

# Pentagon preps for economic warfare

Eamon Javers Eamon Javers— THU APR 9, 5:18 AM ET

The Pentagon sponsored a first-of-its-kind war game last month focused not on bullets and bombs — but on how hostile nations might seek to cripple the U.S. economy, a scenario made all the more real by the [global financial crisis](#).

The two-day event near Ft. Meade, Maryland, had all the earmarks of a regular war game. Participants sat along a V-shaped set of desks beneath an enormous wall of video monitors displaying economic data, according to the accounts of three participants.

“It felt a little bit like Dr. Strangelove,” one person who was at the previously undisclosed exercise told POLITICO.

But instead of military brass plotting America’s defense, it was hedge-fund managers, professors and executives from at least one investment bank, UBS — all invited by the [Pentagon](#) to play out global scenarios that could shift the balance of power between the world’s leading economies.

Their efforts were carefully observed and recorded by uniformed military officers and members of the U.S. intelligence community.

In the end, there was sobering news for the United States — the savviest economic warrior proved to be [China](#), a growing [economic power](#) that strengthened its position the most over the course of the war-game.

The United States remained the world’s largest economy but significantly degraded its standing in a series of financial skirmishes with [Russia](#), participants said.

The war game demonstrated that in post-Sept. 11 world, the Pentagon is thinking about a wide range of threats to America’s position in the world, including some that could come far from the battlefield.

And it’s hardly science fiction. China recently shook the value of the dollar in global currency markets merely by questioning whether the recession put China’s \$1 trillion in U.S. government bond holdings at risk — forcing President Barack Obama to issue a hasty defense of the dollar.

“This was an example of the changing nature of conflict,” said Paul Bracken, a professor and expert in private equity at the Yale School of Management who attended the sessions. “The purpose of the game is not really to predict the future, but to discover the issues you need to be thinking about.”

Several participants said the event had been in the planning stages well before the stock market crash of September, but the real-world market calamity was on the minds of many in the room. “It loomed large over what everybody was doing,” said Bracken.

“Why would the military care about global capital flows at all?” asked another person who was there. “Because as the [global financial crisis](#) plays out, there could be real world consequences, including failed states. We’ve already seen riots in the United Kingdom and the Balkans.”

The [Office of the Secretary of Defense](#) hosted the two-day event March 17 and 18 at the Warfare Analysis Laboratory in Laurel, MD. That facility, run by the Johns Hopkins University Applied Physics Laboratory, typically hosts military officials planning intricate combat scenarios.

A spokesperson for the Applied Physics Laboratory confirmed the event, and said it was the first purely economic war game the facility has hosted. All three participants said they had been told it was the first time the Pentagon hosted a purely economic war game. A Pentagon spokesman would say only that he was not aware of the exercise.

The event was unclassified but has not been made public before. It is regarded as so sensitive that several people who participated declined to discuss the details with POLITICO. Said Steven Halliwell, managing director of a hedge fund called River Capital Management, “I’m not prepared to talk about this. I’m sorry, but I can’t talk to you.”

Officials at UBS also declined to comment.

Participants described the event as a series of simulated global calamities, including the collapse of [North Korea](#), Russian manipulation of natural gas prices, and increasing tension between China and Taiwan. “They wanted to see who makes loans to help out, what does each team do to get the other countries involved, and who decides to simply let the North Koreans collapse,” said a participant.

There were five teams: The United States, Russia, China, East Asia and “all others.” They were overseen by a “White Cell” group that functioned as referees, who decided the impact of the moves made by each team as they struggled for economic dominance.

At the end of the two days, the Chinese team emerged as the victors of the overall game – largely because the Russian and American teams had made so many moves against each other that they damaged their own standing to the benefit of the Chinese.

Bracken says he left the event with two important insights – first, that the United States needs an integrated approach to managing financial and what the Pentagon calls “kinetic” – or shooting – wars. For example he says, the U.S. Navy is involved in blockading Iran, and the U.S. is also conducting economic war against Iran in the form of sanctions. But he argues there isn’t enough coordination between the two efforts.

And second, Bracken says, the event left him questioning one prevailing assumption about economic warfare, that the Chinese would never dump dollars on the global market to attack the US economy because it would harm their own holdings at the same time. Bracken said the Chinese have a middle option between dumping and holding US dollars – they could sell dollars in increments, ratcheting up economic uncertainty in the United States without wiping out their own savings. “There’s a graduated spectrum of options here,” Bracken said.

For those who hadn’t been to a Pentagon event before, the sheer technological capacity of the Warfare Analysis Laboratory was impressive. “It was surprisingly realistic,” said a participant.

Still, the event conjures images of the ultimate Hollywood take on computer strategizing: the 1983 film “War Games” in which a young computer hacker nearly triggers a nuclear apocalypse.

The film and the reality had one similarity: The characters in the movie used a computer called WOPR, or WarOperation Plan Response. The computer system used by the real life war-gamers? It was called WALRUS, or Warfare Analysis Laboratory Registration and User Website.

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