

By MARK HOSENBALL and
MICHAEL HIRSH

IN 1930, FEW PEOPLE THOUGHT political turmoil in Germany was the most significant event in the world—not with a global Depression underway. Only the year before, in the German national elections of 1929, Adolf Hitler had still been regarded as “something of a joke, a minor figure from a fringe far-right group” whose Nazi Party managed to win just 2.6 percent of the vote and 12 seats in the Reichstag, Liaquat Ahamed writes in his magisterial new history, “Lords of Finance.” But the next year, with unemployment soaring and Berlin about to default on its international debt payments—and with the German equivalent of “Hoovervilles” rising in the cities—Hitler drew tens of thousands to his rallies by promising to restore prosperity and purge the profiteers. The Nazi Party leapt into second place in the Reichstag with 107 seats. It was the beginning of a downward political spiral that ultimately eclipsed the economic crisis that sparked it, turning the European continent into a slaughterhouse and changing the world forever.

No one sees any Hitlers on the horizon today, and the current global recession is, as yet, nowhere near as devastating as the Great Depression. But the CIA and other U.S. intelligence agencies—with the approval of President Obama—are taking a hard look at the political implications of a worldwide crisis that is being compared more and more to that earlier era. When retired Navy Adm. Dennis Blair took over as Obama’s “intelligence czar” in January, he told his staff he wanted concerns about the recession at the top of his annual “worldwide threat assessment” to Congress. Among the questions: Would Russia be destabilized? What about China and India? Does a huge new humanitarian crisis loom in Africa? As originally drafted, these economic warnings were mentioned along with more familiar issues, like terrorism. But Blair told his new staff that he wanted to do more than list his concerns about the economic crisis—he wanted to open his presentation with them. “He sharpened it,” says one intelligence official familiar with the process who would discuss it only on condition of anonymity.

Blair’s declaration to the Senate intelligence committee on Feb. 12 was blunt. No longer was fighting terrorism or stopping nuclear proliferation at the top of his agenda, though they remained important. “The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications,” the

director of national intelligence said. Last week the new CIA director, Leon Panetta, announced unexpectedly to reporters that his agency had begun to produce a new secret daily bulletin, called the Economic Intelligence Brief, to supplement the President’s Daily Brief (PDB) on more traditional threats. The new CIA assessment is distributed to top economic policymakers in the administration such as Larry Summers and Treasury Secretary Tim Geithner, and items in it may now also be included in the PDB.

Most of the intelligence community’s attention is focused on how the economic crisis could produce internal upheaval in other countries, which in turn could have an impact on U.S. foreign-policy decisions. But in an interview with NEWSWEEK, Deputy Secretary of State James Steinberg

ing the Baltic states, where the collapse of financial markets is already causing political instability, as seen in the recent ouster of the Latvian prime minister. One question is whether Russia, despite being weakened itself by the plunge in energy prices, might move to reassert influence in that region, its sphere of influence during the Cold War. Russia is also working hard to raise its profile in Central Asia at the expense of the United States. Last month Moscow persuaded Kyrgyzstan to kick the U.S. Air Force out of the Manas Air Base, compromising supply lines to Afghanistan. At the same time, Russia has offered to expedite supplies by train via Uzbekistan, which also neighbors Afghanistan. Moscow’s apparent message: we’ll help you Americans succeed in Afghanistan, but butt out of our backyard.

INTELLIGENCE

There’s a World of Trouble Out There

The CIA faces a threat it’s never been great at analyzing: the fallout from global recession.

says the administration is also concerned with ensuring that America maintain its position as global leader. The worry is that if Washington isn’t seen as staying ahead of the crisis, other countries will scapegoat the United States, protectionism will rise and the global economic system could begin to disintegrate. “History doesn’t repeat itself in the same terms,” Steinberg says. “But if we don’t find ways to work together we could well find ourselves in a beggarthy-neighbor situation not unlike in the 1930s.” One potential sign of waning U.S. influence came two weeks ago, when Secretary of State Hillary Clinton, visiting Beijing, forthrightly asked China to keep buying U.S. Treasury bonds. Clinton also said that “human-rights issues can’t interfere” with the critical U.S.-Chinese economic relationship. (Even so, Clinton later signed off on a tough human-rights report on Chinese abuses.)

The CIA’s task is, for the moment, more tightly focused than contemplating the collapse of the global system. Intelligence officials are studying the impact of the crisis on Central and Eastern Europe, includ-

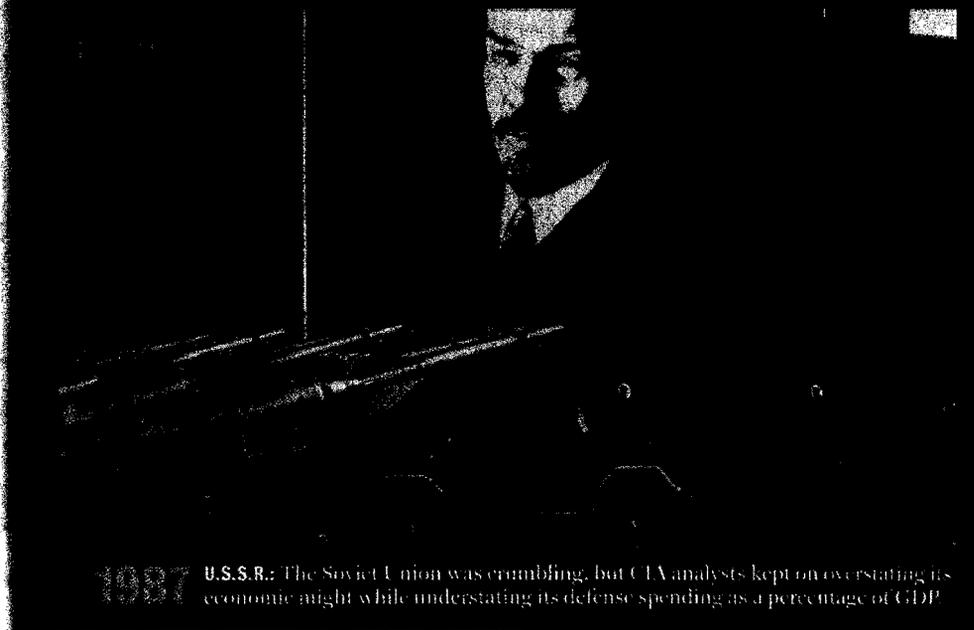
The Obama administration is also examining whether Latin America will endure a repeat of the financial crises that caused political upheaval in the ’80s and ’90s. And it is concerned that China and India may not have the economic strength to pull the world out of recession.

Some critics argue that the U.S. intelligence community is not well equipped for such a giant new task—not when it is still getting up to speed on jihadism. Melvin Goodman, a former top Soviet analyst for the CIA who now is a frequent critic of the agency, says that in the past the CIA’s reputation for economic analysis was damaged by a series of flawed predictions about trends inside the Soviet Union. The CIA was behind in estimating the behavior of the Soviet ruble, defense spending and the ultimate implosion of the Soviet economy, Goodman says. For much of the 1970s and ’80s the CIA officially reported to the president that the Soviet Union was economically stable, and that Soviet defense spending was only a small part of GDP. The agency’s leadership, ensconced in their secretive lair at Lang-

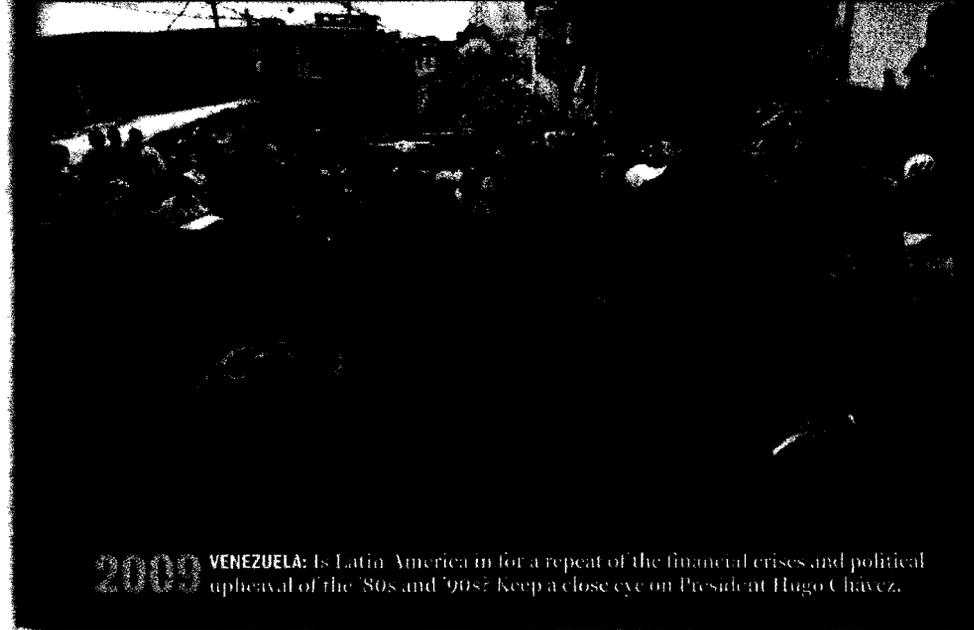
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1933 GERMANY: The world regarded Hitler as a joke until the Depression tilted German voters toward the Nazis. In March 1933 he seized power as dictator.



1987 U.S.S.R.: The Soviet Union was crumbling, but CIA analysts kept on overstating its economic might while understating its defense spending as a percentage of GDP.



2009 VENEZUELA: Is Latin America in for a repeat of the financial crises and political upheaval of the '80s and '90s? Keep a close eye on President Hugo Chávez.

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PAGES

ley, Va., ferociously rejected alternative views, including a very accurate one from Igor Birman, a young Soviet émigré. Birman, an economist, estimated that the U.S.S.R.'s defense spending was huge, at least 25 percent of GDP. That indicated the Soviet economy was in deep trouble. It was only when such outside analyses were taken onboard that government policymakers developed an accurate read of Soviet decline.

Several critics say private-sector analysts and other government departments not limited by the CIA's culture of secrecy are better suited to produce accurate predictions based on "open source" economic data. Intelligence officials counter that the CIA did produce accurate readings of the Asian financial crisis a decade ago, and they point out that Wall Street analysts

Terrorism and nuclear proliferation are no longer at the top of the agenda.

don't earn high marks themselves for predicting the current financial debacle. Philip Zelikow, a counselor to former secretary of state Condoleezza Rice who wrote one of the earliest studies of the CIA's capacity for economic analysis, defends the intelligence estimates made by individual analysts within the CIA during the Cold War, and he thinks it's good the agency is getting back into these areas. Zelikow says the government is "breaking new ground here." But he adds that the only way the new approach will work is in coordination with other domestic agencies abounding in economic expertise, like the Treasury Department and the Federal Reserve.

And because the current crisis began in America, the need for information-sharing across the government is all the greater today. As Zelikow notes, "Where it gets hard is when you have to make judgments that include analyses of what the American economy will do. The CIA doesn't like to analyze the American economy," because, he says, the agency's legal mission is to confine itself to overseas threats. "This is why the CIA alone can't do the job. But the CIA pooled together with other agencies can." We can only hope they get it right this time.

With OWEN MATTHEWS in Moscow, MELINDA LIU in Beijing and JOHN BARRY in Washington