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DIPLOMATS, OFFICERS, AND THE GENTLEMANLY FORM OF SPYING

The Re-organisation of Economic Intelligence at the End of World War II

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DECLARATIONS

The word length of this dissertation is 14,993 words, including footnotes.

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any other degree.

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STATEMENT 1

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ABSTRACT

This paper retraces and analyses the development of British economic intelligence at the end of World War II. It will be argued that the re-organisation of the economic intelligence apparatus taking place in 1944 and 1945 has to be seen in the context of the “Cold War in Whitehall”, the debate between the Foreign Office and the Chiefs of Staff concerning the post-war international order and the future role and behaviour of the Soviet Union. The paper argues that the diplomats were able to gain control of the economic intelligence apparatus and used it to support them in the assumptions debate.

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List of Abbreviations

- APC - Armistice and Post-War Administration Committee
- ATB - Advisory Committee on Trade and Blockade Questions in Times of War
- CAB - (Files of the) Cabinet Office
- CID - Committee of Imperial Defence
- DOT - Department of Overseas Trade
- EAB - Economic Advisory Branch
- EAC - European Advisory Commission
- EID - Economic Intelligence Department
- EIPS - Economic and Industrial Planning Staff
- EP(G) - Economic Pressure Committee
- EWI - Economic Warfare Intelligence
- FCI - Industrial Intelligence in Foreign Countries Sub-Committee
- FO - (Files of the) Foreign Office
- IIC - Industrial Intelligence Centre
- IS (O) - Intelligence Section (Operations)
- ISTD - Inter-Services Topographical Department
- JIC - Joint Intelligence (Sub-)Committee
- JIS - Joint Intelligence Staff
- JPS - Joint Planning Staff
- MEW - Ministry of Economic Warfare
- PHP - Post-Hostilities Planning Staff (later Sub-Committee)
- PREM - (Files of the) Prime Minister's Office
- PWE - Political Warfare Executive
- SIS - Secret Intelligence Service (also known as MI6)
- SOE - Special Operations Executive
- TNA - The National Archives, Kew

Economic Intelligence [is] a gentlemanly form of spying

– John Colville

Introduction

Although economic intelligence is often considered a very recent addition to the intelligence repertoire¹, its roots can be traced back to biblical times: When the Israelites sent forth by Moses to “spy out the land”, and determine its wealth and the quality of its soils, reported that Canaan was indeed a rich country where milk and honey flowed, they delivered an early example of economic intelligence².

During World War II, over 3,000 years later, intelligence was again employed to discern the enemy’s economic dispositions, to determine his military potential, and, thus, to support the war effort. *Inter alia*, economic intelligence provided information about the enemy’s strategic decisions, and was used to select targets for the Allied strategic bombing campaign, as well as being an essential prerequisite for the economic blockade of the continent. During the war, both the size and the scope of economic intelligence increased considerably, turning the pre-war “bantam [...] into an enormous fowl”³. Moreover, economic intelligence promised to be of great help in the post-war world, where economic issues were likely to take a prominent place in political negotiations, a view reflected in a debate in the House of Lords on 9 May 1944, when it was asserted that “quite apart from the manifold uses of the economic intelligence for fighting the war, economic intelligence is of vital importance for the planning of many operations which will follow the defeat of Germany.”⁴ Thus, towards

¹ Cf. Stansfield Turner, ‘Intelligence for a New World Order’, *Foreign Affairs* 70:4 (1991), 150-166.

² Cf. Numbers, 13:2-13:27.

³ Watson to Morton, 18 Aug. 1944, PREM 7/14, TNA.

⁴ House of Lords Debate, 9 May 1944, in: *Hansard, Fifth Series (Lords), Vol. 131* (1944), 627-670; here: 643.

the end of the war, the necessity to procure good economic intelligence – to borrow from George Washington – had become apparent and needed not be further urged⁵.

What was not so apparent, however, was the shape the post-war world would be taking. This question led to the “Cold War in Whitehall”⁶ (henceforth referred to as the “assumptions debate”), an intense debate about the likely shape of the post-war international order – and particularly about the future behaviour and role of the Soviet Union: From 1943 onwards, the Chiefs of Staff predicted that the Soviets were bound to be Britain’s future enemy, whilst the Foreign Office believed that good relations with the Soviet Union could be maintained and that post-war problems could be resolved by co-operation. Consequently, the Foreign Office proposed a rigorous approach towards Germany, both to prevent her from becoming aggressive again, and to convince the Soviet leaders of the sincerity of British policy, whereas the military argued that Germany should be kept strong in order to serve as a bulwark against an expected Soviet expansionism. The ensuing quarrel was prolonged and bitter, with both sides seeking to re-align the British posture and policy to best benefit their envisaged scenario. And, as Richard Aldrich has shown, “intelligence and special operations were at the heart of this protracted struggle and, ultimately, determined the very architecture of the British Cold War machine itself”⁷.

This paper argues that the development and re-organisation of economic intelligence in 1944 and early 1945 also has to be put into the context of the assumptions debate, thus, adding another dimension to the struggle for intelligence identified by Aldrich. It will be argued that economic intelligence played an important and distinct role therein, and, moreover, that it ultimately did so in favour of the Foreign Office.

⁵ For Washington’s original quote, cf. Christopher Andrew, *For the President’s Eyes Only*, New York 1995, 9.

⁶ Cf. Richard Aldrich, *The Hidden Hand. Britain, American and Cold War Secret Intelligence*, New York 2001, 43ff.

⁷ *Ibid.* 44.

In order to put forward this argument, this paper aims to describe and analyse the development of economic intelligence during the last two years of the war – a task that has not yet been carried out elsewhere – as well as retracing the assumptions debate and the struggle for intelligence estimates, and subsequently show the interaction of the two⁸.

Consequently, the paper will be divided into three sections, the first two of them providing the essential basis for the core argument presented in the third section: The first section will retrace the “Cold War in Whitehall” and show the role played by intelligence therein, followed by a second section describing the genesis and development of economic intelligence in World War II. Apart from providing another essential background for the overall argument, it will show that economic intelligence developed a very close working-relationship with the Armed Services during the first four years of the war. This will serve as a contrast to the subsequent – and last – section which will focus on the re-organisation of economic intelligence and its employment by the Foreign Office in their debate with the Chiefs of Staff. It will be argued that the re-organisation took place in two phases: In the first phase, the Foreign Office assumed control of the economic intelligence machinery and used it directly in the assumptions debate. In the second phase, the economic intelligence apparatus was dismantled and distributed among those government bodies that acted in accordance with the policy envisaged by the diplomats.

Intelligence has been described as a “missing dimension” to the study of international affairs⁹, and Martin Alexander has referred to economic intelligence as the “missing

⁸ This paper will not attempt to determine whose assumptions were correct – a question that has led to a considerable debate among ‘orthodox’, ‘revisionist’ and ‘post-revisionist’ historians – but simply show what each side’s assumptions were and how the assumptions debate proceeded.

⁹ Cf. Christopher Andrew/David Dilks (eds), *The Missing Dimension: Governments and Intelligence Communities in the Twentieth Century*, London 1984, 1.

dimension to [this] missing dimension.”¹⁰ These statements are clearly justified given the scarcity of scholarly works concerned with the central subject of this paper: Whereas at least a number of works on pre-war economic intelligence have been published¹¹, the sole existing study specially dedicated to war-time economic intelligence¹² is limited to the time period of the *drôle de guerre*, from September 1939 until mid-1940. Even the official history of the economic blockade, an endeavour closely related to economic intelligence, only mentions the subject in passing¹³. F.H. Hinsley’s official history of *British Intelligence in the Second World War* does devote two chapters (out of 63) to Intelligence on the German Economy¹⁴. Although this provides valuable information regarding the impact of economic intelligence on the war effort, it only covers the period until June 1944 and leaves out organisational aspects.

Given the scarcity of relevant literature on economic intelligence, especially during the period under scrutiny, a considerable part of this paper will, therefore, be based on documents from the files of the Prime Minister’s Office (PREM), the Cabinet Office (CAB) and the Foreign Office (FO), all found at The National Archives in Kew, Surrey. These documents will be complemented by the existing body of secondary literature on the role of intelligence during World War II as well as on the assumptions debate. An importance additional source for the latter aspect are the diaries of protagonists involved in the debate which, unlike the

¹⁰ Martin Alexander, 'Introduction: Knowing Your Friends, Assessing Your Allies - Perspectives on Intra-Alliance Intelligence', *Intelligence & National Security* 13:1 (1998), 1-17; here: 7.

¹¹ Cf., for example, David Cameron Watt, 'British Intelligence and the Coming of the Second World War in Europe', in: Ernest May (ed.), *Knowing One's Enemies: Intelligence Assessments before the Two World Wars*, Princeton 1986; or: Robert Young, 'Spokesmen for Economic Warfare: The Industrial Intelligence Centre in the 1930s', *European Studies Review* 6 (1976), 473-89.

¹² Talbot Imlay, 'Allied Economic Intelligence and Strategy during the 'Phoney War'', *Intelligence & National Security* 13:4 (1998), 107-23.

¹³ W.N. Medlicott, *The Economic Blockade*, II Vols, London 1952/1959.

¹⁴ F.H. Hinsley et al., *British Intelligence in the Second World War*, IV Vols., London, 1979-1990.

plethora of memoirs reflecting on these issues, tend not to be tainted by *a posteriori* insights¹⁵.

This paper will concentrate on the organisational aspect of the analysis and dissemination of economic intelligence, leaving out another stage of the intelligence process, the acquisition of relevant information by an intelligence organisation¹⁶. This work was predominantly carried out by Section VI of the Secret Intelligence Service (SIS) and remained unchanged throughout the war, little affected by the re-organisation of the rest of the economic intelligence apparatus. The incorporation of this aspect would, thus, go beyond the scope of this paper, whilst contributing little of relevance to the argument put forward.

¹⁵ This problem has, for example, been identified by Eden's biographer David Dutton. Cf. David Dutton, *Anthony Eden. A Life and Reputation*, London 1997, 214f.

¹⁶ Cf. Len Scott/Peter Jackson, 'The Study of Intelligence in Theory and Practice', in: Loch Johnson/James Wirtz (eds), *Intelligence and National Security. The Secret World of Spies. An Anthology*, New York-Oxford²2008, 22.

1. The “Cold War in Whitehall”

Since 1943, when the ultimate outcome of the war – the military defeat of the Axis Powers – had begun to appear on the horizon, the question of how to deal with post-war issues began to emerge. Consequently, the Post-Hostilities Planning Sub-Committee (PHP) of the Chiefs of Staff Committee was created in August 1943¹⁷ to “provide some real thinking about coming events connected with the eventual collapse of the enemy powers”¹⁸. The PHP was a military sub-committee composed of officers of the three Armed Services. However, since the Foreign Office wanted to retain a grip on such a “body with foreign policy pretensions”¹⁹, it ensured that the PHP was chaired – “infiltrated” to use a Foreign Official’s expression²⁰ – by a diplomat, Gladwyn Jebb. The Foreign Office were very suspicious of the PHP and the predominance of the Chiefs of Staff therein, believing that “they should *not* be the final authority”²¹ on assessments produced by the PHP. It was in and around the PHP and the Joint Intelligence Sub-Committee (JIC) that a hotly contested debate between the Chiefs of Staff and the Foreign Office regarding post-war assumptions took place. The cause of this debate lay in two almost diametrically opposed apprehensions of the future by the contestants.

1.1 The Chiefs’ of Staff Post-War Appreciation

The beginning of the Chief’s of Staff convictions that the Soviet Union would represent the post-war threat has not been precisely determined. Victor Rothwell, for example, depicts the Chief’s “unwillingness to [consider and] discuss post-war security issues on the grounds that

¹⁷ The PHP succeeded the ‘Military Sub-Committee’, a much smaller body set up in 1942. Consisting of less able officers, it was described as ‘hopeless’ by JIC-chairman Cavendish-Bentinck. Cf. Aldrich, *Hidden Hand*, 50.

¹⁸ Lord Gladwyn, *The Memoirs of Lord Gladwyn*, London 1972, 131.

¹⁹ Aldrich, *Hidden Hand*, 50.

²⁰ *Ibid.*

²¹ David Dilks (ed.), *The Diaries of Sir Alexander Cadogan, 1938-1945*, New York 1971, 25 Feb. 1944, 608. Emphasis in the original.

they were too busy waging the war itself²² until the summer of 1944. Richard Aldrich, on the other hand, asserts that already by 1943, the Chief of the Imperial General Staff, Field Marshal Sir Alan Brooke, had concluded that the Soviets were to be the next enemy, thus setting the tone for the whole military hierarchy²³. Although Brooke did not – contrary to Aldrich’s claims – explicitly confide such feelings to his diary until the summer of 1944²⁴, there are clues hinting that the Chiefs did indeed begin to consider a post-hostilities Soviet threat in 1943. The prime indicator is, of course, the establishment of the PHP itself; even if the Chiefs thought themselves too busy to contemplate post-war problems themselves – yet – in August 1943 they did create a mechanism to deal with the problem and to report directly to them. The exact beginning of the Chief’s worries aside, it is clear that by the summer of 1944 they openly advocated their point of view²⁵.

The underlying assumption of the military planners was that the distribution of global power would determine the shape of and developments within the international system. The Chiefs realised that once Germany was defeated, only two truly great powers would remain: the United States and the Soviet Union. Yet, whilst war with the United States was inconceivable, given the “special relationship” between the two countries²⁶, this was not quite so vis-à-vis the Soviet Union. On the contrary, Soviet hostility against weakened European states was considered a very real possibility²⁷. Once they regarded an antagonistic Soviet Union as a possibility, the Chiefs proclaimed it their duty to engage in worst-case contingency planning for a conflict with Russia:

²² Victor Rothwell, *Britain and the Cold War, 1941-1947*, London 1982, 114. Cf. also Martin Kitchen, *British Policy towards the Soviet Union during the Second World War*, New York 1986, 194ff.

²³ Cf. Aldrich, *Hidden Hand*, 43.

²⁴ Aldrich erroneously dates an entry of July 1944 back to 1943. Compare *ibid.* and Arthur Bryant, *The Alanbrooke Diaries. Triumph in the West, 1943-1946*, London 1965, 242.

²⁵ Cf. Rothwell, *Britain*, 115ff.

²⁶ The word was first used by Churchill in private communications in 1943. Cf. John Dumbrell, *A Special Relationship: Anglo-American Relations in the Cold War and After*, London 2001, 7.

²⁷ Cf. Percy Cradock, *Know Your Enemy. How the Joint Intelligence Committee Saw the World*, London 2002, 32.

“No one would be better pleased than the Chiefs of Staff if a permanent solution to our military problems could be achieved by [friendship with Russia]. [...] But it is the duty of the Chiefs of Staff to examine all serious eventualities. We cannot be debarred from taking into account the possibility that for some reason [...] Russia may start forth on the path to world domination, as other continental nations have done before her.”²⁸

The Foreign Office were not persuaded by this, however, believing that the Chiefs’ behaviour could become a self-fulfilling prophecy, making “inevitable the very danger they are trying to avoid”²⁹. For them, contingency planning was a mere pretext for engaging an old enemy once again. The Chiefs of Staff retorted that the diplomats “could not admit that Russia might someday become unfriendly”³⁰.

However – despite their claims to the contrary – by the summer of 1944, a number of factors had already driven the Chiefs’ appreciation beyond pure contingency planning and led them to believe in a hostile post-war Soviet Union. Anti-Bolshevism played an important role in the military planners’ thinking: An old enmity dating back to the Russian Civil War (1917-19) coupled with deep-rooted suspicions of the Soviets’ motives – suspicions that had been fed considerably by the Russo-German Non-Aggression Pact of 23 August 1939 – and a disgust of the Communist system led British military leaders to doubt in a peaceful and co-operative Soviet Union. If this anti-Bolshevism constituted the fertile ground, a number of more recent issues were the seeds from which post-war appreciations were to flourish: Throughout the existence of the wartime alliance between Britain and the Soviet Union, the relationship between the British military and their Soviet counterparts had been problematic. British personnel stationed on Russian soil was greeted with outmost suspicion and in a number of cases treated badly. All but every personal contact with Russian officials contributed to an impression of a paranoid and almost hostile attitude towards the Allies. This “ground level”

²⁸ Note by Chiefs of Staff, 2 Oct. 1944, FO 371/39080, TNA.

²⁹ Wilson minute, 10 Aug. 1944, FO 371/40751A, TNA.

³⁰ Bryant, *Triumph*, 208.

experience of British officers in Russia is best summarised by the final report of (liaison) No.

30 Military Mission to Moscow:

“[T]he general attitude of the Russian authorities towards the Mission has been unchanged throughout [the Mission’s four-year presence in Moscow]. This attitude may be summed up as ‘Get all the information you can, and give nothing – or at least, the barest minimum – in exchange.’”³¹

In comparison to Churchill or Foreign Secretary Anthony Eden, whose annoyance with the Russian behaviour was regularly offset by Stalin’s conviviality at personal meetings³², the Chiefs of Staff and much of the military hierarchy gained an impression of an ever-increasing hostility and ever-decreasing “collaboration”. The notion of Soviet mischievousness was exacerbated by their actions in Eastern Europe in the last phase of the war: Especially their unwillingness to support the Warsaw Uprising in September 1944 – or even to allow British support – cast a further shadow onto the Chiefs’ appreciation of the future³³.

As a consequence of these tendencies, the Chiefs became increasingly convinced that the Soviet Union would indeed represent a threat once the ongoing war had been won and that British post-war policy should be adapted accordingly. In July 1944, for example, Brooke had spent

“an hour with the S[ecretary] of S[tate for War] discussing post-war policy and our policy in Europe. Should Germany be dismembered or gradually converted to an ally to meet Russian threat 20 years hence? I suggested the latter and feel certain that we must from now onwards regard Germany in a very different light. Germany is no longer the dominating power of Europe. Russia is [...] and cannot fail to become the main threat in 15 years from now.”³⁴

Although at this point, the materialisation of the Russian threat is still considered to be some time in the future, the two central aspects of the military’s appreciation are already

³¹ COS (45) 597, ‘Final Report of No. 30 Military Mission’, 3 Oct. 1945, CAB 121/467, TNA.

³² David Reynolds, *From World War to Cold War. Churchill, Roosevelt, and the International History of the 1940s*, Oxford 2006, 242.

³³ Cf. Kitchen, *Policy*, 32ff.

³⁴ *Alanbrooke Diaries*, 27 Jul. 1944, 575.

identifiable: Firstly, the Soviet Union would represent the next main threat to Britain, and, secondly, Germany would have to be built up to become a bulwark against communist aggression. Over time, these convictions grew stronger and were pronounced more adamantly. They only changed as regards the timescale within which the manifestation of the Soviet threat was expected: Whereas Brooke in July 1944 had spoken of fifteen to twenty years, subsequent appreciations reduced the time-span to ten (November 1944)³⁵, later to five years.

As a result of their “anxiety stem[ming] from pure appreciation of the massive imbalances of power which would exist after the war”³⁶, the military leaders began to advocate a policy increasingly reminiscent of Churchill’s 1918 demand to “Kill the Bolshie, Kiss the Hun”³⁷ from mid-1944 onwards – to the annoyance of the diplomats whose views differed fundamentally.

1.2 The Foreign Office and Its Post-War Appreciation

Following some internal discussion, the first Foreign Office study regarding British post-war policy was undertaken by Gladwyn Jebb in the autumn of 1942³⁸. His “Four-Power Plan” conceptualised a world organisation wherein the United States, Russia, Great Britain and China³⁹ would co-operate to exercise joint control. Anthony Eden adopted this scheme when laying down the Foreign Office approach in November 1942 and obtained the War Cabinet’s approval for the Four-Power Plan. Thenceforth, the plan’s two underlying assumptions would form the basis for Foreign Office thinking: Firstly, it was assumed that the Powers “would realise their world-wide interests and be both able and willing to enter into world-

³⁵ Cf. PHP 27 (O) Final, 9 Nov. 1944, CAB 81/45, TNA.

³⁶ Julian Lewis, *Changing Direction. British Military Planning for Post-War Strategic Defence, 1942-7*, London 2002, 336.

³⁷ Cited from: David Carlton, *Churchill and the Soviet Union*, Manchester 2000, 5f.

³⁸ Cf. Lord Gladwyn, *Memoirs*, 109ff. A first request for guidance had been made to the Chiefs of Staff in Feb. 1942; cf. Lewis, *Direction*, 1.

³⁹ Jebb, however, did not consider China to be on a par with the ‘Big Three’. Cf. *Ibid.*

wide commitments to prevent any other nation from again troubling the peace.”⁴⁰ Secondly, the objective would be “to hold down Germany and Japan for as long a period as possible.”⁴¹ This policy required a Soviet government willing to co-operate with the Western Powers, making it essential to overcome Soviet suspicions and convince them of the benign intentions of British and American policy. Christopher Warner, the head of the Foreign Office’s Northern Department and “leading light among British ‘co-operators’”⁴², bemoaned the “constant fuel for Soviet suspicion that we and the Americans in reality wish to see the Russians and the Germans bleed each other to the maximum and to shut the USSR out of the post-war settlement.”⁴³ Consequently, he later cautioned his colleagues that “the most important point in securing Russian collaboration after the war will be to convince Russia of our determination to go with her in holding Germany down.”⁴⁴ This view was upheld by a Foreign Office paper of April 1944 wherein it was stated that

“the logical deduction seems to be that, provided the British Commonwealth and the United States do not appear [...] to deprive Russia of the means of eliminating the menace from Germany [...] [and] do not support a combination against her and give reasonable consideration to her views, Russia will welcome a prolonged period of peaceful relations. [...] But this is based on the assumption that the Russians do not suspect us of having designs hostile to her security.”⁴⁵

The Foreign Office’s conclusion that the Soviet Government was “clearly ready to give co-operation with the United States and Great Britain a trial”⁴⁶ was based on two convictions: In the first place, diplomats – and especially those serving in Moscow – had begun to see Russia in a new light. The “Great Patriotic War” had induced a number of changes to Soviet life such as the re-opening of churches, a relaxation of party rule, and the resuscitation of old Russian

⁴⁰ Cf. Llewellyn Woodward, *British Foreign Policy in the Second World War, Vol. V*, London 1976, 3f.

⁴¹ Cited from: *Ibid.* 5.

⁴² Aldrich, *Hidden Hand*, 46.

⁴³ Warner minute, 4 Nov. 1942, FO 371/31595, TNA.

⁴⁴ Warner minute, 17 Jul. 1944, FO 371/40741A, TNA.

⁴⁵ Foreign Office Paper on ‘Post-War Soviet Policy’, 29 Apr. 1944, FO 381/43335.

⁴⁶ *Ibid.*

– as opposed to Bolshevik – traditions. These changes hinted at an evolution of the USSR away from the radical communism that had led her to be the international pariah in the interwar period. Although the diplomats admitted that negotiations with their Soviet counterparts were still arduous, they believed to have detected a real possibility for change – that the Soviet Union might after all become a ‘normal’ country⁴⁷: “the wartime alliance encouraged the idea that ‘Russia’ (preferred to ‘the Soviet Union’) was entering its post-revolutionary phase.”⁴⁸ The revised image of Stalin, often referred to as “Uncle Joe” in the West, also contributed to this impression. Carefully portrayed by the Soviet propaganda as the wise, pipe-smoking patriarch of Mother Russia, the Georgian came to personify the Russians’ heroic struggle against the Nazi onslaught⁴⁹. As noted above, he was especially charming at the wartime conferences of the “Big Three”. For example, Sir Alexander Cadogan, Permanent Under-Secretary of the Foreign Office, himself a man of “remarkable powers of judgment and lucid expression”⁵⁰, confided to his diary after the Yalta conference in February 1945: “I have never known the Russians so easy and accommodating. In particular Joe has been extremely good. He *is* a great man.”⁵¹

However, the diplomats did not solely indulge in speculation about future Soviet benevolence – they also predicted that the normative power of the factual would force the Russians to co-operate after the war:

“The interests of the Soviet Union in peace and security, therefore, are very great and real. Until the ravages of the war are repaired and until the Soviet Union becomes a country which is actually, and not merely potentially, strong economically, it is reasonable to assume that the Soviet Government will

⁴⁷ Aldrich, *Hidden Hand*, 46.

⁴⁸ Reynolds, *World War*, 220.

⁴⁹ Cf. Aldrich, *Hidden Hand*, 46.

⁵⁰ Dilks (ed.), *Cadogan Diaries*, xxvi.

⁵¹ *Cadogan Diaries*, 11 Feb. 1945, 708. Emphasis in the Original.

concentrate on a pacific policy. [...] The S[oviet] U[nion] may be expected to co-operate wholeheartedly in a system of collective security”⁵².

The scale of destruction caused by the German invasion of the USSR was enormous: by the end of the war, the Soviets would have suffered some thirty million casualties, and large parts of European Russia were devastated not only by actual fighting but also by systematic destruction of property by the retreating armies – first by the Red Army, later by the *Wehrmacht*. The Soviet Union would need a breathing space in which to resuscitate its own strength. Until then, Russia would have to co-operate simply because she would be lack the power for a confrontational policy.

Their optimism notwithstanding, however, the diplomats were very aware of the delicacy of their assumptions and the “pathologically acute”⁵³ Russian suspicions which would be extremely hard to overcome. It was essential to cease any military planning against USSR, lest the Soviets learn of them and find their suspicions reinforced⁵⁴, for these “plans could not be concealed from the Russians, who would retaliate in kind and could do so much more quickly and effectively and ruthlessly than we possibly could.”⁵⁵ As Cadogan wrote in a minute of 4 July 1944, “there are many difficulties in the way of wholehearted collaboration between the Soviets and the countries of the West [...]. However, there is no doubt that our own policy must be directed to co-operation: if it fails, it must not be through our fault.”⁵⁶ Two days later, Eden commented: “This is so. It is all very difficult, but at least we are convinced that we are trying to operate the right policy.”⁵⁷

⁵² Dispatch of 9 Mar. 1944, FO 371/43143, TNA.

⁵³ Warner minute, 2 July 1944, FO 371/43143, TNA.

⁵⁴ Richard Aldrich, 'Intelligence, Strategy and the Cold War', in: Idem (ed.), *British Intelligence, Strategy and the Cold War, 1945-51*, London-New York 1992, 25.

⁵⁵ Wilson minute, 10 Aug. 1944, FO 371/40741A, TNA. In fact, 'Cambridge spy' Donald Maclean supplied a number of PHP papers to his Soviet handlers; cf. Lewis, *Direction*, 135.

⁵⁶ Cadogan minute, 4 Jul. 1944, FO 371/43143, TNA.

⁵⁷ Eden minute, 6 Jul. 1944, FO 371/43143, TNA.

However, the diplomats retained their overall confidence in the feasibility of their proposed post-war foreign policy and their ability to integrate the Soviet Union into a system of co-operation. Indeed, during the second half of the war, it had become such a firm “line of faith in the Foreign Office that the way to win Soviet friendship was to pursue a firm line towards Germany”⁵⁸ that military officers increasingly began to wonder about the “dogged determination to cling to their forecasts”⁵⁹ and their apparent failure to notice the obviously hostile behaviour by the Soviets⁶⁰. The diplomats retorted that “the policy of building up our enemies so as to defeat our allies would seem [...] to derive from some kind of suicidal mania”⁶¹. Instead, the wartime ally Russia had to be turned into a peacetime ally by invoking a joint intention: the prevention of any further German aggression.

1.3 The Assumptions Debate – a Struggle for Intelligence Estimates

In the early stages of the assumptions debate, there existed no solid knowledge on Stalin’s intentions: “both camps were arguing from profound ignorance.”⁶² Given the traditional Soviet secrecy – the Soviet Union was famously characterised by Churchill in 1939 as “a riddle wrapped in a mystery inside an enigma”⁶³ – this was not surprising. As a result of this opacity, however, intelligence estimates of the USSR and their conclusions regarding future Soviet behaviour became immensely important for the debate in Whitehall with both sides seeking to procure analyses to support their “basic assumptions for post-war planning”. Consequently, the JIC and the PHP became the battleground on which the antagonists fought, and intelligence assessments the clubs they wielded.

⁵⁸ Graham Ross (ed.), *The Foreign Office and the Kremlin, British Documents on Anglo-Soviet Relations, 1941-45*, London 1984, 31.

⁵⁹ Aldrich, *Hidden Hand*, 47.

⁶⁰ *Ibid.* 51.

⁶¹ Jebb minute, 28 Jun. 1944, Cited from: Rothwell, *Britain*, 120.

⁶² Aldrich, *Hidden Hand*, 52.

⁶³ Speech of 1 Oct. 1939, cited from: David Reynolds, 'From World War to Cold War: The Wartime Alliance and Post-War Transitions, 1941-1947', *The Historical Journal* 45:1 (2002), 211-27, 215.

Initially, however, the Foreign Office's "infiltration" of the PHP seemed to pay dividends, for on 12 October 1943, the PHP sought the JIC's direction regarding its post-war assumptions. The JIC in turn, under Foreign Official Cavendish-Bentinck's chairmanship, chose only to comment on an appreciation provided by the Foreign Office itself⁶⁴. Hence, at this stage, the diplomats were able to exert considerable influence on the thinking of the PHP despite the latter being a military sub-committee to the equally military Chiefs of Staff Committee⁶⁵. However, the Foreign Officials were still ill at ease with the potential predominance of the military: "Unfortunately, the PHP are an emanation of the C[hief]s of S[taff], so that their papers have to be submitted to these pundits [...] It is ridiculous that a paper of this kind should [...] go to the Chiefs"⁶⁶. And indeed, within six months of the PHP's existence, the debate on post-war policy assumptions came to a head⁶⁷: Firstly, a JIC report about the "Soviet Policy after the War"⁶⁸ mentioned – almost in passing – that a considerable part of the Soviets' industrial base, safely located behind the Urals, would not need reconstruction after the war. This assessment threatened a key part of the Foreign Office's rationale, namely the assumption that the USSR would have to remain peaceful and co-operative to secure herself a breathing-space⁶⁹. Secondly, the Chiefs of Staff began to realise that the PHP was used for "political pipedreams"⁷⁰ and raised the stakes by reformulating the terms of reference of the PHP. Whereas the PHP used to be responsible for questions put to it "by the F[oreign] O[ffice] or other Departments of State, by the Chiefs of Staff Committee or by the Joint Planning Staff"⁷¹, it was now to prepare appreciations "on the instruction of the Chiefs

⁶⁴ JIC (42), 53rd meeting, 26 Oct. 1943, CAB 81/91, TNA.

⁶⁵ Cf. Lewis, *Direction*, xi.

⁶⁶ Cited from: Ibid. 70.

⁶⁷ Cf. Ibid. 63.

⁶⁸ JIC (44) 105, 'Soviet Policy after the War', 20 Mar. 1944, CAB 81/121, TNA.

⁶⁹ Cf. Aldrich, *Hidden Hand*, 52.

⁷⁰ Lewis, *Direction*, 336.

⁷¹ Ibid. Appendix, 340ff.

of Staff”⁷². The reduced influence of the Foreign Office in the PHP is apparent. As a consequence of these two developments, the PHP presented a report on the “Effect of Soviet Policy on British Strategic Interests”⁷³ which caused considerable alarm in the Foreign Office. Although it concluded that the “evidence at present available does not [...] suggest that the desire for wholesale domination [...] is in the mind of the Soviet leaders”, and that the best policy would be one seeking co-operation with the USSR, it also mentioned the possibility of Soviet hostility for the first time and evoked the need for contingency planning:

“The general weakness of the countries of Europe after the war will leave a vacuum which the USSR, if she wishes, might be in a position to fill. It would be to our strategic disadvantage to leave her free to do so [...]. We can only insure against it by close collaboration with the Western European States [...]. The British Commonwealth should maintain adequate naval superiority and certainly no less than parity in the air [vis-à-vis the USSR].”⁷⁴

Both this report and the slightly updated follow-up paper produced on 6 June 1944⁷⁵ – D-Day – were based on Foreign Office arguments drawn up in April⁷⁶, but, to the regret of the diplomats, went beyond them⁷⁷. By June it was evident that, contrary to Foreign Office plans, “an interdepartmental body had come into existence that predicted what conflicts *could* occur rather than which ones *would* occur”⁷⁸. Thence, fearing the self-fulfilling prophesy, the diplomats increasingly detached themselves from the “wretched”⁷⁹ PHP, wishing to give the military “all the rope they need to hang themselves”⁸⁰. Gladwyn Jebb who had “rather faded out of [the] strategical picture”⁸¹ was withdrawn by the Foreign

⁷² Ibid.

⁷³ PHP (43) 1 (O), 1 May 1944, CAB 81/45, TNA.

⁷⁴ Ibid.

⁷⁵ PHP (44) 13 (O), 6 Jun. 1944, CAB 81/45, TNA.

⁷⁶ Cf. ‘Post-War Soviet Policy’, 29 Apr. 1944, FO 381/43335, TNA.

⁷⁷ Cf. Kitchen, *Policy*, 199.

⁷⁸ Lewis, *Direction*, 107. Emphasis in the Original.

⁷⁹ Cadogan minute, 28 Jun. 1944, FO 371/40741A, TNA.

⁸⁰ Warner minute, 28 Aug. 1944, FO 371/39080, TNA.

⁸¹ Lord Gladwyn, *Memoirs*, 137.

Office in August 1944 when the PHP became the Post-Hostilities Planning Staff (PHPS) and was organised in analogy to the Joint Planning Staff (JPS)⁸².

Having suffered a setback in the PHP, the diplomats concentrated on the JIC – the body which produced the intelligence estimates on which post-hostility planning was based⁸³. Senior diplomats thus instructed JIC chairman Cavendish-Bentinck to act as a ‘roadblock’ and obstruct the military whenever possible: if he managed to draft JIC forecasts of future Russian intentions in a more optimistic way, the arguments of the Chiefs of Staff would be undermined⁸⁴. Although Cavendish-Bentinck was sceptical about this (he had, in fact, been accused of “selling out to the military” by Christopher Warner⁸⁵), he soon “delivered a masterly performance and steered JIC’s political forecasts back towards a reaffirmation of the idea of ‘co-operation’ and benign Soviet intentions”⁸⁶ in a JIC report on “Russian Capabilities in Relation to the Strategic Interests of the British Commonwealth” of 22 August 1944⁸⁷: Although the report recognised the Soviet ability to cause disruption in Europe, it did not predict that Russia would embark on an expansionist cause. By offering a “remarkably optimistic”⁸⁸ assessments of benevolent Soviet intentions, the report constituted “rather a setback for the would-be drinkers of Russian blood.”⁸⁹

The diplomats also ensured that the final JIC report on Soviet intentions produced during the war continued to portray Russia as essentially peaceful. The report, concisely entitled “Russia’s Strategic Interests and Intentions from the Point of View of Her Security”⁹⁰ had first

⁸² Cf. Lewis, *Direction*, 72f.

⁸³ Cf. Aldrich, *Hidden Hand*, 53f.

⁸⁴ Cf. *ibid.*

⁸⁵ Warner minute, 24 Jul. 1944, FO 371/40471A., TNA. Cf. also Aldrich, *Hidden Hand*, 54.

⁸⁶ Aldrich, *Hidden Hand*, 55.

⁸⁷ JIC (44) 366 (O), 22 Aug. 1944, CAB 81/124, TNA.

⁸⁸ Cradock, *JIC*, 28.

⁸⁹ Cited from: Aldrich, *Hidden Hand*, 55.

⁹⁰ JIC (44) 567 (O), 18 Dec. 1944, CAB 81/126, TNA.

been drafted in October was circulated to the War Cabinet in December 1944. Whereas the report acknowledged that Russia possessed an intact industrial base and an economy “capable of supporting in the field armies substantially larger than any other power in Europe”⁹¹, it predicted that

“[i]n the period after the war, Russia’s policy will be directed primarily towards achieving the greatest possible measure of security. She will [...] wish to take every possible precaution against being invaded, however small that risk may seem to be. Russia has a further reason for seeking security: she will wish to raise the standard of living of her people to something more nearly approaching that of the Western Powers. To achieve this, she will need a prolonged period in which to restore the devastated areas.”⁹²

Clearly, by this stage, the assessment of Soviet intentions had been detached from that of her capabilities to act offensively – capabilities that even the diplomats could no longer deny⁹³. Yet, the report proposes that although the USSR would be strong enough to dominate the entire continent, the Soviet leadership were likely to abstain from doing so because it had to satisfy newly acquired taste for Western comforts. Likewise, the report acknowledged that Russia would seek to dominate a series of states in Eastern Europe, but – *honi soit qui mal y pense* – only to serve as a “protective screen” against future invasion. The report’s assuaging assertion that “Russia will allow these countries independence so long as she is in a position to ensure that they pursue a policy that tends to protect her strategic interests”, is, accordingly, only a euphemism for nominal rather than real sovereignty⁹⁴.

Given the increasingly unfriendly behaviour of the Soviets, manifested in the failure to support the Warsaw uprising or their recognition of the Polish National Council (the Lublin Committee) as the legitimate Polish government – events which considerably worried

⁹¹ Ibid.

⁹² Ibid.

⁹³ Cf., for example, Wilson minute, 10 Aug. 1944, FO 371/40751A, TNA.

⁹⁴ JIC (44) 567 (O), 18 Dec. 1944, CAB 81/126, TNA.

Foreign Secretary Eden – this report appears exaggeratedly optimistic. However, it still did reflect the predominant line of thought in the Foreign Office in late 1944 and early 1945: Russia had to be given the benefit of doubt; if she acted seemingly aggressively, it was because of her perennial quest for security and because of the suspicions the Western Powers failed to overcome. Consequently, the report concluded that

“[w]hile [...] Russia will not, in our opinion, follow an aggressive policy of territorial expansion, her suspicion of British and American policy will nevertheless continue to cause difficulty. [...] Accordingly, Russia’s relations with the British Empire and the United States will depend very largely on the ability of each side to convince the other of the sincerity of its desire for collaboration.”⁹⁵

The treatment of Germany remained the litmus test of mutual sincerity, for if Britain and the United States could convince the USSR of their desire to suppress German (and Japanese) aggression, good relations could be maintained.

Since the beginning of the “Cold War in Whitehall”, intelligence played an important role therein, both helping to shape the debate by providing assessments concerning the future behaviour of the Soviet Union, as well as being shaped by the struggle between the two opposing sides. As shown above, for example, the Foreign Office took an intense interest in “infiltrating” assessment and planning bodies in order to shape the forecasts produced by them.

This interaction between intelligence, the contestants, and their points of view is also evident elsewhere: Since, as has been shown throughout this section, the overall assessment of Soviet behaviour rested to a tangible degree on the appreciation of Russian strength and capabilities, a certain kind of intelligence was likely to be affected by this struggle: the intelligence responsible for the analysis of “any information regarding the industrial [and

⁹⁵ Ibid.

economic] development of a country which may throw light upon the extent of its potential armed forces effort or plans”⁹⁶ – economic intelligence.

⁹⁶ SIS circular, 1 Apr. 1931, cited from: Gill Bennett, *Churchill's Mystery Man: Desmond Morton and the World of Intelligence*, London 2007, 153.

2 Economic Intelligence during World War II

In 1943 it was judged that “[i]n the course of the war the field, the scope and the use of [economic] intelligence [...] have continually grown, and the demands on it at the present time are growing more rapidly than ever before.”¹ An analysis of this development of economic intelligence from its pre-war beginnings until 1944 vindicates this statement. It also shows that economic intelligence was predominantly oriented towards the Armed Services and geared to providing appreciations for them, contrasting considerably with the period beginning in January 1944, when – as will be shown in the subsequent section – the diplomats began to dominate economic intelligence.

2.1 The Economic Intelligence Machinery Before the War

Although intelligence needed for the enforcement of the blockade against Germany was collected during the First World War, no centralised apparatus for the provision of economic intelligence came into being²:

“In the war of 1914-19 no Department was responsible for watching, in the light of all available evidence, the development and decay of the enemy’s power to fight, for noting economic symptoms of collapse, or for providing those who planned the Armistice and the Peace Treaties with the economic appreciations which they needed.”³

In order to remedy this situation, the Advisory Committee on Trade and Blockade Questions in Times of War (ATB), an interdepartmental committee⁴, was set up in 1923. Its task was to

¹ ‘The Present and Future Uses of Intelligence’, Annex to ‘Report on Demobilisation of the Ministry of Economic Warfare’ (known as ‘Finlay Report’), 19 May 1943, FO 366/1390, TNA.

² Cf. Philip Davies, *MI6 and the Machinery of Spying*, London 2004.

³ ‘The Present and Future Uses of Intelligence’, FO 366/1390, TNA.

⁴ Its members were the Foreign Office, the Board of Trade, the Admiralty and the Committee of Imperial Defence; cf. Hinsley, *Intelligence, Vol. I*, 30.

assess the vulnerability of foreign powers to economic pressure in times of war⁵. In December 1929, another body, the Industrial Intelligence in Foreign Countries (FCI) sub-committee of the Committee of Imperial Defence (CID) was created upon demand of the War and Air Ministries who did not partake in the ATB⁶. Both committees were co-ordinating bodies whose main task was to facilitate the flow of existing information and reports from various government departments to its customers⁷. Since neither of the committees possessed a research staff for proper economic intelligence analysis, the FCI decided to create the Industrial Intelligence Centre (IIC) in March 1931⁸. The IIC was founded to provide “any information regarding the industrial development of a country which may throw light upon the extent of its potential armed forces effort or plans”⁹. Major Desmond Morton – an officer of the SIS on loan to the Foreign Office¹⁰ – became the head of the IIC, arguing strongly for both economic intelligence and economic warfare in the face of the total mobilisation of a nation’s resources in modern war¹¹.

Filling a gap in the existing intelligence capabilities, the IIC quickly became the authority for the analysis of economic intelligence acquired from the range of sources outlined above¹².

Although the focus of the IIC’s work had initially been upon the Soviet Union for testing purposes, it soon began to concentrate on German industrial developments following Hitler’s *Machtergreifung*, assessing the speed and direction of the German re-armament¹³.

The IIC concentrated on the productive capabilities of the ‘military-industrial complex’ and the raw material situation of the *Reich*, but did not analyse the German economy as a whole

⁵ Cf. *ibid.*

⁶ *Ibid.*

⁷ Cf. Wesley Wark, *The Ultimate Enemy*, Oxford 1986, 159.

⁸ Cf. Davies, *MI6*, 63f. The IIC was first treated as part of the SIS (and was financed from the Foreign Office’s secret budget). In January 1937, it was transferred to the DOT for administrative purposes.

⁹ SIS circular, 1 Apr. 1931, cited from: Bennett, Morton, 153.

¹⁰ Cf. Sir Desmond Morton’s biography by Gill Bennett. Bennett, *Morton*.

¹¹ *Ibid.* 160.

¹² Cf. Wark, *Enemy*, 161.

¹³ Cf. *ibid.* 159.

– as its name implied, the IIC, provided industrial, rather than economic intelligence proper¹⁴.

Among the IIC's customers were the Foreign Office¹⁵, the Treasury, and the three Armed Services, as well as the Economic Pressures (EP) Sub-Committee to the ATB, and the Air Targets Sub-Committee¹⁶. The IIC provided these customers with specific industrial intelligence analyses upon request. Apart from estimating the speed of German re-armament, the IIC was mainly employed in discovering weaknesses and potential bottlenecks in the German industry, and, thus, prepare for economic warfare in the looming conflict¹⁷.

In 1937, thanks to Morton's energetic advocacy of its cause, the Centre became the sole agency responsible for the co-ordination of industrial intelligence on behalf of the Service departments, the FCI and the ATB¹⁸. However, the Services and other departments and agencies – as long as they forwarded all relevant findings to the IIC – could still engage in this activity¹⁹. The rise of the IIC and the overall development of a functioning economic intelligence apparatus, however, was hampered by the general state of the British intelligence scene which “was one of uncoordinated activity, a medley of ministries and organisations, each providing secret information, but operating with little reference to each other, often in a spirit of marked rivalry, and lacking any integrating or supervising

¹⁴ Cf. Wesley Wark, 'British Military and Economic Intelligence: Assessments of Nazi Germany Before the Second World War', in: Andrew/Dilks (eds), *The Missing Dimension*, 94.

¹⁵ Cf. *ibid.* 95.

¹⁶ Cf. 'Functions of the Industrial Intelligence Centre', undated [1939], CAB 21/2197, TNA.

¹⁷ Cf. Bennett, *Morton*, 151-162.

¹⁸ Cf. Hinsley, *Intelligence*, Vol. I, 31.

¹⁹ FCI Report, 29 Nov. 1937, CAB 48/5, TNA. The Foreign Office's Economic Relation Section is an example of such a department, designed “to collect and co-ordinate both economic and political appreciations, and supply the political departments of the [Foreign] Office with the findings.” Donald Boadle, 'The Formation of the Foreign Office Economic Relations Section, 1930-1937', *The Historical Journal* 20:4 (1977), 919-36; here: 920.

machinery.”²⁰ The Services intelligence chiefs – although quick to comment the work done by Morton’s department – were distinctly uneasy about allowing a civilian organisation to foster²¹. Despite the military background of many IIC employees²² – “civilians to whom the Armed Services were prepared to listen”²³ – the Services insisted that IIC reports be submitted to their intelligence branches before circulation²⁴. It was not until November 1937 that the IIC could circulate assessments throughout Whitehall without prior *imprimatur* by the Service intelligence staffs.

Furthermore, the lack of an effective mechanism to integrate all intelligence available resulted in a piecemeal utilisation of economic intelligence: Each customer used only a portion of the intelligence that could have been provided by the IIC, leading to distorted conclusions and worst-case assumptions – the lack of any integration created an excessively gloomy overall picture²⁵. Hence, “the IIC was a unique and modern-looking agency, but it cannot be said that the government used it very intelligently.”²⁶ The JIC²⁷ which had been created in June 1936 to co-ordinate the intelligence of the Armed Services²⁸ and, thus, to remedy the situation, only had an inauspicious beginning, and, until the Foreign Office joined the sub-committee in the summer of 1939, remained a peripheral body²⁹. The IIC had sent a

²⁰ Percy Cradock, *JIC*, 7.

²¹ Cf. Bennett, *Morton*, 160.

²² Morton himself had fought in France in World War I and was severely wounded there in 1917; cf. Bennett, *Morton*, 14-31.

²³ Young, ‘Spokesmen’, 438.

²⁴ Cf. F. H. Hinsley, *British Intelligence in the Second World War. Abridged Version*, London 1993, 8f.

²⁵ Cf. Paul Kennedy, ‘British “Net Assessment” and the Coming of the Second World War’, in: Murray/Millett (eds), *Calculations*.

²⁶ Wark, ‘Assessments’, 94.

²⁷ The JIC was a sub-committee to the Chiefs of Staff (sub-)committee. Until the outbreak of World War II, the COS was a subcommittee to the CID whose activities were taken over by the War Cabinet in Sep. 1939. Cf. Franklyn Johnson, *Defence by Committee: The British Committee of Imperial Defence, 1885-1959*, London 1960, 242ff.

²⁸ For a description of the JIC’s genesis cf. Michael Goodman, ‘Learning to Walk: The Origins of the UK’s Joint Intelligence Committee’, *International Journal of Intelligence and CounterIntelligence* 21:1 (2008), 40-56.

²⁹ Cf. Hinsley, *Intelligence, Abridged Version*, 8.

representative to its meetings since its foundation as an “honorary member”³⁰, but Morton was increasingly irritated by the JIC’s lacking impact on policy-making until the outbreak of World War II – and even beyond³¹.

2.2 The Economic Intelligence Machinery During World War II

The beginning of the war, triggered by the German invasion of Poland, led to some considerable alterations of the economic intelligence machine. On 5 September 1939, the Ministry of Economic Warfare (MEW) came into being “for the purpose of exercising functions connected with the prosecution of any war in which His Majesty may be engaged.”³² The IIC was integrated into the MEW and formed the nucleus of the Intelligence Branch, the Ministry’s largest section³³. Furthermore, in addition to the IIC, the MEW absorbed the ATB and FCI committees, thus uniting the three co-ordinating bodies of the pre-war economic intelligence machine under a single roof³⁴. However, as Hinsley observed, “inter-departmental co-operation declined rather than improved on the outbreak of war”³⁵: In the first place, it took considerable time to adopt methods of collaboration between the new ministry (and its intelligence department), and the existing intelligence organisations. Perhaps more importantly, however, the relationship between the Intelligence Branch and the Service intelligence departments was not formally defined. The Services – which had retained the right to analyse economic intelligence for themselves – were reluctant to give up the work they were doing to a new, untried ministry during the first months of the war. This made it harder for the MEW to assume the central role in the economic intelligence process, and resulted in a series of competing reports concerning the German economy by

³⁰ Cf. Medicott, *Blockade*, Vol. 1, 16.

³¹ Cf. Bennett, *Morton*, 160f.

³² Statutory Rules and Order No. 1188 (1939).

³³ Cf. Bennett, *Morton*, 178-189.

³⁴ Cf. Hinsley, *Intelligence*, Vol. 1, 100f.

³⁵ *Ibid.*

the MEW, the Air Ministry or the War Office being forwarded to the JIC³⁶. This “competition rather than collaboration”³⁷ only began to be resolved when the dire need for centralised economic intelligence for strategic appreciations was realised at the highest levels³⁸: In February 1940, the Minister for the Co-ordination of Defence ordered a joint JIC-MEW analysis of the industrial capacity of Germany³⁹. This was followed by a meeting of the different intelligence organisations involved in the estimate of German manpower in April, which highlighted the need for better collaboration⁴⁰. In May 1940, finally, the MEW was given a seat on the JIC, although it was only to sign those reports it helped to write⁴¹. The Ministry’s representative to the JIC was its Deputy Director-General – the head of the Ministry’s Intelligence Branch, Colonel Geoffrey Vickers⁴². It was at JIC level where “economic and political intelligence [were] combined with Service Intelligence in all appreciations made for the Chiefs of Staff, the Joint Planning organisation and commanders in chief.”⁴³ When the Joint Intelligence Staff (JIS) – a body designed to take the burden of analysis off the JIC by preparing these appreciations– was established and attached to the JIC in May 1941, the MEW was present therein, too⁴⁴. However, even then, co-operation and co-ordination of economic intelligence were by no means complete, and, consequently the MEW was regularly confronted with Service intelligence papers to which it could only add very hurried and unsatisfactory comments and it took until the summer of 1941 to master

³⁶ Cf. *ibid*, 101f.

³⁷ Medicott, *Blockade*, Vol. I, 466.

³⁸ Winston Churchill himself was an ardent advocate of economic intelligence and economic warfare. Cf. Bennett, *Morton*, 170-175.

³⁹ Cf. Chiefs of Staff minutes, 27 Feb. 1940, CAB 79/3, TNA.

⁴⁰ Cf. Medicott, *Blockade*, Vol. I, 466.

⁴¹ Cf. Minutes of 34th JIC meeting, 24 May 1940, CAB 81/87, TNA.

⁴² Cf. ‘The Organisation for Joint Planning’, 1942, CAB 121/240, TNA. N.b. that Vickers was not a professional soldier but had been drafted at the beginning of World War II.

⁴³ ‘Finlay Report’, FO 366/1390, TNA.

⁴⁴ Cf. Minutes of 12th JIC meeting, 8 May 1941, and 13th JIC meeting, 15 May 1941, CAB 81/88, TNA. Cf. also. Cradock, *JIC*, 11f.

these problems⁴⁵. By then, the Ministry was represented on all inter-service committees including the Joint Planning Staff (JPS) of the Chiefs of Staff⁴⁶.

Within these bodies, economic intelligence was used for strategic appreciations, covering two main issues: Firstly, since “economic factors are bound to enter into the enemy’s calculations”⁴⁷, economic intelligence was used to help predict German strategic moves. Indeed, as was shown, for example, by Hitler’s decision to launch Operation *Blau/Braunschweig* into the oil-rich Caucasus in 1942, economic considerations played a considerable role in German strategic decision-making⁴⁸. Secondly, economic intelligence was used in an attempt to calculate the development of the *Reich’s* military strength and, thus, to determine the optimal timing for an Allied strategic offensive. In the same vein, intelligence was employed in order to forecast the military decline and collapse of Germany for want of resources⁴⁹. These latter roles of economic intelligence became increasingly redundant during the war, however, because of the growing realisation that Germany would have to be defeated in the field⁵⁰.

Apart from the measures to improve the co-ordination of economic intelligence for strategic appreciations, steps were also undertaken to convince the Services to recognise the MEW’s intelligence branch as “the essential source of economic intelligence”⁵¹ for their own operational planning. This development is closely linked to the development of the MEW’s Intelligence Branch which had been divided into “Blockade Intelligence” and “Economic

⁴⁵ Cf. Medicott, *Blockade*, Vol. I, 466.

⁴⁶ Cf. Geoffrey Vickers, ‘The Development of Enemy Branch’, in: Medicott, *Blockade*, Vol. II, Appendix IV, 674-688; here: 678.

⁴⁷ The Service Functions of Enemy Branch, JIC (44) 185, 1 May 1944, FO 366/1390, TNA.

⁴⁸ Cf. Alan Clark, *Barbarossa. The Russian-German Conflict, 1941-1945*, London 1995, 187ff.

⁴⁹ Cf. Hinsley, *Intelligence*, Vol. I, Chapter 7, 223ff.; Hinsley, II, Chapter 18, 129ff.

⁵⁰ Cf. Hinsley, *Intelligence*, Vol. III Pt. 1, 53ff.

⁵¹ Medicott, *Blockade*, Vol. I, 466.

Warfare Intelligence” (EWI) sections shortly after the start of the war⁵². Whereas the former was responsible for running an ever closer blockade of continental Europe, the latter “was to keep under constant observation the enemy’s economic potential for war with the object of assisting other branches of Intelligence in detecting in advance his possible intentions”⁵³. Its very existence “was a proof that from the start the MEW wished to serve something more than the blockade, and hoped to become the servant of the Services [...] and other agencies of government.”⁵⁴ This policy was continued when Colonel Vickers took over Intelligence Branch (rechristened “Enemy Branch”⁵⁵) in April 1941. Later that year, Vickers decided to reform the Branch and “to exclude so far as possible all functions bearing on neutral countries and to organise Enemy Branch as an enemy intelligence organisation designed to work with the Services and the assist MEW in so far as it needed intelligence about the enemy world to guide its operations”⁵⁶: to fully transform Enemy Branch into the chief supplier of economic intelligence appreciations. However, the relation to the Service Intelligence Departments continued to be problematic, because the latter were unwilling to send liaison personnel to Enemy Branch, preventing the MEW’s analysts from optimising their “product” for their customers in the three armed Services⁵⁷. The state of affairs was only slowly improved by developing closer ties to the Services’ Operations – rather than the Intelligence – Departments and by the creation of the Service Liaison Department in June 1941⁵⁸. Furthermore, Enemy Branch was represented at the Intelligence Section (Operations) (IS(O)) – set up at the end of 1941 as a sub-section of the JIC⁵⁹ in order to co-

⁵² Cf. Medicott, I, 65.

⁵³ Ibid.

⁵⁴ Ibid. 66.

⁵⁵ Ibid.

⁵⁶ Vickers, ‘Development’, 677.

⁵⁷ Cf. *ibid.* 676.

⁵⁸ Cf. *ibid.* 676ff.

⁵⁹ It was originally placed under “general guidance” of the JIS which was, however, overburdened with this task. Consequently, the IS(O) was placed directly under JIC tutelage. Cf. *Hinsley, Intelligence, Vol. II*, 10f.

ordinate the demands for, and provision of, operational intelligence⁶⁰ – as well as at the “Hartley Committee” for estimating German petroleum production and consumption, and the Inter-Services Topographical Department (ISTD)⁶¹. Thenceforth, Enemy Branch was increasingly able to act as the central provider for operational – as well as strategic – economic intelligence within the Government Machine, leading the MEW’s official historian to judge that

“the story of Enemy Branch was one of growth and innovation throughout the war. Its energetic and resourceful staff had many striking achievements to their name, and they were successful in persuading the Service Departments to make use of the economic information that Enemy Branch could supply, instead of relying on their own Intelligence Directorates for information.”⁶²

Likewise, the continuing integration of economic intelligence into operational planning led a 1944 memorandum circulated by the JIC to conclude that “Enemy Branch is not an inter-service organisation *in constitution*, [...] but it is [...] *in function* [...] providing intelligence and appreciations which the Services require”⁶³ but which they cannot provide themselves.

⁶⁰ Cf. ‘The Organisation for Joint Planning’, 1942, CAB 121/240, TNA.

⁶¹ Cf. Vickers, ‘Development’, 683.

⁶² Ibid. 674.

⁶³ JIC (44) 185, 1 May 1944, FO 366/1390, TNA. Emphases in the original.

3 Economic Intelligence and the “Cold War in Whitehall”

As has been shown, throughout the war, economic intelligence developed an ever closer collaboration with the Armed Services: It grew in size and was increasingly incorporated into the Joint Planning and Intelligence mechanisms. However, despite being the prime beneficiaries of the services provided by economic intelligence, the Armed Services did not attempt to establish any formal or informal control over the economic intelligence machinery. Thus, in early 1944, the Foreign Office was able to take over Enemy Branch, which – although it would still provide operational intelligence to the Services – became an important tool in the assumptions debate. As will be shown, the re-organisation of economic intelligence took place in two distinct phases, each, albeit differently, supporting the Foreign Office’s stance in the “Cold War in Whitehall”.

3.1 Economic Intelligence in Foreign Office Hands

In November 1943, the chairman of the Committee on the Machinery of Government and Chancellor of the Exchequer, John Anderson, circulated a report written earlier that year on the “Demobilisation of the Ministry of Economic Warfare”¹. This report had concluded that it would be “unfortunate if the Ministry’s economic intelligence organisation regarding Europe were hastily abolished”² and that the permanent functions of the MEW – economic intelligence and the planning for economic warfare – should be retained after the cessation of hostilities on the continent. Whereas an embryonic, dormant structure would suffice for economic warfare, economic intelligence would continue to be required after the war, for

“[t]here can be no doubt that a vast amount of economic intelligence, both industrial and financial, will be required both for the disarmament commissions

¹ MG (43) 11, 2 Nov. 1943, FO 366/1390, TNA; ‘Finlay Report’, FO 366/1390, TNA.

² Ibid.

and, at least in the early period, for the civil administration of the enemy countries.”

Anderson considered that “the balance of advantage lies in entrusting the [economic intelligence and economic warfare planning] functions [...] to the Foreign Office”, although, in the long run, economic intelligence might be entrusted to the Cabinet Civil Secretariat³. In an explanatory letter, Anderson affirmed, however, that he regarded

“it as axiomatic that the collection of such intelligence, its appraisal and digestion for the purpose of day to day FO work and also for the purpose of informing the other Departments, which [...] are interested in the same field, should [in the future as in the past] be part of the Foreign Office’s responsibilities.”⁴

These ideas reflected the Foreign Office’s aim voiced in a letter to the Parliamentary Under-Secretary of State for Foreign Affairs, Richard Law: “the Foreign Secretary should control foreign policy both in the political and economic spheres (they are, in fact inseparable).”⁵

In its meeting on 6 January 1945 – with Foreign Secretary Eden and the Minister of Economic Warfare Lord Selborne present – the Committee on the Machinery of Government endorsed Anderson’s note, agreeing that by providing economic intelligence, the MEW “were doing work proper in normal times to the Foreign Office which should be transferred to the Foreign Office on the demobilisation of the Ministry or, if the Ministers so concerned agreed, at an earlier date.”⁶ The Ministers concerned did agree, and following an exchange of letters between Selborne and Eden⁷, Enemy Branch was officially transferred to the Foreign Office

³ Cf. MG (43) 11.

⁴ Anderson to Minister of State Richard Law, 6 Jan. 1944, FO 366/1390, TNA.

⁵ Ashton Gwatkin to Law, 5 Jan. 1944, FO 366/1390, TNA.

⁶ GM (44) 1, FO 366/1390, TNA. It also concluded that “the central appraisal of economic information about all overseas countries should *eventually* be entrusted to a small section in the Cabinet Secretariat.” Emphasis in the original.

⁷ Eden to Selborne, 27 Jan. 1944; Selborne to Eden, 31 Jan. 1944; Eden to Selborne, 14 Feb. 1944, all in FO 371/40751, TNA.

on 6 April 1944, becoming the “Economic Advisory Branch” (EAB)⁸, with Colonel Vickers remaining its Director General⁹.

The reason for Eden’s desire to take over Enemy Branch as early as possible had to do with post-war planning: He needed Vickers to head, and Enemy Branch personnel to run the Economic and Industrial Planning Staff (EIPS)¹⁰. In late 1943, the Armistice and Post-War Administration Committee (APC) had decided to establish a planning section to consider the economic aspects of a German armistice¹¹ and to advise the Supreme Allied Commander (General Eisenhower) “as to how, in the economic field, he should make use of the wide powers to be conferred on him by the draft ‘Terms of Surrender’”¹². The EIPS, thus, complemented the “Control Commission (Military Section)”, a body formed to provide planning for a future Control Commission of Germany¹³. In contrast to the Control Commission (Military Section), EIPS was a civilian body, with a number of government departments contributing to it, but without any Armed Service participation¹⁴. The Foreign Office became responsible for the administration of the EIPS and – as in the case of the JIC and, initially, the PHP – was to provide its chairman¹⁵. In order to accomplish this, the Foreign Office required the expertise of Enemy Branch which it regarded as “an essential reservoir of facts for the use of EIPS.”¹⁶ In fact, so urgent was the need that it was agreed to

⁸ Full title: Economic Advisory Branch (Foreign Office and Ministry of Economic Warfare). Despite this “dual ownership”, however the formal authority lay fully with the Foreign Office.

⁹ Cf. ‘Foreign Office Circular No. 39’, 4 May 1944, FO 366/1493, TNA.

¹⁰ Cf. Eden letter to Ministers concerned, Jan. 1944, FO 366/40751, TNA. In the end, Mark Turner of Enemy Branch chaired EIPS, albeit under close supervision of his superior, Colonel Vickers. Cf. EIPS Minutes, 28 Feb. 1944, FO 371/40751, TNA.

¹¹ Cf. F.S.V. Donnison, *Civil Affairs and Military Government Central Organisation and Planning*, London 1966, 250.

¹² Eden letter to Ministers concerned, Jan. 1944, FO 366/40751, TNA. Cf. also Woodward, *British Foreign Policy*, 203, Fn. 2.

¹³ Cf. also, F.S.V. Donnison, *Civil Affairs and Military Government North-West Europe, 1944-1946*, London 1961, 250f.

¹⁴ Ibid.

¹⁵ Cf. Eden letter to Ministers concerned, Jan. 1944, FO 366/40751, TNA.

¹⁶ Gwatkin minute, 23 Feb. 1944, FO 366/40751, TNA.

make the relevant Enemy Branch personnel available to the EIPS before the full transfer had been completed or before even the new name of the Branch had been decided upon¹⁷. Consequently, in the following months, EAB.1, the department of EAB seconded to EIPS, became “an essential part of the organisation and driving force of EIPS”¹⁸, providing its chairman, staff and secretariat¹⁹.

EIPS officially came into existence on 16 March 1944. Soon thereafter, it “developed rapidly, and became the focal point in Whitehall for co-ordinating economic policy in regard to the enemy world.”²⁰ The post-hostility planning function of EIPS (and its associated economic intelligence apparatus) is apparent in a list of activities of the Staff drawn up in August 1944:

- (a) preparing economic directives for the Supreme Commander in ex-enemy territory;
- (b) formulating for the decision of Ministers issues governing our economic policy towards ex-enemies;
- (c) examining the economic implications of a policy of dismemberment;
- (d) formulating views on economic issues submitted by
 - i) the British representative on E[uropean] A[dvisory] C[ommission] [...]
 - iii) PHP;
- (e) representing to the planners of the control machinery [...] the economic policy which the control machinery will be required to implement”²¹.

These activities permitted economic intelligence to have two kinds of impact: Firstly, by producing analyses and appreciations in order to carry out tasks (a), (b), (d) i) and (e) of the list above, economic intelligence facilitated the formulation and implementation of a British economic policy regarding Germany, and the deliberation with the wartime allies on such matters. For example, its assessments were used in negotiations with the Americans and the

¹⁷ Cf. Vickers to Ashton Gwatkin, 18 Feb. 1944, FO 366/40751, TNA.

¹⁸ Minute of meeting in the Foreign Office, 8 Dec. 1944, FO 366/1390, TNA.

¹⁹ Clerical staff aside, EAB.1 consisted of 15 officers. Cf. Telephone Register of the EAB, Oct. 1944, FO 366/1493, TNA.

²⁰ Vickers, ‘Development’, 687.

²¹ ‘The continuing Functions of Enemy Branch’, 3 Aug. 1944, CAB 21/2562, TNA.

Russians concerning the post-war reparations to be paid by Germany: An EIPS report of 15 August 1944 which advised that it were economically dangerous to extort reparations unless Germany achieved trade surpluses²² shaped the British position at the Yalta conference in February 1945. At Yalta, the British standpoint differed considerably from the Soviets' (who demanded a payment of \$20 billion) and from the Americans' (who were prepared to use the Soviet figure as a basis for negotiations)²³.

Secondly, however, it was through EIPS that economic intelligence also played an important role in the assumptions debate.

On the one hand, economic intelligence provided information used by the PHP²⁴ and by the JIC²⁵. As has been described above, the eruption of the confrontation between diplomats and the military followed a JIC report that – based on economic intelligence – asserted that the Soviet Union's industrial heartland would not require extensive reconstruction after the war²⁶. Likewise, the JIC's Report on "Russia's Strategic Interests from the Point of View of Her Security" mentioned above draws very heavily on economic intelligence: more than half of the report consists of an economic analysis of the Soviet situation²⁷. Indeed, the report concluded that among the reasons for the Russian endeavours to create a system of "buffer states" were the desire to protect her own mines and oilfields, and the tapping of Polish and Romanian resources not least to provide an adequate supply for the growing Russian population²⁸.

²² 'Economic Security and Reparations', 15 Aug. 1944, FO 1005/959, TNA.

²³ Cf. J.E. Farquharson, 'Anglo-American Policy on German Reparations from Yalta to Potsdam', *The English Historical Review* 112:448 (1997), 904-26; here: 907.

²⁴ Task (d) i) of the list above.

²⁵ The role of economic intelligence in JIC assessments is easy to monitor, for Colonel Vickers was only entitled to sign those JIC papers which he had co-drafted. Cf. Minutes of 34th JIC meeting, 24 May 1940, CAB 81/87, TNA.

²⁶ Cf. page 16 above, Cf. also Aldrich, *Hidden Hand*, 52.

²⁷ 8 out 13 pages. Cf. 'Report', 19 Dec. 1944, CAB 81/126, TNA.

²⁸ Cf. *Ibid.*

However, economic intelligence and EIPS were also to play a more direct, very distinct and even dominant role in another engagement of the “Cold War in Whitehall” – the question of the dismemberment of Germany²⁹. As has been outlined above, the question of the future treatment of Germany was the most antagonising and contentious issue in the debate between officers and diplomats: Whereas the Chiefs advocated an alliance with Germany to forestall Soviet aggression, the Foreign Office preached to foster co-operation with Russia by jointly controlling and suppressing Germany.

On 9 September 1944, the Chiefs of Staff presented their point of view regarding dismemberment, having been asked to do so by the Foreign Office on 7 June³⁰. They regarded the partition of Germany as a strategic advantage to prevent German rearmament and renewed aggression. Moreover, given the potential danger emanating from the Soviets after the war, Britain needed

“all the help we can get from any source open to us, including Germany. We must above all prevent Germany combining with the Soviet Union against us. It is open to argument whether a united Germany would be more likely to side with the USSR than with ourselves. In any event, it is most unlikely that the USSR would ever permit the rearmament of a united Germany unless she were satisfied that she could dominate a Germany so rearmed. Thus, we are unlikely to secure help from the whole of Germany against the USSR. Our interests are therefore likely to be better served in this event by the acceptance of dismemberment, for [...] this would give increased depth to the defences of the United Kingdom”³¹.

The Foreign Office did not agree to this assessment, and economic intelligence supplied it with the ammunition to counter it, for on 2 September 1944, EIPS had produced a report on the economic aspects of a dismemberment of Germany following her defeat. It concluded

²⁹ Task (c) of the list.

³⁰ Cf. Woodward, *British Foreign Policy*, 203. Eden himself initially favoured a dismemberment, cf. David Carlton, *Anthony Eden. A Biography*, London 1981, 211.

³¹ Chiefs of Staff Report, 7 Jun. 1944, cited from: Woodward, *British Foreign Policy*, 203f.

that a dismemberment would considerably reduce the German ability to pay reparations³². It would also result in an impoverishment of Germany, slow down the global recuperation from war damages, and, thus, harm British economic interests. In addition to this, aside from the fact that a complete economic dismemberment would not be achievable, even the attempt to impose it would significantly increase the burden on the Allied governments to control Germany and her economy. Finally, the report urged that, if a dismemberment was agreed to despite the economic objections to it, the policy could not be carried out immediately after the cessation of hostilities, since a number of central economic steering bodies were initially indispensable.

Shortly afterwards, the Foreign Office produced a memorandum on dismemberment in which it weighed up both reports³³. It concluded that the advantages of dismemberment claimed by the Chiefs of Staff were “illusory”³⁴. In any case, since the Germans were likely to oppose such a policy, the Allies would have to be prepared to maintain the partition by force, a measure not likely to gain public support in Britain or the United States. Most importantly, however, the memorandum considered the effects of dismemberment on Anglo-Soviet relations and provided a lengthy comment on Chiefs’ of Staff position:

“The argument seems to be that dismemberment could be used to keep Germany prostrate for just so long as it might serve our purpose, and that at a given moment we could suddenly reverse our policy and find in Western Germany a reliable ally prepared to reinforce our war potential and to join us in battle against [the USSR]”³⁵.

³² EIPS Report, 2 Sep. 1944, cited from: Woodward, *British Foreign Policy*, 204.

³³ Foreign Office memorandum, 20 Sep. 1944, cited from: Woodward, *British Foreign Policy*, 205ff.

³⁴ *Ibid.*

³⁵ *Ibid.*

Such a proposition, the diplomats remarked, seemed “little less than fantastic. But it is worse than that. It is playing with fire.”³⁶ Instead of this, the policy of Britain should be to preserve the unity of the wartime alliance, a unity that would quickly be destroyed by such schemes of an anti-Soviet bloc. The memorandum did acknowledge that either course of action – a policy of dismemberment or one of treating Germany as a whole – had its dangers because the Soviet position was not clear. However, if the British Government were to agree to dismemberment, “acute differences are almost bound to arise in course of time over its policing”³⁷. The policy would, thus, be to avoid a dismemberment but to make the British views “abundantly clear to [the Soviets], leaving no doubt in their minds that a soft peace is no part of our plan.”³⁸ As long as the Soviets could be convinced that British policy was not directed against them, the diplomats saw “no reason to believe that the preservation of a united Germany would necessarily lead to a Russo-German combination.” On the contrary, the Foreign Officials expressed their view that a single Germany could become the glue holding the alliance together:

“The more likely result of leaving Germany united would surely be to make the Russians more inclined to collaborate with us, always provided we remain strong and an Ally worth having. One can go further and suggest that the existence of a united Germany might prove a factor of the first importance in holding the Soviet Union and ourselves together.”

When Foreign Secretary Eden passed this memorandum to the APC on 20 September, he was able to comment that although dismemberment should be considered if it really were in the interests of security, it did not appear to be the best policy to be pursued: Eden feared that, instead of providing additional security, dismemberment would automatically lead to a rupture of the wartime alliance once Germany was defeated: If Britain were to “prepare our

³⁶ Ibid. 206.

³⁷ Ibid. 207.

³⁸ Ibid.

post-war plans with the idea at the back of our minds that the Germans may serve as part of an anti-Soviet bloc, we shall quickly destroy any hope of preserving the Anglo-Soviet Alliance”³⁹. In conclusion, it seemed as if the partition of Germany “fail[ed] to advance the main object we have all at heart, viz., security from the German menace. That it would have grave economic disadvantages is clear from the report of the EIPS.”⁴⁰

Eden’s final remark illustrates the role played by economic intelligence in the dispute with the Chiefs of Staff. It provided the diplomats with a trump card, for even if they admitted that there was some merit to the arguments presented by the Chiefs and that the political consequences of dismemberment were ambiguous, they could refer to the fact that it would certainly entail severe economic costs: The benefits of dismemberment were very uncertain, whilst the economic costs would certainly be high.

It was, thus, through EIPS and its assessments that economic intelligence came to play a role in the debate in favour of the Foreign Office’s point of view. Whilst it was seemingly unrelated to the political and strategic considerations that were at the centre of the dispute between officers and diplomats, EIPS – dominated by the Foreign Office since its foundation – came to promote the joint treatment and control of a united Germany, and, thus, supported the diplomats in the debate with the Chiefs of Staff.

3.2 Economic Intelligence Dismembered

As seen above, economic intelligence rendered valuable services to its new masters at the Foreign Office. Yet, by the end of the war, EAB was considerably shrunk and many of its departments were outsourced to other government bodies; it certainly appears ironic that the body which had considerably helped the diplomats on the question of dismemberment was now dismembered itself. However, the very fact that the Foreign Office retained at least

³⁹ APW (44), 15th meeting, 20 Sep. 1944, FO 371/50805, TNA.

⁴⁰ Ibid.

a small EI department – in spite of external endeavours to create a single, centralised body for economic intelligence appreciations – highlights the importance attached to economic intelligence and can be interpreted as an example of the diplomats’ desire to retain core capabilities and not entirely depend on the Cabinet or Chiefs of Staff machinery⁴¹. In addition to this, it will in fact be seen that this last wartime re-organisation of economic intelligence was a continuation of the “Cold War in Whitehall” by other means: Whereas other intelligence organisations, such as SIS, were transformed in accordance with the Chiefs’ of Staff point of view⁴², economic intelligence was – at least in the medium term – aligned according to the Foreign Office’s point of view⁴³.

The size of EAB (it employed some 350 officers⁴⁴), and the plethora of tasks beyond the diplomats’ domestic needs that were performed for external customers instigated a process of decoupling parts of the economic intelligence apparatus from the Foreign Office.

In January 1944, when the Foreign Office was awarded custody of the MEW, the Committee on the Machinery of Government had echoed the suggestions of its chairman Anderson and recommended that “[t]he central appraisal of economic information about all overseas countries should *eventually* be entrusted to a small section in the Cabinet Secretariat, working in close collaboration with the Departments concerned”⁴⁵. By late 1944, a number of departments were indeed concerned: The Board of Trade, Treasury and others were worried that the Foreign Office might completely force them out of the business of overseas

⁴¹ Richard Aldrich has described how the Foreign Office established the Russia Committee (April 1946) partly to possess their own Cold War planning body. Cf. Aldrich, ‘Intelligence’, 18f. Cf. also: Ray Merrick, ‘The Russia Committee of the British Foreign Office and the Cold War, 1946-47’, *Journal of Contemporary History* 20:3 (1985), 453-468.

⁴² Cf. Davies, *MI6*, 156ff. Cf. also: Richard Aldrich, *Espionage, Security and Intelligence in Britain 1945-1970*, Manchester 1988, 21f.

⁴³ The fact that SIS was transformed despite the Foreign Office’s formal authority over it can be explained by the influence of military “mindere” sent by Brooke to look after Major General Menzies, Chief of SIS. Cf. Aldrich, *Hidden Hand*, 49.

⁴⁴ Cf. Minutes of meeting, 8 Dec. 1944, FO 366/1391, TNA.

⁴⁵ GM (44) 1, 6 Jan. 1944, FO 366/1390, TNA. Cf. also Fn. 6, page 32, above. Emphasis in the Original.

economic appreciations⁴⁶. An ambiguously worded letter by Sir Nigel Ronald, Acting Assistant Under-Secretary in the Foreign Office, exacerbated these worries in November 1944⁴⁷. Aware of this, Ronald sought to convince his Whitehall colleagues that his “dominating motive [was] to avoid the accusation that he is taking over the Treasury or Board of Trade functions”⁴⁸. He was not entirely successful in this, however, and representatives of the Treasury, Board of Trade, and the Ministry of Supply continued to press for an implementation of Anderson’s suggestions⁴⁹.

However, the size of EAB not only alarmed other government departments vigilantly defending their influence: It also worried senior diplomats who, whilst recognising the value of economic intelligence, believed that the future EAB “should be kept as small as possible and should devote its energies to appreciation and not employ a large staff on the collection of facts”⁵⁰. This desire’s underlying motive was twofold: Firstly, the diplomats feared that their service might be swamped by the large number of personnel absorbed from other Whitehall departments towards the end of the war, for apart from Enemy Branch and the MEW, Eden wished to take over the Special Operations Executive (SOE) and the Political Warfare Executive (PWE). Secondly, they were worried by EAB’s tendency “to get more and more business for the firm”⁵¹ which was not Foreign Office work proper. This was also much to the annoyance of the Foreign Office’s Permanent Under-Secretary, Cadogan, who confided to his diary in November 1944:

⁴⁶ Cf. Memorandum by Laithwaite, ‘Mr Ronald’s Letter’, 1 Dec. 1944, CAB 21/2562, TNA.

⁴⁷ Cf. Ronald to Laithwaite, 28 Nov. 1944; Memorandum by Laithwaite, ‘Mr Ronald’s Letter’, 1 Dec. 1944, CAB 21/2562, TNA.

⁴⁸ Laithwaite Note, 1 Dec. 1944, CAB 21/2562, TNA.

⁴⁹ It is interesting to note that when citing the January recommendations, the word “eventually” was omitted. Compare: ‘Issues Arising from Mr. Ronald’s Letter’, 1 Dec. 1944, CAB 21/2562 and GM (44) 1, 6 Jan. 1944, FO 366/1390, TNA.

⁵⁰ Cavendish-Bentinck minute, 22 Oct. 1944, FO 366/1391, TNA.

⁵¹ Cavendish-Bentinck minute, 22 Oct. 1944, FO 366/1391, TNA.

“I am concerned at the general drift that the F[oreign] O[ffice] should take over all these fantastic things. We aren’t a Department Store. [...] Are we competent to do so? We can’t do it, and we create new Dept[artment]s to grapple with it, isn’t that frightful duplication?”⁵²

Cadogan evidently feared that the Foreign Office would acquire organisations which far exceeded its own needs and were urgently required elsewhere, and would interfere with the core work of his beloved diplomatic service and “destroy any shred of reputation the F[oreign] O[ffice] may have retained”⁵³.

It was, thus, a combination of push and pull factors that led to yet another re-organisation of economic intelligence, and to a reduction of EAB’s size and tasks. Given the increasing success and efficacy of the JIC during World War II⁵⁴, a centralisation of economic intelligence promised to soothe away both Whitehall’s and the diplomats’ fears whilst avoiding the “frightful duplication” lamented by Cadogan. In the long run, these considerations led to the foundation of the Joint Intelligence Bureau (JIB), a central body for the appreciation of economic and topographical information⁵⁵. However, the JIB was not founded until mid-1946 (when the Foreign Office’s had changed its appraisal of Soviet behaviour), and even then, the Foreign Office retained its own economic intelligence body⁵⁶. Moreover, as far as the immediate late-war re-organisation is concerned, there is considerable evidence to show that it was construed in a way to divide the existing economic intelligence apparatus among those institutions that would use them in

⁵² *Cadogan Diary*, 24 Nov. 1944, 683.

⁵³ *Ibid.* Despite Cadogan’s misgivings, however, the Foreign Secretary prevailed as far as the SOE and the PWE were concerned: the Foreign Office achieved a formal veto over special operations, retained formal control over SIS (into which SOE was incorporated after the war), and gained control of the clandestine propaganda apparatus. Cf. Aldrich, *Hidden Hand*, 74ff.

⁵⁴ Cf. Cradock, *JIC*, Ch. 1.

⁵⁵ Cf. JIC (45) 181 (O), ‘Post-War Organisation of Intelligence, 1 Jun. 1945, CAB 121/230, TNA.

⁵⁶ Cf. JIC (45) 181, 1 Jun. 1945, CAB 81/129, TNA; JIC (45) 226, 24 Jul. 1945, CAB 121/230, TNA.

accordance with the Foreign Office's post-war assumptions and, thus, help to carry out the post-war policy envisaged by the diplomats.

On 8 December 1944 – following a number of meetings about the future of EAB, in which the Foreign Office's permanent needs for economic assessments were established⁵⁷, and in which the views of other departments were explored⁵⁸ – it was decided to re-organise EAB once the “strategic and operational demands in regard to the European war”⁵⁹ discontinued and the transformation of economic intelligence could proceed without interfering with its wartime work for the Armed Services⁶⁰. EAB was split into three parts: Its first department, EAB.1, was to become the “EIPS Staff”. The seventh department of EAB, EAB.7 – which had previously been chiefly responsible for “General Economic Intelligence, Europe (including USSR)”⁶¹ – became the Foreign Office's Economic Intelligence Department (EID), while the rest was ultimately passed on to the Control Commissions (OFFICES) for Germany and Austria⁶². By distributing EAB in this way, the Foreign Officials, whilst responding to outside and inside pressures to reduce the Foreign Office's stake in external economic assessments, ensured that the economic intelligence apparatus would not fall into the wrong hands: EID remained firmly “with us”, as a Foreign Office circular laconically remarked⁶³, and EIPS, repeatedly commended for its good and useful work⁶⁴, continued to be chaired – and dominated – by the Foreign Office, which could still use it as a channel to promote its post-war assumptions. The Control Commissions for Germany and Austria, lastly, were *inter alia* devised as a tool to ensure Germany's industrial disarmament, denying her the capabilities

⁵⁷ Cf. for example, Minutes of Meeting, 14 Nov. 1944, FO 366/1391, TNA.

⁵⁸ Cf. Minutes of meeting, 1 Dec. 1944, FO 366/1391, TNA.

⁵⁹ Minutes of meeting, 8 Dec. 1944, FO 366/1391, TNA.

⁶⁰ Cf. Minutes of meeting, 1 Dec. 1944, CAB 21/2562, TNA.

⁶¹ Cf. Telephone Register, FO 366/1493

⁶² Cf. Minutes of meeting, 8 Dec. 1944, FO 366/1391, TNA; cf. also Vickers, ‘Development’, 687f.

⁶³ ‘Office Circular No. 10’, 9. Feb. 1945, FO 366/1493, TNA.

⁶⁴ Cf., for example, Minutes of meeting, 8 Dec. 1944, FO 366/1391, TNA.

to engage in further aggression⁶⁵. Furthermore, as inter-allied bodies, they epitomised the Foreign Office's schemes for post-war co-operation and joint suppression of Germany. By providing the British element of the Control Commissions with parts of the economic intelligence machine, the diplomats, thus, ensured that it would be put to use against Germany in a joint effort with the Soviets.

Moreover, this organisational re-deployment coincided with the functional alignment of economic intelligence for the post-war period: Since mid-1944, members of EAB had argued for the maintenance "at least for so long as Germany is subject to restriction or control, a study of German economy sufficiently detailed to meet the demands [...] for purposes of strategic and political planning"⁶⁶. Furthermore, the influence of the Foreign Office's anticipation of the future on economic intelligence is manifest elsewhere: Having argued therein that the Foreign Office should retain a department for economic intelligence, Vickers asserted that

"[a]bout certain countries we shall always require intelligence different in kind and degree from that which economic intelligence will normally deal. These are (a) potential enemies and (b) countries where economic information is inaccessible by ordinary means. The country most conspicuous in the first class is Germany, in the second class USSR."⁶⁷

This statement and the following paragraphs, repeated in a second memorandum⁶⁸, fully reflect the Foreign Office's standpoint: Both Germany and the USSR will require special attention. Germany, because she will still have to be treated as a potential enemy. The Soviet Union "our inscrutable ally"⁶⁹, in order to "make good the relative absence of

⁶⁵ Cf. 'Industrial Disarmament of Germany', CP (45) 180, 10 Sep. 1945, CAB 121/435, TNA.

⁶⁶ 'The Legacy of Enemy Branch', 15 Sep. 1944, FO 366/1391, TNA.

⁶⁷ 'The Continuing Functions of Enemy Branch', 3 Aug. 1944, CAB 21/2562, TNA.

⁶⁸ 'The Legacy of Enemy Branch', 15. Sep. 1944, FO 366/1391, TNA.

⁶⁹ 'The Continuing Functions of Enemy Branch', 3 Aug. 1944, CAB 21/2562, TNA.

statistical and other material from reliable public sources” and better understand her motives and intentions.

Conclusion

Intelligence has been described as a “Cinderella service” and war as “the Fairy Godmother who changes Cinderella into the Princess.”¹ This description seems to apply especially to the economic intelligence apparatus of World War II: Having grown into a sizeable and well functioning machinery during the war, it was dismembered and considerably shrunk as soon as – and even before – the clock struck twelve and the war was over. A number of diplomats – like the jealous step-sisters – seemed eager to reduce the size and influence of economic intelligence within the Foreign Office, wishing to reduce the number of economic intelligence officers from 350 (in EAB) to “six or eight”² in the future EID.

Was “*Undank [...] der Welt[en] Lohn*”³? Blockade intelligence was a very labour-intensive task and, consequently, occupied the majority of the personnel employed by Enemy Branch/EAB. With the blockade’s *raison d’être* gone after the victory over Germany⁴, a substantial reduction of the size of the economic intelligence apparatus was justified. EID eventually employed 24 intelligence officers⁵, and although this seems small by the wartime standards of EAB, this still represents a considerable size – JIS, for example, which has been praised for its efficiency in providing the JIC with intelligence assessment, only comprised 10 intelligence officers throughout the war⁶. Thus, the Foreign Office continued to field a well-staffed economic intelligence machinery, albeit scaled down to peacetime requirements, reflecting the continuing value attached to it. Indeed, economic intelligence promised to be of great use in peacetime, a sentiment echoed by Lord Selborne who asked his fellow Lords

¹ Admiral Rushbrooke, Director of Naval Intelligence 1942-46, cited from: Aldrich, *Hidden Hand*, 65.

² Minutes of Meeting, 14 Nov. 1944, FO 366/1391, TNA.

³ Morton to Watson, 10 Sep. 1945, PREM 7/14, TNA. German in the Original.

⁴ Because of Japan’s geographic situation, the intricate blockade apparatus required for continental Germany, was not needed in the Far East. Cf. Selborne to Churchill, 15 May 1945, FO 366/1494, TNA.

⁵ Cf. Radice to Ronald, 1 Jun. 1945, FO 366/1493, TNA. Three of them were concerned with the USSR and Eastern Europe – compared to four officers whose task it was to provide analyses regarding Western and Central Europe.

⁶ Cf. Cradock, *JIC*, 12.

to “rejoice with me in the decision of the Foreign Secretary that henceforth the Foreign Office is to be adequately equipped in regard to economic intelligence, which must play an increasingly important part not only in foreign policy, but in all politics.”⁷

The aim of this dissertation was to retrace the development of economic intelligence in the second half of World War II. It has been argued that the re-organisation of the economic intelligence machinery which took place in 1944 and 1945 has to be seen in the context of the debate between the Foreign Office and the Chiefs of Staff regarding the post-war planning assumptions, dubbed the “Cold War in Whitehall”. In order to put forward this argument, the paper was divided into three sections, the first two of them providing the indispensable pillars on which the synthesis presented in the third section could rest: Only by, firstly, providing an insight into the assumptions debate, and, by, secondly, establishing the role and development of economic intelligence during the war – a subject not academically covered before – could the re-organisation of economic intelligence in section three be adequately analysed. As this last section has shown, economic intelligence played both an active and a passive role in the assumptions debate: by breaking down its re-organisation into two phases, it could be established that economic intelligence was, in a first phase, attached to the Foreign Office and used to support the diplomats in the assumptions debate, whereas, in the second phase it was taken apart and distributed in a way to support the policy envisaged by the diplomats.

This process contrasted somewhat with the preceding wartime development of economic intelligence, for, until 1944, Enemy Branch had increasingly endeared itself to the Armed Services. The service functions provided by Enemy Branch did, of course, not cease with its

⁷ House of Lords Debate, 9 May 1944, 629.

transfer to the Foreign Office⁸, but thenceforth, the development of economic intelligence was dominated by the diplomats. Because of the limited space available, however, the underlying reasons for this change could not be analysed – this task alone would fill a separate thesis. Likewise, the time period under scrutiny here only extended into early 1945, and did, thus, not include the Foreign Office’s changing appraisal of the Soviet behaviour. Since the Yalta Conference in February 1945, the “zenith of the wartime alliance”⁹, the relations between the Western Allies and the USSR deteriorated markedly. Consequently, the diplomats were increasingly forced to reconsider their post-war assumptions, although they were still annoyed by anyone outside the Foreign Office “expressing the doubts which they themselves felt.”¹⁰ This re-appraisal of Soviet intentions would culminate in “the other long telegram”, an extensive analysis of the malignant character of Soviet foreign policy sent to London from Moscow by Foreign Official Frank Roberts in March 1946¹¹, followed in April 1946 by the foundation of the Russia Committee, the Foreign Office’s planning body for the (real) Cold War¹². The analysis of this changing attitude and its impact upon economic intelligence would provide additional insights into the British Cold War machinery, the role of the Foreign Office therein, and, of course, economic intelligence itself during that conflict, thus helping to further explore the “missing dimension”.

⁸ A stipulation throughout the negotiations between Selborne and Eden described above, page. 32.

⁹ Rothwell, *Britain*, 136.

¹⁰ *Ibid.* 143.

¹¹ Cf. Sean Greenwood, ‘Frank Roberts and the ‘Other’ Long Telegram: The View from the British Embassy in Moscow, March 1946, *Journal of Contemporary History* 25:1 (1990), 103-122.

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