

Cato Institute Policy Analysis No. 185: The CIA as Economic Spy: The Misuse of U.S. Intelligence After the Cold War

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Stanley Kober

Stanley Kober is an adjunct scholar at the Cato Institute.

Executive Summary

With the end of the Cold War, the U.S. national security community has been reexamining its future. Casting about for a new threat to replace the Soviet Union, it has seized on the idea that economic competitors could pose a potential danger.[1] "The national security review highlighted the dramatic[ally] increased importance of international economic affairs as an intelligence issue," Robert Gates, director of the Central Intelligence Agency, stated in a speech prepared for the Economic Club of Detroit on April 13, 1992. "Nearly 40 percent of the new requirements are economic in nature. The most senior policymakers of the government clearly see that many of the most important challenges and opportunities through and beyond the end of this decade are in the international economic arena." [2] In an earlier interview with *Time*, Gates had insisted that although the CIA would "not do commercial spying," the agency could "be helpful on economic intelligence, by identifying foreign governments that are involved in unfair practices," including cases "where they are colluding with businesses in their country to the disadvantage of the U.S." [3]

Gates is not the only one to flirt with the idea of economic intelligence as the major CIA mission in the post-Cold War era. In the summer of 1992 the Senate Select Intelligence Committee met with a group of top American corporate executives and intelligence experts to discuss whether U.S. intelligence agencies should share information with American businesses to help give them an advantage in an increasingly competitive global market. Although opinion was divided on the wisdom of such a strategy--and the lengths to which the CIA should go to obtain and disseminate information if it did undertake that mission--there was considerable enthusiasm for general economic espionage. Most participants embraced the logic expressed earlier by former CIA director Stansfield Turner, who told the committee that economics "is a primary area of intelligence in the 1990s." He asked rhetorically, "If we spy for military security, why shouldn't we spy for economic security?" [4] Sen. John Danforth (R-Mo.) echoed those sentiments, contending, "Economic intelligence is going to be increasingly important to our country." [5]

The premise of Turner, Danforth, and others appears to be that international economic competition inherently poses a national security threat. Such an unwarranted assumption betrays a fundamental misunderstanding of economics and will distract U.S. intelligence agencies from their proper function: gathering information on genuine security threats. It could also lead to an unhealthy and potentially corrupt relationship between those agencies and American corporations. Finally, it has the potential to poison relations with other democratic capitalist countries.

Economics and Security

To be sure, the people entrusted with the national security of the United States must be alert to any potential danger, and the idea of economic vulnerability is not new. Even Adam Smith, in his famous argument for free trade,

acknowledged that "it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry . . . when some particular sort of industry is necessary for the defense of the country." Given Britain's dependence on the sea for its security, Smith thought measures to protect its seagoing capability unavoidable despite the costs they imposed. "Defense," he insisted, "is of much more importance than opulence." [6]

Smith's arguments find an echo in our own day. The oil shocks of the 1970s and the recent Persian Gulf War have convinced many Americans that our national security is endangered by our dependence on foreign sources of energy. In addition, the widely publicized decline in American competitiveness has raised questions about our ability to provide for our security in the future. The Defense Department, for example, annually produces a list of critical technologies deemed "the most essential to develop in order to ensure the long-term qualitative superiority of U.S. weapon systems." [7] The clear implication is that the United States cannot rely on foreign suppliers for any of those technologies. Therefore, competition, even by firms in friendly democratic capitalist countries, is regarded as a threat to our national security, especially if that competition is considered unfair or predatory.

Not only are such concerns exaggerated, the timing is suspicious. With the end of the Cold War, the American people were looking forward to a peace dividend as a result of a reduction in the budgets of both the military establishment and the intelligence bureaucracy. Now we learn that our security is jeopardized by nations we thought were our friends and allies. Moreover, the Bush administration's methodology was suspect. According to Gates, that administration asked "some 20 policy agencies and departments to identify their intelligence needs to the year 2005." [8] The question that should have been posed was not what kind of intelligence government agencies thought was desirable, but what intelligence was so important that they would be willing to support it financially from their existing budgets. It is, after all, not surprising that consumers will not reduce their consumption of a product if they do not have to pay for it. Similarly, it is not surprising that the intelligence community, having lost its most important mission, should be seeking others that would allow it to maintain its position unaffected.

Nevertheless, the concerns expressed by Gates and the proponents of economic espionage cannot simply be dismissed. Two questions, in particular, need to be addressed. First, does the United States face an economic threat? Second, is the CIA the proper institution for gathering and analyzing information on foreign economic matters, or should it focus on other subjects?

Are Economic Threats Real?

At the beginning of the post-World War II era, the United States was the greatest power in the world. Militarily, its navy dominated the seas, and its army occupied the territories of its recent enemies. Perhaps even more important, it alone possessed the atomic bomb and the capability to deliver it against any potential adversary. Its territory undamaged by World War II, the United States became the arsenal of democracy. Its economic advantages were equally impressive. At the end of the war, "more than half the total manufacturing production of the world took place within the U.S.A." [9]

That extraordinary supremacy was, of course, unnatural, a product of the war's devastation of ally and adversary alike. As the other countries rebuilt, U.S. economic dominance necessarily declined, even as the United States itself became steadily wealthier. The restoration of the economic vibrancy of the other industrialized nations contributed to the growing quality of life in the United States, as Americans were provided with new, high-quality products. Some of those products displaced American-manufactured products, however, thereby putting Americans employed in those industrial sectors out of work. By the 1980s the United States found itself running enormous trade deficits year after year. Some Americans, unaccustomed to such a situation, found it threatening and reacted accordingly.

The New Mercantilism

"America's military allies are economic adversaries," wrote Selig Harrison, a senior associate at the Carnegie Endowment for International Peace, and Clyde Prestowitz, president of the Economic Strategy Institute, in 1990. "Refusal to acknowledge that an adversarial trade relationship exists . . . prevents the United States from responding effectively to the competitive challenge." [10]

Harrison and Prestowitz, who view economic competition as an adversarial relationship, challenge the standard

economic wisdom that both sides benefit from trade. According to them mutual benefit can occur only if the trading countries play by the same rules. If a country bends the rules, in particular by providing assistance to favored industries, it distorts the outcome of trade so that it benefits disproportionately. And if favored industries provide products to the armed forces, such a policy can even pose a national security threat to allies by threatening to undermine their indigenous capabilities. That viewpoint now seems to be gaining acceptance in policy circles. "In laying out these intelligence requirements our senior policymakers repeatedly stressed the importance of understanding the plans, intentions, and strategies of foreign governments as well as the economic pressures and opportunities faced by foreign leaders," Gates told the Detroit Economic Club. "Policymakers also want to know about predatory or subversive targeting of U.S. markets, technologies, investments and research and development." [11]

The concerns articulated by Gates may seem reasonable, but they contain assumptions that are highly questionable. In the first place, they assume the economy is supposed to benefit the producer, rather than the consumer--or as advocates of that viewpoint undoubtedly would prefer to put it, people cannot benefit as consumers unless they first benefit as producers. "The real economic gain goes to the companies and the nations that make the products, not the consumers who buy them," Sen. Joseph Lieberman (D-Conn.) recently maintained. "To suggest that America wins because other nations produce, commercialize and now dominate technological products we invented misses the idea of what we need to do to protect our standard of living." [12]

The viewpoint that the economy should benefit producers first and consumers second, which is not new, is typically identified with the economic doctrine of mercantilism. It was precisely that doctrine that Smith attacked in the *Wealth of Nations*. "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer," he argued. "But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce." [13]

Industrial Targeting and Other Myths

Given Smith's treatment of the two philosophies more than 200 years ago and the general disrepute of mercantilism since then, it might seem surprising that the issue is still in dispute. Yet many people who consider themselves strategic thinkers have consistently favored mercantilism over free trade. "Free trade," wrote Sir Halford Mackinder after World War I, "may have been a tenable theme in the time of Adam Smith and for a generation or two afterwards. But under modern conditions the *Going Concern*, or, in other words, accumulating financial and industrial strength, is capable of outweighing most natural facilities." [14]

In our own day Mackinder's "*Going Concern*" has been replaced by the Japanese Ministry of International Trade and Industry (MITI). According to contemporary mercantilists, the growth of Japan's economy since World War II is a consequence of its predatory policies, which favor the producer over the consumer. "What if one [country] enforces strict antitrust laws and eschews industrial policy, while another allows or even encourages quasi-cartels and embraces industry targeting?" asks Prestowitz. "Over time, the industries that the latter country targets will predominate." [15]

Perhaps, but it should be remembered that in between the *Going Concern* and MITI came Gosplan, industrial targeting if it ever existed. Gosplan, and the philosophy behind it, led not to the Soviet Union's economic predominance but to its total economic collapse. Significantly, Soviet economists themselves came to recognize that as they belatedly undertook their reforms. "What is the substance of these economic reforms? What would we like to do away with, and where are we heading?" asked Abel Aganbegyan, the principal intellectual architect of Mikhail Gorbachev's policy of perestroika, in 1988. "First of all, we would like to do away with the shortages in the economy and the resulting situation in which the producer dominates the consumer. We would like to go over to a deficit-free economy in which the production of commodities and services is directly guided by social requirements and is oriented to consumer demand." [16]

Indeed, the current difficulties of the Japanese economy are causing observers to evaluate MITI's record more critically. "Advocates of an American industrial policy are highly selective in choosing their examples," contends Katsuro Sakoh, a Japanese economist based in Washington. "Automobile and consumer electronics, two of Japan's most visible and successful industries, enjoyed practically no special treatment or government favors." Indeed,

throughout the 1950s and 1960s MITI actually discouraged Japanese companies from becoming automobile manufacturers.[17]

More recently the Japanese have been forced to concede that government-inspired efforts to build a fifth-generation computer have been an utter failure. "The computer industry shifted so rapidly that the technological path the Fifth Generation took--which seemed a wise choice in 1982--turned out to be at odds with the computer industry's direction in 1992." Japan's ability to "stay the course in pursuit of a long-term payoff--usually considered one of the country's strongest assets--turned into a liability." [18]

The same fate may now be befalling Japan's vaunted semiconductor industry.[19] Because of inflexibilities caused by the government's effort to guide the industry, concludes The Economist, "Japan's semiconductor firms are being left behind in the race to master the next generation of devices." [20]

Making the CIA the Handmaiden of Industrial Policy

In the 1930s, with the United States stuck in the Great Depression, Soviet economic growth masterminded by the center seemed to be the wave of the future. How different things look several decades later. Unfortunately, the lesson of the Soviet economic collapse has still not been learned. "The first task is to support U.S. policymakers in the executive and legislative branches as they set this country's economic policy course," Gates argued in his Detroit speech. "With respect to understanding what is going on in the economic world, identifying trends, understanding intentions, putting together big pictures from small pieces--this is the kind of thing that the intelligence analyst is trained to do." [21]

Intelligence Capabilities . . . and Limitations

Is that really the kind of thing the intelligence analyst is trained to do? Given the CIA's woeful record in assessing the Soviet economy throughout the Cold War, one should at least have doubts about the agency's ability to carry out such a mission. As late as 1989, the CIA was issuing estimates that the economy of the USSR was two-thirds as large as the U.S. economy--making it larger than Japan's.[22] That type of general analysis is considerably less demanding than attempting to forecast market trends, technological developments, and other aspects of dynamic, rapidly changing, and highly complex economies in numerous countries. In fairness, the CIA has not been alone in making faulty predictions. As the Financial Times recently noted, "The abject failure of the international economic forecasting fraternity in recent years has given economists a bad name." [23] Indeed, the Times's financial columnist, Samuel Brittan, has condemned "the profoundly misguided view that making such [short-term] forecasts is what economics is all about." [24]

That does not mean that the intelligence community should never engage in economic analysis. But it must always be mindful of its purpose. For example, if the aim of gathering information is to help identify areas of instability that could become security threats, Gates's position is unobjectionable. Similarly, if the CIA intends to use its resources to investigate matters such as the diversion of American agricultural credits to weapons purchases--which is alleged to have occurred in Iraq before the gulf war and which should have served as a warning of Saddam Hussein's aggressive designs--that is also proper and even necessary.[25] But if the purpose is to help guide something vaguely called U.S. economic policy, Gates's statement raises serious concerns.

Misconstruing Economic Competition

"We also must support the policymakers in bilateral and multilateral economic negotiations where the 'rules of the economic game' are set--rules which in many ways create the framework for business activities and their success or failure," Gates emphasized.[26] Implicit in that statement is a competitive attitude toward trade negotiations, the same approach--and even language--used by advocates of industrial policy such as Lester Thurow. "The contest has shifted from being a military contest to being an economic contest," he writes in his latest book. "Those who control the world's largest market get to write the rules. That is as it always has been." And since a united Europe will have the world's largest market, "the Europeans are going to write the rules for a system of 'managed trade' and 'quasi trading blocs.'" [27]

Such an attitude makes no sense, however, if one accepts what Adam Smith wrote, and what the Soviets have now come to recognize as a result of their painful experience: the purpose of the economy, and hence of trade, is to benefit the consumer, not the producer. If foreign taxpayers want to engage in "unfair" trade practices and subsidize American consumers, Americans should take the money and run.[28] The U.S. government should not be attempting to define "rules of the game" that will raise costs for American consumers and thereby lower their standard of living. In its trade negotiations, the U.S. government should have only one objective: expanding free trade. And as long as it sticks to that objective, there will be no need for support from the CIA.

Alleged Economic Vulnerability

Some people may object that such an approach has one vulnerability: it will sacrifice industries necessary for national security. That argument is more plausible, for as we have seen, even Smith recognized the need for protection of capabilities vital to national defense. It must be recognized, however, that such protection comes at a cost: if the United States maintains a capability in which it is at a comparative disadvantage, it is spending money that could be better spent on something else.

The importance of that opportunity cost is ignored by analysts who insist that "key industries and technologies for the twenty-first century . . . be realized here." [29] It is simply not possible for the United States to lead the world in all key industries and technologies, for there is just too much talent in the rest of the world to allow that to happen. Nor is there any need to: given the size of the U.S. economy, other countries that develop products of advanced technology will have to sell to the United States if they are to reap a satisfactory return on their investment. That is especially the case now that the Soviet Union has collapsed, for all the other advanced industrialized countries are democratic capitalist societies.[30]

Unfortunately, the beneficial implications of interdependence do not seem to be fully recognized by American policymakers. "The second general economic intelligence task of the community is to monitor trends in technology that could affect national security," Gates stated in his Detroit speech. "We must continue to watch closely the development of foreign capabilities in advanced technology areas--by no means solely military--that promise to have major security and economic impacts." [31]

His remarks are deeply disturbing. The national security establishment exists to defend the United States from the threat of military or terrorist attacks. By suggesting that the CIA is interested in advanced technology that has merely economic impact, Gates is broadening the security agenda considerably. To be sure, much advanced technology has military implications, but we should avoid the temptation of saying the entire economy has national security implications because an advanced defense establishment cannot exist without an advanced economy.[32] Although that statement is true, defense is not the *raison d'être* of our advanced economy. The purpose of the American economy is to provide American and foreign consumers with the goods and services they want. If we lose sight of that, if we conclude that the purpose of the economy is to support a large number of key industries and technologies deemed essential to national security, we run the risk of militarizing the economy and thereby driving it into the ground just as the Soviets did theirs.[33]

The Potential for Corruption

In addition, an economic espionage mission raises the danger that the intelligence establishment would support one company over another. To be sure, Gates resists involvement by the CIA in such activities. He and other officials note that passing information to the private sector would anger other countries, expose intelligence sources, and create a web of legal problems for officials attempting to decide which industries or companies to assist. "I think down that path lies peril for the [intelligence] community," Gates concedes.[34]

But if the intelligence community is to be used to support a national industrial policy, its intelligence will necessarily benefit some companies more than others, since government funds cannot be evenly distributed to all competitors in a given industry. Once companies are selected to carry out government policy, can we reasonably expect the government to withhold information that could provide more effective utilization of its funds? Despite Gates's undoubtedly sincere protests, it is difficult to see how, in practice, intelligence support of industrial policy can be separated from favoritism toward the companies selected to implement that policy.

The principal worry would not be bribery but a more subtle form of corruption. In an increasingly politicized environment, companies would devote considerable time and resources to currying favor with the intelligence bureaucracy and senior policymakers in the administration. That is hardly surprising since the financial stakes would be enormous. Access to crucial information could be worth--or at least would be perceived to be worth--millions or even billions of dollars. Companies chosen to receive that information might benefit handsomely, while those that were excluded would operate at a severe disadvantage. Moreover, recipients of data and assessments would quite likely be determined more on the basis of management's political clout than on the company's ability to compete in global markets. The potential for abuse in such a relationship between government and select members of industry is obvious.

Trusting the Market

According to the Competitiveness Policy Council, the U.S. government needs an agency to assess "the likely course of key American industries, including at least some of those on the very similar lists of 'critical technologies.'" As part of its function, that agency would monitor "the activities of foreign governments and firms in those same sectors to provide 'early warning' of competitive problems that might be on the horizon. The intelligence community might be able to contribute significantly to that part of the effort." [35]

We already have such an early warning system. It is called the market. Ironically, American economists and national security experts are now following the siren song of scientific planning just as the Russians, who have experienced its devastating effects first hand, are abandoning it.

The Soviet Experience

If advocates of the new mercantilism are not dissuaded by the analyses of Adam Smith or F. A. Hayek, perhaps they will pay attention to the words of Alexander Yakovlev, one of Mikhail Gorbachev's closest advisers, as he made the case for the market in 1988:

The market is historically formed as an objective economic and social reality. It is not only a natural mechanism of identifying the existing requirements: it is also, as Lenin put it, the most democratic mechanism of "social accounting," i.e. society's rather than the bureaucrat's recognition of the price and quality of the commodity, as well as of the demand for it.

Let us put the question in the following way: have we other reliable means of identifying all the countless requirements which actually exist in society? From the largest to the smallest ones? Are we able to take into account their extremely mobile dynamics? And even if we somehow identify these requirements without the market, shall we be in a position to manage to meet them from a single center? Up till now, all such attempts have ended in failure.

Today we know--and this I emphasize--we know from experience the answers to all these questions. And they are very simple answers. It is not that it is simply technically impracticable to practice such totalitarian bureaucracy, but that human flaws in the command method cannot be compensated for by even the most sophisticated computers. Such approaches should be rejected in principle. [36]

The Fallacies of Industrial Policy

People who advocate government selection of critical technologies believe that experts can be immunized from the politics and corruption that helped drive the Soviet economy into the ground. It is important to remember, however, that only a few decades ago, prominent economists thought the Soviet Union had solved the problem of accurately identifying its economic interest. "One of the chief merits of the socialist order consists in the fact that it shows up the nature of economic phenomena with unmistakable clearness whereas in the capitalist order their faces are covered by the mask of the profit interest," renowned Harvard economist Joseph Schumpeter wrote in 1950. "Economic policy will therefore be rationalized and some of the worst sources of waste will be avoided simply because the economic significance of measures

and processes will be patent to every comrade."[37]

That was the idea behind industrial policy, but things did not work out that way. The market "is the measure of the social usefulness of work, the regulator of thriftiness, the incentive for building up efficiency and for scientific- technological progress," argued Yakovlev. "It is actually, at present, the only known reliable anti-waste mechanism."[38]

That the information available to central planners is not equal to that provided in the market is not the only reason for waste. A second reason is that central planners are less accountable for their decisions since it is not their money at risk.[39] Schumpeter recognized that point only to dismiss it. "Responsibility in the sense of having to pay for one's mistakes with one's own money is passing anyhow," he noted before proceeding to his main point. "Much more effectively, as we have seen, the central authority can do all that is now being done through private saving by directly allocating part of the national resources to the production of new plant and equipment. The Russian experience may be inconclusive on many points, but it is conclusive on this."[40]

Yes, it is, and that is precisely what should give us pause before we try to imitate it. Before we embark on an industrial policy and direct our intelligence agencies to support it, we should remember that years ago, the Soviets thought they had scientific planning, and many Western intellectuals agreed with them. Now, with the collapse of the Soviet economy, Western intellectuals have turned to a new model: Japan.

The Real Lessons from Japan's Experience

The dynamic growth of the Japanese economy, its record of full employment, and especially the contrast between its huge trade surpluses and chronic U.S. trade deficits have convinced many observers that Japan's "guided capitalism" is superior to the more unrestricted American version. One suspects, in addition, that many academic experts cannot rid themselves of the illusion that scientific guidance of the economy is possible, and that Japan's performance is proof of its achievement. As Prestowitz has put it, "A comprehensive policy would be based on the development of productivity and growth criteria to guide choices affecting the structure of the economy so that politicians will be forced to cease the present practice of rewarding favored groups."[41]

Not only does Prestowitz assume that there are objectively correct productivity and growth criteria that experts can identify--the illusion of central planners throughout history--but the political impracticality of his recommendation is illustrated by his model: Japan. The image of "a fruitful partnership in which MITI's bureaucrats declared what was best for Japan Inc., and big business loyally executed their plans . . . turns reality on its head," argues *The Economist*. "The industries feared by the rest of the world have developed through a bare-knuckles marketplace fight that the government has hardly refereed, let alone controlled."[42] Moreover, to the extent that there has been business-government collusion in Japan, the political consequences have been extremely unsavory. However bad influence peddling may be in the United States, it is much worse in Japan, where financial scandals involving prominent politicians have become commonplace. Gaisha Hiraiwa, head of Japan's main business federation, concedes, "We've reached the stage when an immediate overhaul of the political system is essential."[43]

In short, far from proving the advantages of scientific and apolitical expert guidance, the collapse of the Japanese bubble economy suggests that although central planning can help organize resources for recovery from an economic disaster (e.g., defeat in World War II), it is far less effective than the market in adapting to changing conditions over time. Furthermore, achievements come at the unacceptable cost of massive political corruption.

A Legitimate Role for Intelligence Agencies

The collapse of communism has not meant the end of threats to freedom, and there is a legitimate role for the CIA in the post-Cold War era. That agency must be the eyes and ears of America in a sometimes dangerous world. In assessing possible threats to American security, more emphasis needs to be placed on

the relationship between domestic and foreign policies. Countries that are firmly in the democratic camp should not be regarded as threats to the United States, even if they are economically powerful. Instead, the emphasis should be on identifying those countries whose values have a strong anti-Western, and specifically anti-American, component.[44] If those countries are engaged in an arms build-up--especially the acquisition of nuclear, chemical, or biological arsenals--they should receive special attention. And if their leaders make threatening statements, we should evaluate them seriously, rather than simply assume that mercurial dictators will behave in a manner we consider rational.[45] In those areas the CIA and other intelligence agencies have important roles to play. They should not be distracted from their mission to focus on nonexistent economic threats.

"We in intelligence have an unparalleled capability to collect and analyze vast and disparate categories of information from all over the world," Gates said in Detroit.[46] Americans hope he is correct, but that effort should be confined to issues affecting national security, not used to support an industrial policy. Otherwise, the intelligence community will undermine rather than strengthen our economic position while diverting its resources away from genuine threats to the national security.

Avoiding the Creation of Unnecessary Adversaries

Even worse, perhaps, economic espionage will run the risk of making adversaries of other democracies. It is highly probable that foreign governments will not react well to evidence that U.S. intelligence agencies are spying on and implicitly seeking to undermine companies in their countries. There are already enough trade frictions in the U.S.-Japanese relationship, for example, without creating more occasions for misunderstanding. When details of CIA economic operations directed against "predatory" practices leak out, as they inevitably will, such revelations are likely to lead to ugly diplomatic incidents or retaliatory economic measures. At the very least, an economic espionage mission for the CIA risks sowing mistrust among democratic capitalist countries, creating needless animosities.

If there is any doubt of that danger we only have to look at the reaction to allegations of industrial espionage directed against the United States. "While it is not possible to quantify the scope of economic espionage conducted by foreign intelligence agencies, there is evidence of a real and growing problem," Michael J. Socolar, a senior official of the General Accounting Office, told Congress in April 1992. Reinforcing his assessment, FBI Director William Sessions added that "now and in the future, the collection strategies of adversaries and allies alike not only [will] focus on defense-related concerns, but also include scientific, technological, political and economic information." [47]

Despite those assertions, it is difficult for outsiders to assess how significant the threat is. "I remain to be convinced that 'economic espionage' . . . is a new or growing threat that warrants a greater counterintelligence effort," Sen. Bill Bradley (D-N.J.), a member of the Select Intelligence Committee, said in August 1990. "Despite my request for evidence of cases in point, the Director of Central Intelligence has not substantiated his public assertion that 'we have been victims of industrial espionage.'" [48]

Even if such espionage is going on, however, we should be careful to differentiate national security concerns from merely criminal matters. Unless industrial espionage affects national security, it should not be a focus of the CIA. If the CIA discovers information indicating that laws are being violated, it may properly inform the FBI, which can then investigate the matter. The CIA and FBI have different missions, and although those missions can overlap, they should nevertheless be kept distinct. Indeed, to the extent that an economic counterintelligence mission is necessary, it is more appropriate that the FBI have that responsibility.

In addition, it should be noted that U.S. companies are not without their own legal resources if foreign firms inappropriately acquire their technologies. For example, in November 1988 Fujitsu agreed to pay IBM hundreds of millions of dollars for unauthorized use of IBM technology. That settlement, reached by the American Arbitration Association, was even welcomed by Japan's Ministry of International Trade and

Industry.[49] The strengthening of such mechanisms should be pursued to deal with industrial espionage that does not affect national security. By transforming the issue into one of civil liability, we could reduce the tension that unavoidably accompanies political or national security disputes between governments.

In short, it is possible to deal with the economic espionage problem, to the extent it exists, without resorting to any extraordinary measures. Indeed, we should recognize that if we adopt tactics of which we formally disapprove, we in effect legitimize them and make ourselves appear hypocritical. Instead of embracing the logic of "monkey see, monkey do," we should attempt to use public education and vigorous law enforcement to dissuade other governments from using their intelligence services to engage in economic espionage.

Defining Threats

In assessing threats to the security of the United States, we must be clear about the assumptions underlying our policy. Practitioners of realpolitik emphasize considerations of power and suggest that other strong countries-- which, with the end of the Cold War, happen to be other democracies--will automatically become adversaries. Given the generally pacific attitude of stable democratic regimes toward other democracies, such fear is unwarranted. Those who would find America's adversaries in our fellow democracies exaggerate manageable political disagreements and confuse economic competition with security threats.[50]

If such assumptions are acted on, they may contribute to the wave of nationalism now engulfing much of the world with such tragic consequences, since our foremost competitors are the Germans and the Japanese. Indeed, recent confrontations between the United States and Japan already seem to be having that effect. According to a poll released in Japan on November 1, 1992, only 8 percent of Americans regard Japan as trustworthy, while 60 percent think U.S. policy will be shaped by the perception of Japan as a threat.[51] Unless that trend is reversed, the faith placed in democracy as the path to a more peaceful world, a faith powerfully reinforced by the collapse of communism, could be undermined. In a world now confronting the horror of ethnic cleansing, the United States and other stable democracies have an added responsibility to demonstrate the ability of democratic governments to provide security and liberty for their people as they engage in economic competition.

Monitoring Real Security Threats

This point must be stressed: economic competition is not a threat to national security; it is the precondition of economic development. Instead of focusing its attention on other democracies and their commercial enterprises, the intelligence community would be better advised to monitor nondemocratic, aggressively expansionist governments and movements--notably those of religious fundamentalism and national exclusiveness--that are now sweeping much of the globe. In their intolerance and willingness to resort to violence, such movements are the heirs of earlier totalitarian regimes, which we fought so hard and so long to defeat. Watching those forces for the emergence of threats to U.S. security is the proper mission of the CIA, not spying on economic activities taking place in a capitalist global marketplace.

Notes

[1] Elaine Sciolino, "CIA Casting about for New Missions," New York Times, February 4, 1992, p. A1.

[2] Robert M. Gates, Speech to the Economic Club of Detroit, April 13, 1992, typescript, p. 7.

[3] Interview, "We See a World of More, Not Fewer, Mysteries," Time, April 20, 1992, p. 62.

[4] Gerald F. Seib, "Some Urge CIA to Go Further in Gathering Economic Intelligence," Wall Street Journal, August 4, 1992, p. A1.

[5] Ibid.

[6] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. C. J. Bullock (New York: P. F. Collier & Son, 1909), pp. 342-44.

[7] Quoted in Competitiveness Policy Council, "Building a Competitive America," First Annual Report to the President and Congress, March 1, 1992, p. 34.

[8] Gates, p. 4.

[9] W. Ashworth, *A Short History of the International Economy Since 1850* (London, 1975); quoted in Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), p. 358.

[10] Selig S. Harrison and Clyde V. Prestowitz, Jr., "Pacific Agenda: Defense or Economics?" *Foreign Policy* 79 (Summer 1990): 60.

[11] Gates, pp. 7-8.

[12] Joseph I. Lieberman, "New Technologies: Government Should Help," *Washington Post*, April 17, 1992, p. A22.

[13] Smith, p. 424.

[14] Halford J. Mackinder, *Democratic Ideals and Reality* (1919; reprint New York: Henry Holt, 1942), p. 144.

[15] Clyde V. Prestowitz, Jr., "Beyond Laissez Faire," *Foreign Policy* 87 (Summer 1992): 80.

[16] Abel G. Aganbegyan, "Economic Reforms," in *Perestroika 1989*, ed. Abel G. Aganbegyan (New York: Charles Scribner's Sons, 1988), p. 76.

[17] Thomas McArdle, "Does Gov't Always Know Best?" *Investor's Business Daily*, September 10, 1992, pp. 1-2.

[18] Andrew Pollack, "'Fifth Generation' Became Japan's Lost Generation," *New York Times*, June 5, 1992, p. D1.

[19] Jacob M. Schlesinger, "Electronics Industry in Japan Hits Limits after Spectacular Rise," *Wall Street Journal*, April 28, 1992, p. A16.

[20] "Japanned by Intel," *The Economist*, April 18, 1992, p. 70.

[21] Gates, pp. 9-10.

[22] General Accounting Office, "Soviet Economy: Assessment of How Well the CIA Has Estimated the Size of the Economy," Report to the Hon. Daniel Patrick Moynihan, U.S. Senate, September 1991, pp. 2, 16, 40. The 66 percent estimate was a dollar-based figure. The geometric mean estimate was 51 percent.

[23] Edward Balls, "Case for Wage Subsidies in East Germany Grows," *Financial Times*, November 2, 1992.

[24] Samuel Brittan, "Not Accountable Yet," *Financial Times*, November 2, 1992, p. 14.

[25] Indeed, Rep. Henry Gonzalez (D-Tex.), chairman of the House Banking Committee, has described just such a study prepared by the CIA before additional loans of that kind were approved. See *Congressional Record*, July 7, 1992, p. H6011. Of course, the problem would not have arisen if the United States had refrained from providing agricultural credits to Third World governments in the first place. The

use of those loans for political purposes has since been made illegal, but the law can easily be evaded (e.g., by producing a study prepared under political direction showing that loans to a particular country are economically beneficial). The experience with agricultural loan guarantees to Iraq provides another argument that, in addition to being economically inefficient, such loans are not an appropriate use of taxpayer funds.

[26] Gates, pp. 9-10.

[27] Lester Thurow, *Head to Head: The Coming Battle among Japan, Europe, and America* (New York: William Morrow, 1992), pp. 14, 65-66.

[28] Those who believe in managed trade argue that the free-trade approach is short-sighted because foreign producers, having eliminated competition, will then charge monopoly prices that will hurt American consumers. For example, Thurow writes that "this argument ignores what happens when an American industry is driven out of business. The Japanese business firm is not in the business of making permanent gifts to Americans. When competition is gone, prices rise (p. 149)," thereby producing excessive monopoly profits, which is presumably the only reason for the strategy. But Thurow also writes that "on average, societies espousing market-share maximization [Japan] should show up with firms larger than those that are found in societies based on profit maximization [U.S.], while profit maximizers should make more profits. And so they do! . . . If one corrects for the size of the home market and a shorter history as a wealthy country, there are many more large Japanese firms than large American firms. If one lists the world's 50 largest companies by profits, 18 are American, just 3 are Japanese. . . . If one looks at the rate of return on stockholder equity, American firms in the top 50 earn 13.3 percent, or 50 percent more than the 9.1 percent earned by the Japanese firms in the top 50. Objectively, American firms are more profit-oriented than the Japanese (p. 143)." Thurow does not explain the contradiction in his arguments.

[29] Prestowitz, p. 76.

[30] Those who need more convincing should examine the problems confronting the project to build the European Fighter Aircraft, which would still be inferior to the new American fighter now being readied for production.

[31] Gates, p. 15

[32] Regrettably, that kind of thinking has apparently affected the incoming Clinton administration, which has promised to create an Economic Security Council. Whatever the merits of that new organization may be, its title perpetuates the idea that unless a problem is identified in terms of national security, it is relatively unimportant. That attitude is inappropriate in a democracy, which should be mindful of the dangers of militarism. Language conditions thought, and the title Economic Security Council suggests that our economic security is endangered by foreign adversaries in the same way our national security was during the Cold War.

[33] That is not to say that the United States should not maintain control over certain critical technologies (e.g., the production and dismantling of nuclear weapons). The problem with current lists of key technologies is that they typically include far too many technologies and define them too broadly. For example, the March 1991 report of the Office of Science and Technology Policy identifies 22 critical technologies, including those in energy, medicine, and software. Such categories are so broad as to be useless for identifying items that are truly indispensable to national security. As *The Economist* has observed, "These days in America, lists of 'critical' technologies are often much the same: they cover everything but the kitchen sink, and even that can be thrown in too, if it is made of advanced ceramics." "Settling the Frontier," *The Economist*, July 25, 1992, p. 22.

[34] Quoted in Seib.

[35] Competitive Policy Council, p. 33.

[36] Alexander N. Yakovlev, "The Political Philosophy of Perestroika," in *Perestroika* 1989, p. 66. Emphasis in original.

[37] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 3d ed. (New York: Harper & Row, 1950), pp. 211-12.

[38] Yakovlev, p. 67.

[39] As a Soviet economist put it: "The administrative- bureaucratic apparatus . . . has no direct stake in the final results of labor and essentially bears no responsibility for the efficient use of that property . . . some people have the opportunity to live a parasitical existence thanks to public property." R. Simonyan, "Where We Stand," *Izvestia*, March 8, 1989; quoted in *Current Digest of the Soviet Press*, April 5, 1989, pp. 8-9.

[40] Schumpeter, pp. 206, 210.

[41] Prestowitz, p. 75.

[42] "Couldn't We All Do a Little Bit Worse?" *The Economist*, April 4, 1992, p. 19.

[43] Robert Thomson, "Donations Trial Ruled Out for Kanemaru," *Financial Times*, September 29, 1992, p. 4. See also Jeff Sallot, "Corrupt Japanese Politicians Deliver the Pork," *Washington Times*, October 6, 1992, p. A9.

[44] For example, Ayatollah Ali Khamenei, the spiritual leader of Iran, has called on Iranians to "fight materialism and Western values." Quoted in Andrew Borowiec, "U.S. Puzzled by 'Hostile Force' of Islam," *Washington Times*, July 18, 1992, p. A8.

[45] For more on this approach to international relations, see Stanley Kober, "Idealpolitik," *Foreign Policy* 79 (Summer 1990): 12-13. The Reagan and Bush administrations failed to take the repressive character of Saddam Hussein's regime seriously when they helped build up Baghdad's power through out the 1980s-- with tragic consequences. See Stanley Kober, "Appeasement and the Gulf War," *Progressive Policy Institute Commentary*, July 1992.

[46] Gates, p. 10.

[47] Bill Gertz, "Friends, Foes Said to Employ Business Spies," *Washington Times*, April 30, 1992, p. A3.

[48] Bill Bradley, Statement on the Intelligence Authorization Act for 1991, *Congressional Record*, August 4, 1990, p. S12459.

[49] *Facts on File*, December 9, 1988, p. 910.

[50] Of course, democratic countries do not always act in a blameless manner. Many democratic countries supplied weapons to Iraq, for example. Monitoring worrisome arms transfers and similar conduct that might adversely affect U.S. security is a legitimate intelligence function, even if it is directed at other democratic governments.

[51] Report by Charles Leadbeater in the *Financial Times*, November 2, 1992, p. 2.