YES	YES	YES	YES
1958 Middle East Crisis	Foreign Exchange Manipulation	YES	<u>NO</u>	YES	<u>NO</u>
ISIS War (2014-Present)	Air Strikes Cyber Operations	YES	YES	YES	YES
Persian Gulf War (1990-1991)	Propaganda Counterfeiting	YES	YES	<u>NO</u>	<u>NO</u>

Looking Forward: The Future of Currency Warfare

Throughout the history of armed conflict decision-makers have imagined how currencies can be weaponized to harm their enemy’s. I suspect that to many the idea that currency can be weaponized and used for non-wealth creating purposes seems rather perplexing. But the cases documented in this dissertation which span the length of the modern era (1750-present) demonstrate that weaponizing and targeting currencies is when the conditions are just right, when the right decision-makers perceives the benefits

of engaging in this particular form of armed conflict, and ultimately has the will and the imagination to view weaponized currency as means of securing their security objective, currency warfare will be implemented.

The more recent example of Operation Point-Blank during the ISIS War was only the most visible and openly lauded example of a currency warfare campaign, but more will follow. This realization is being increasingly recognized. The U.S. Department of Defense is now conducting financial war games to further understand this particular form of warfare.⁶⁵³ Others view the “weaponization of finance” as an “important instrument of foreign and security policy,” of which its use could indirectly lead to an actual shooting war.⁶⁵⁴ Others have raised the possibility that currency warfare could be part of a great power conflict especially between the United States and China. Could a crisis in the Taiwan Strait or South China Sea result (if the right leaders are present) use currency manipulation to harm either the dollar or the yen by either China or the United States? Although unlikely because of their monetary interdependence, such a scenario cannot be entirely ruled out.⁶⁵⁵

Further study is therefore required to more completely understand the nature of currency warfare. Three areas of future research seem particularly important. First, under

⁶⁵³ Rickards, James, *Currency Wars: The Making of the Next Global Crisis*, (Portfolio/Penguin: New York, 2011), pp. 1-34

⁶⁵⁴ Wright, Thomas J., *All Measures Short of War: The Contest For the 21st Century & The Future of American Power*, (New Haven: Yale University Press, 2017), 131. Chapter 5 in Wright’s book is a solid example of how the realization of monetary and financial power is being increasingly understood as being used for non-economic ends and for purposes of security objectives. For how currency manipulation could lead to war indirectly see Captain Cohn, Douglas Alan, USA (RET), *WW4: How Our Dangerous world may lead to a new global war: Where it could start, how it might be fought, and why it would be devastating*, (Guilford: LP, 2016).

⁶⁵⁵ See Liss, Jodi, Making Monetary Mischief: Using Currency as a Weapon, *World Policy Journal*, Vol. 24, No. 4 (Winter, 2007/2008), pp-38; Haymond, Jeffrey E., “Living in Interesting Times: The Economics of a Chinese Currency Attack,” *Strategic Studies Quarterly*, Vol. 2, No. 4 (Winter 2008), pp 84-105.

what conditions is currency warfare successful? This question cannot solely be understood in purely monetary terms but rather in whether weaponizing and targeting currencies actually advances the political-security-military objectives of decision makers. Under what conditions can destroying an enemy's currency, even when it occurs, result in political-military success for the attacker? Why for example, did currency warfare during the American Revolution (1775-1783) often regarded as being successful, not result in the collapse of the American War effort? The same could be said of the British during the Second World War (1939-1945) when the Nazi's implemented a crippling counterfeiting campaign (whose consequences were long felt after the war) not result in Britain's complete collapse or withdrawal from the armed conflict? Although currency warfare is characterized as being successful in achieving foreign policy objectives, what does success mean in regard to implementing currency warfare?

Second, if monetary power will continue to be used, especially because it may be considered a non-lethal form of force, what ethical considerations should guide its use? As we have seen the ethical questions and objections of targeting an enemy's currency was often sufficient to prevent its implementation. More needs to be done to understand the non-discriminatory nature of currency warfare and perhaps even its disproportional harm that it can inflict thus posing serious moral consequences and causing unnecessary harm. Again, the fact that auctioneers have often raised these questions signals that the ethics of currency warfare is not a purely theoretical question.

Third, how should policy-makers incorporate currency warfare into their broader coercive military strategies? The record indicates (and this is unsurprising) that the

implementation of currency warfare is seldom viewed as part of a wider combined arms operation, but rather, operates on a separate dimension, a separate field of conflict, than traditional military forms of force. Could currency warfare be a force-multiplier, when should currency warfare be implemented? Depending on the tactic currency warfare could be a one-time shot or be a continuous effort for the duration of the war. Understanding, from the military perspective how to best incorporate currency warfare into broader combined arms operations will help to understand its effectiveness, but also its limitations.

As the 21st Century continues, and the destructive nature of modern armed conflicts combined with the increasingly complexity of our monetary and financial systems, and the changing nature of currency into increasingly digital entities we must expect that policy-makers will turn to the promise of weaponized monetary power and the targeting of an opponent's currency as a means to achieve foreign policy objectives. By examining previously implemented currency warfare campaigns, those that failed to materialize, and the decision-makers, who in the past faced the decision to implement currency warfare or not, we can advance our understanding of when and why currency warfare occurs, and advance our understanding of the role which currency power plays in present and future armed conflicts.

Appendix A: Currency Warfare Cases

Currency Warfare Cases	Agent	Target	Tactic	Implemented
17th-19th Century Conflicts				
Seven Years War	Great Britain	France	Counterfeiting	Yes
	Frederick the Great	Austria	Counterfeiting	Yes
American Revolution (1775-1783)	Great Britain	Colonial Rebels	Counterfeiting	Yes
			Rhetoric	
			Currency Repudiation	Yes
War Against Revolutionary France 1792-1804)	Great Britain	Revolutionary France	Counterfeiting	Yes
Napoleonic Wars (1805-1812)	France	Austria	Counterfeiting	Yes
		Russia	Counterfeiting	Yes
		Great Britain	Counterfeiting	Yes
	Great Britain	France	Counterfeiting	Yes
Mexican American War (1846-1848)	Mexico	Republic of Texas	Counterfeiting	Yes
American Civil war (1861-1865)	United States	Confederate States	Counterfeiting	Unknown
20th Century Conflicts				
Haitian Intervention 1915	United States	Haiti	Exchange Rate Manipulation	Yes
First World War	Great Britain	Imperial Germany	Counterfeiting	Yes
		German African Colonies	Counterfeiting	Yes
		Ottoman Empire	Counterfeiting	Yes
	Imperial German	Russia	Exchange Rate Manipulation	Yes

	y			
		India	Rhetoric	Yes
		Great Britain	counterfeiting	Yes
Inter War Conflicts (1919-1939)				
Russian Revolution 1917-1921	White Russia	Soviet Russia	Counterfeiting	Unkown
	Soviet Russia	White Russia	Counterfeiting	Unkown
Ruhr Crisis 1922	France	Germany	Exchange Rate Manipulation	No
Abyssinia Crisis 1935-1936	Great Britain	Italy	Exchange Rate Manipulation	No
Abyssinia Crisis 1935-1936	Italy	Ethiopia	Currency Repudiation	Yes
Spanish Civil War 1936-1939	Franco (Spain)	Spain (Republicans)	Counterfeiting	Yes
Sino-Japanese War 1937-1941	Japan	China	Fiat Currency	Yes
		China	Exchange Rate/Fiat Currency	Yes
		China	Fiat Currency	Yes
	United States	China	Exchange Rate Manipulation	Yes
	Great Britain	China	Exchange Rate Manipulation	Yes
Second World War (1939-1945)	United States	Japan-Burma	Counterfeiting	Yes
		Japan-Philippines	Counterfeiting	Yes
		Japan-Thailand	Counterfeiting	Yes
		Japan-China	Counterfeiting	Yes
		Japan Malaysia/Oceania	Counterfeiting	Yes
		Japan-Dutch East Indies	Counterfeiting	Yes
		Japan Imperial Yen 1942-1943	Counterfeiting	Yes
		Japan Imperial Yen 1943	Counterfeiting	No
		Japan Yen 1944/45	Counterfeiting	No
		Japan Yen 1945	Rhetoric	Unkown

		Japan Yen 1945	Counterfeiting	Yes
		Germany Steinbeck Proposal	Counterfeiting	No
		Italy Roosevelt-Steinbeck Proposal	Counterfeiting	No
		Germany 1941_Marshal Proposal	Counterfeiting	No
		Germany 1941_Contright Proposal	Counterfeiting	No
		Germany 1942 Johnson Proposal	Counterfeiting	No
		Italy 1942 Donovan Proposal	Counterfeiting	No
		Germany 1943	Counterfeiting	No
		Germany 1944	Counterfeiting	No
		Germany 1944	Counterfeiting	No
		Germany 1945	Counterfeiting	No
	Great Britain	Japan Burma	Counterfeiting	Yes
		Japan Thailand	Counterfeiting	Yes
		Japan Malaysia	Counterfeiting	Yes
		Dutch East Indies	Counterfeiting	Yes
		Italy	Counterfeiting	No
		Germany	Counterfeiting	No
		Germany (date unkown of implementation)	Counterfeiting	Yes
	Nazi Germany	Great Britain 1940	Counterfeiting	Yes
		Great Britain 1942	Counterfeiting	Yes
		United States	Counterfeiting	No
		France	Exchange Rate Manipulation	Yes
		Poland	Fiat	Yes
		Russia	Counterfeiting	No

	Japan	Philippines	Fiat	Yes
		Malaya	Fiat	Yes
		Dutch East Indies	Fiat	Yes
		Burma	Fiat	Yes
		Oceania	Fiat	Yes
		China	Fiat	Yes
		India	Counterfeiting	Yes
		China	Counterfeiting	Yes
	Soviet Union	Rumania	Exchange Rate Manipulation	Yes
		Bulgaria	Exchange Rate Manipulation	Yes
		Hungary	Exchange Rate Manipulation	Yes
		Poland	Exchange Rate Manipulation	Yes
		Czechoslovakia	Exchange Rate Manipulation	Yes
Post Second World War 1945-1989				
Korean War 1950-1953	United States	Communist China	Counterfeiting	Unkown
	China	United States	Counterfeiting	Unkown
	North Korea	South Korea	Counterfeiting	Yes
	United States	North Korea	Counterfeiting	Yes
Iranian Coup 1953	United States	Iran	Counterfeiting	No
Suez Crisis 1956	United States	Great Britain	Market Manipulation/Exchange rate	Yes
			Denied Liquidity through IMF	Yes
Lebanon and Jordan Crisis 1958	United States	UK, Lebanon, Egypt	Opportunity for Monetary Power	No
Cuba 1960-1963	United States	Cuba	Counterfeiting	Yes
Nigerian Civil War	Nigeria	Bafria	Currency Refutiation	Yes
Indo-China War 1945-1954	France	Vietminh	Counterfeiting	Yes

Vietnam War 1965-1973	United States	North Vietnam	Counterfeiting	Yes
	United States	Pathet Lao	Counterfeiting	Yes
	United States 1972	North Vietnam	Counterfeiting	Yes
	North Vietnam	U.S/South Vietnam	Counterfeiting	Yes
Afghanistan 1980-1989	United States	Soviet Union/Afghan Government	Counterfeiting	Yes
Falklands War 1982	Great Britain	Argentina	Exchange Rate Manipulation	No
Nicaragua	United States	Nicaragua	Exchange Rate Manipulation	Unknown
Panama 1989	United States	Panama	Exchange Rate/Market Manipulation	Yes
Post Cold War 1990-Present				
Gulf War 1990-1991	United States	Iraq	Counterfeiting	No(Yes by accident)
U.S.-Iraq Conflict 1992-2003	United States	Iraq	Counterfeiting	Yes
Iraqi-Kurdish Conflict (1990's)	Iraq	Kurds	Currency Refutation	Yes
Yugoslavia Conflict 1992-1999	United States	Serbia	Counterfeiting	Unknown
Kosovo Conflict 1999	United States	Serbia	Cyber	No
2003 Iraq	United States	Iraq/Saddam Hussein	Cyber	No
2006 Lebanon War	Israel	Lebanon/Hamas Banks	Air Strikes	Yes
2006 Lebanon War	United States	Lebanon/Hamas Banks	Unknown	No
Russo-Georgia War 2008	Russia	Georgia	Cyber Attack	Yes
Ukrainian Conflict 2014-Present	Russia	Ukraine	Cyber Attack	Yes
ISIS War 2014-Present	United States	Islamic State	Air Strikes	Yes

		Islamic State	Air Strikes	No
		Islamic State	Cyber-Attack	Yes
	Islamic State	United States	Rhetoric	Yes
2018 Yemeni War	Iran	Yemen	Counterfeiting	Yes

*To the author’s knowledge this is perhaps the first and certainly the most up to date data set of currency warfare cases. Many of these cases have been referred to throughout the dissertation but a summary of the sources of where these cases were found will be helpful to the reader. Academic and popular writings have contributed to assembling the cases. These include *Currency Wars* (2008) by John Cooley; *Currency and Coercion* (1995) by Jonathan Kirshner; the edited volume by David Andrews titled *International Monetary Power*; Murray Bloom’s “Uncle Same” Bashful Counterfeiter” (1988) found in the *International Journal of Intelligence and Counterintelligence*; Paul Einzig’s *Economic Warfare* (1940); *In the Devils Shadow* (2000) by Michael Haas; *To Hanoi and Back: The U.S. Air Force and North Vietnam, 1966-1973* (2000) by Wayne Thompson; *War of Ideas: The U.S. Propaganda Campaign in Vietnam* (1981) by Robert Chandler; “Real Fake Helicopter Money” (2017) by Terje Maloy found at www.globalresearch.ca; *Harpoon* (2017) by Darshan-Leitner and Katz; Richard Johnson’s *Seeds of Victory* (1997); *Money and Conquest* (1967) by Vladimir Petrov; Scheina, Robert L., *Latin America’s Wars: The Age of the Professional Soldier, 1900-2001* (2003); See David Altig (Federal Reserve Bank of Cleveland) "Why is Stable Money Such a Big Deal" (2002); *Cyber Spies* (2015), by Gordon Corera; For Spain see “Moneda y Guerra Civil Espana: Delitos Monetarios,” (2011), Carolina Corporales Leal See also the Central Intelligence Agency’s FOIA website. Archival Material analyzed was a treasure trove for cases during The Second World War and these included archival material at the U.S. National Archives in College Park Maryland; The Army Archives in Carlisle, Pennsylvania; The Franklin Roosevelt Presidential Library in Hyde Park, New York; The Douglas MacArthur Memorial Library at Norfolk Virginia; and the British Archives. More recent cases such as Operation Point Blank for the ISIS War and the Yemen Civil War relied on news articles located online or at official government websites such as the departmentofdefense.gov; treasury.gov; whitehouse.gov.

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Army Archives (Carlisle, Pennsylvania)

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Dwight D. Eisenhower Presidential Library (Abilene, Kansas)

United Kingdom National Archives (Richmond, United Kingdom)

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Obama White House Archive (obamawhitehouse.archives.gov)