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## Moving Up to the Big Leagues

# The Founding of the Office of Special Operations (U)

*Michael Warner and Kevin C. Ruffner*

At the end of World War II, the Truman administration dismantled the wartime Office of Strategic Services (OSS), giving most of OSS to the War Department for "salvage and liquidation." The foreign intelligence and counterintelligence capabilities of OSS went to the War Department as the "Strategic Services Unit" (SSU). This new organization, however, waited in a state of bureaucratic limbo for several months while the administration decided how to revamp the nation's intelligence establishment. In early 1946, a rough consensus emerged: the Stations, personnel and assets preserved in SSU would go to the newly created Central Intelligence Group (CIG) to form the nucleus of a permanent foreign intelligence capability. (U//FOUO)

That consensus left much unsaid. How was this transfer to be accomplished in a secure and efficient manner? Who would actually make the jump from SSU to CIG? Indeed, how would CIG structure its foreign intelligence arm, and how would it operate overseas? Perhaps the primary question was this: How long would it take before America had a peacetime human intelligence capability comparable to that of its Allies and adversaries? (U//FOUO)

These questions had to be solved in haste by a small group of decisionmakers and managers who were compelled to act with little guidance, limited consultation, and sketchy precedents for reference. The ways in which they addressed the various dilemmas would hold lasting significance for the subsequent development of the clandestine services of the CIA. By the beginning of the Korean conflict in June 1950, CIA's Office of Special Operations (OSO) had taken enormous strides, establishing not only Stations and procedures but also an operational strategy as well. OSO had not, however, had much success against the Soviet target. The ways in which the Agency dealt with this paradox would hold great significance for the development of CIA during and after the war in Korea. (U//FOUO)

## From War to Cold War

The SSU bridged the past and the future in the months after VJ Day. When OSS was disbanded on 1 October 1945, its overseas Stations and personnel were transferred overnight to the War Department. Brig. Gen. John Magruder, Director of SSU, sent the Assistant Secretary of War an

inventory of SSU's resources shortly afterward. SSU had major missions in London, Paris, Rome, Vienna, Cairo, Chungking, Calcutta, New Delhi, and Rangoon, as well as smaller posts, liaison details, and research teams scattered across Germany, the Low Countries, the Balkans, China, India, and Indochina. In all, more than 5,000 employees of SSU were working abroad, virtually all under various forms of military cover.<sup>1</sup>

Nothing changed immediately for men like Allen Dulles in Berlin, James Angleton in Rome, and Winston Scott in London. SSU officers in the American occupation zone in Germany, for example, continued to monitor local political activities, especially those of the Communist Party. Members of SSU's counterespionage branch (X-2) gathered evidence for war crimes trials of Nazi officials, searched for suspected members of Nazi underground movements, and helped recover gold and art looted by the Germans throughout Europe.<sup>2</sup> (S)

The targets of SSU shifted gradually away from wartime concerns to potential threats to American security. This reorientation was directed from Washington but implemented in response to the orders of local military and intelligence officials. Following a November 1945 conference in Wiesbaden to discuss future SSU projects in Germany, for instance, X-2 officers were directed to abandon German intelligence organizations and the chimerical Nazi underground.<sup>3</sup> SSU began to collect on all foreign intelligence services. "It was, therefore, decided," Capt. Eric Timm reported from Munich, that SSU in Germany:

*would serve the future CIA [the projected, but not yet formed CIA] best by limiting its primary targets to the gathering of information on personnel, activities, and objectives of all intelligence services. This will enable a CIA to have at its disposal central records of a worldwide nature concerning the various groups which come within this purview.*<sup>4</sup>(U//FOUO)

After a few months, it became clear that the main intelligence service of concern was that of the Soviet Union. By March 1946, Sgt. Boleslav A. Holtsman, the lone SSU/X-2 representative in Munich, finally learned that "our objective is the SIS" [Soviet intelligence services] and that "the GIS [German intelligence services] was liquidated and is to cease to figure in our consideration."<sup>5</sup> (S)

SSU's personnel situation was changing at the same time as its targets shifted. Many SSU officers and enlisted personnel returned to the United States alongside the millions of soldiers and sailors who were homeward bound for demobilization. Indeed, most of SSU's employees had left government service by 1 March 1946, when SSU's roster stood at 1,734 (with roughly 400 overseas in 24 Stations).<sup>6</sup> Such rapid demobilization brought SSU into line with its personnel targets, but General Magruder still wondered if the best people had been retained in the right jobs. "We are like an old man: the fat isn't in the right place to be handsome," he told his staff meeting in January 1946.<sup>7</sup> (U//FOUO)

## Formulating a Strategy

In the spring of 1946, the US intelligence establishment, such as it was, had to confront two issues. First was how to organize and staff the clandestine office in such a way that enhanced the

security of operations and personnel which retained strong associations with the defunct but now widely publicized OSS. Second was to how gather intelligence on Stalin's Soviet Union, a growing threat to the United States. The organization that would have to confront these two dilemmas was the newly formed CIG and its chief, the first Director of Central Intelligence (DCI), RADM Sidney W. Souers. (U//FOUO)

Souers had a crowded agenda when he became DCI in January 1946, but one of his first tasks was to decide what to do with the Strategic Services Unit. General Magruder had recommended that the tiny CIG adopt certain components of SSU while the War Department liquidated the rest.<sup>8</sup> Souers's overseers in the National Intelligence Authority soon appointed a panel to evaluate SSU and the feasibility of Magruder's idea. A six-man team, headed by Brig. Gen. Louis J. Fortier, met with SSU's leadership in early 1946, and their discussions were recorded in what appears to be an edited but contemporaneous transcript.<sup>9</sup> Anxious for the survival of their outfit and the future of American intelligence--as well as for their own careers--General Magruder and his lieutenants answered the Fortier team's questions with patience and candor. The result was a remarkably frank assessment of progress to date and a revealing glimpse of plans for the future. (C)

General Magruder prefaced the discussions with an explanation of how SSU had salvaged the pieces of OSS in an ongoing agency. "Always in the back of our thinking," he admitted, "was the idea that a central agency would emerge." In demobilizing OSS's administrative functions, for instance, "we thought in terms of maintaining experienced specialized service, personnel, and administrative units that would serve in the future not only for clandestine activities but for any other activities that a central agency might require."<sup>10</sup> (S)

After Magruder's introduction, the chiefs of SSU's espionage and counterintelligence branches briefed the Fortier team on their activities. They had to provide plenty of context to help the Board's members to understand these arcane professions, which America (that is, OSS) had learned in World War II only with prolonged British tutelage and plenty of trial and error. One committee member, for example, asked the chief of Secret Intelligence (SI), Whitney Shepardson, how SSU would go about the posting of an American spy in a faraway place like Bulgaria. Shepardson explained how, and used this opening to mention that the capability to collect clandestine intelligence from human sources was a fragile asset that had to be husbanded for truly national purposes:

*I think one of the things we have had to learn is how misleading the idea of "coverage" is. At first you think it desirable to cover a lot of areas with a lot of people. But with experience you come to ask what interest of the United States is at stake in Bulgaria, and [t]hen you ask what part of it can best be served by secret intelligence. We believe here that this job deals primarily with the security of the United States, and, therefore, that we are concerned with the intentions and capabilities of the powers who alone or in combination might influence the basic interests of the United States by bringing us into a war situation.*

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## Foreign Liaison Dilemmas

OSO's efforts to establish a clandestine service on a secure and professional basis also had to confront the various problems with liaison relationships. The old OSS in wartime had learned that certain activities (particularly in counterintelligence work) depend on close and confidential dealings with foreign services. Such contacts continued after the Axis surrender. In January 1946, for instance, General Magruder noted that SSU had ties with 10 foreign intelligence services (all wartime Allies) and "certain relations" with the services of four additional countries that had stayed neutral during the war.<sup>20</sup> The difficulty for OSO would be that of maintaining profitable liaison links while severing or altering--in as secure a manner as possible--those relationships that were not productive enough to conserve. (S)

OSO stuck to its principles for liaison contacts even in the face of temptations to compromise them. The Office's leadership confronted this dilemma even when they examined their most stable and mutually beneficial intelligence alliance: that with Britain's Secret Intelligence Service (SIS, sometimes called MI-6). The end of the war had prompted simultaneous re-evaluations of the relationship on both sides of the Atlantic. London wanted no competition from SSU or any American service in the far-flung lands of the Empire; British authorities, for instance, politely dissolved Southeast Asia Command and evicted SSU's Detachment 404 and other military cover outfits from India and Singapore. In other areas, however, British liaison contacts seemed almost too ingratiating. Senior SSU officials in the summer of 1946 fended off what must have seemed--to a young intelligence agency--tempting British proposals for joint operations and operational commands. Col. William W. Quinn, who had become the Director of SSU after General Magruder's retirement, subsequently hinted why when he complained that SIS seemed to want something that was:

*Typical of the "liaison" type of penetration wherein the preponderance of coverage being in favor of the US the British desire to tap same as their greatest source. (This liaison technique is not followed in areas where the British have preponderance of coverage and need no help from anyone.)*

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As a result of these efforts, the new OSO started life with a handpicked staff and fewer potentially compromising links to OSS and foreign liaison services. Indeed, the dissolution of SSU and the creation of OSO went so well that the new clandestine service, at least in Washington, began life with few links to the past and to other US Government agencies--including other offices in CIG (and later CIA). Colonel Galloway in August 1946, for instance, ordered OSO officers "to confine their contacts and visits to other offices of CIG to the minimum necessary to transact official business."<sup>22</sup> Outside observers--who of course could not see the new OSO--were left wondering why the United States was dismantling entire foreign intelligence organizations that had served with distinction in World War II. A *New York Times* story in May 1947, for instance, quoted anonymous sources complaining that the National Intelligence Authority had "compelled the War Department to liquidate its worldwide secret intelligence network" [SSU] as well as the FBI's Latin American intelligence operations. "Security restrictions," the article noted, "made it impossible to obtain an appraisal of the quality of the replacements and the efficiency of the new system."<sup>23</sup> (U//FOUO)

## Under Foreign Eyes

The shifting status of SSU and its components, combined with the wholesale demobilization of American overseas military units and facilities, greatly complicated clandestine operations in this period. Money was not really a problem; both SSU and OSO soon had enough to pay their bills.

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## From Theory to Practice

With an organization established and cover arranged, the OSO crafted a strategy to guide its activities. Over the course of 1946, the leadership of SSU and CIG pondered what sort of intelligence service the new office should become. Their conclusions--which they had previewed for the Fortier survey team that February--were ready to be presented to the Station and mission chiefs as a coherent whole in early 1947/

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*Without question, we are preparing to enter the big leagues in the intelligence business. For a considerable period of time during the war, the American service was recognized as being a necessarily weak but growing concern. By now we should have at least reached the period of adolescence, and we must make vigorous efforts to achieve maturity in the shortest possible time. Such maturity can be attained only through the establishment and long-continued maintenance of firm policies of operation, changes in which will be made only in response to changing conditions and not because of a rapid turnover of personnel. Professionalism in the American intelligence service is a sine qua non if we are to be accepted on anything approaching an equal basis by other professional services with longer histories.*<sup>43</sup>

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## Testing the New Order in the Field

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Theory collided with practice as OSO assumed control of SSU's field operations and initiated own activities. OSO's leaders had two major tasks: to build, as fast as possible, a worldwide clandestine service and to create from scratch a capability to collect intelligence on the Soviet Union. The difficulties involved in doing both missions simultaneously forced Galloway,

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(b)(1) [redacted] Helms, and [redacted] colleagues to accept a series of compromises as they pondered the constitutive decisions that would shape the new office. The ramifications of the [redacted] and earlier decisions on cover and targets would soon appear in places as distant as [redacted]

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## Conclusion

OSO's creation and early course embodied the consensus among America's handful of intelligence professionals that clandestine operations constitute a national, strategic asset that should be managed from Washington. The fragility of human source intelligence--its rarity and potentially great value--suggested to the cadre of experienced intelligence leaders that espionage should be tightly controlled and used only for the most important tasks. These officers sought to cut it away from potentially compromising liaison contacts and potentially distracting tasking from local American commanders and diplomats. (C)

The high goals of this strategy were perhaps too ambitious for the limited resources available to CIG and the early CIA. [REDACTED]

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Considering that the United States developed the modern discipline of foreign intelligence only after Pearl Harbor, it is truly impressive that CIA had a professional, worldwide clandestine service operating at all by 1950. OSO had started with a clean slate, carefully maintaining security and planning rational collection priorities and strategies in 1946-47. [REDACTED]

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[redacted] -but it was "competitive," and improving steadily.

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The  
compromises made in OSO's early years would influence CIA's clandestine capabilities for decades to come. (C)

## Notes

(1) John Magruder, Director, Strategic Services Unit, to John J. McCloy, Assistant Secretary of War, "Strategic Services Unit as of 1 October 1945," 9 October 1945, reprinted in Department of State, *Foreign Relations of the United States, 1945-1950, Emergence of the Intelligence Establishment* (Washington, DC: Government Printing Office, 1995), pp. 237-242. (Hereafter cited as FRUS).

(2) Secretariat, SSU, "The Office of Strategic Services on VE Day-VJ Day," 11 March 1946.

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(3) As early as 27 September 1945, OSS field stations received the following directive: "The conversion of this agency from a wartime to a peacetime basis brings with it a shift in emphasis in counter-espionage targets. No longer are the German and Japanese Intelligence Services the focal point of our attention. Instead, all foreign intelligence services, and personnel connected thereto, now become the legitimate object of observation and study for this Branch." JJ1 to All Field Stations, 27 September 1945, X010-927, [redacted] (b)(3)(c)

(4) 1st Lt. Sidney H. Lenington, Deputy Chief, SSU/X-2, Germany to SAINT, Washington, "Semi-Monthly Reports," 12 December 1945, LMX-005-1130, enclosing Timm to Commanding Officer, SSU/X-2 Germany, "Semi-Monthly Operations Report SCI Munich," 15 November 1945, LMX-005-1130, in WASH-REG-INT-163, Record Group 226, Records of the Office of Strategic Services, Entry 108A, Box 275, (no folder listed), National Archives and Records Administration (NARA).

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(6) CIG, "Report of Survey of Strategic Services Unit under CIG Directive No. 1" [the Fortier Report], 14 March 1946, reprinted in FRUS, p. 259 (U). The number of stations is adduced from

the fact that X-2 had 24 missions at that time, and that SSU had 23 stations in May 1946;

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(7) [redacted] (b)(1)  
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 [redacted] (b)(3)(n)

(8) S. Leroy Irwin, Interim Activities Director, War Department, to John J. McCloy, Assistant Secretary of War, "Tentative Plan for Disposition of Strategic Services Unit," 28 January 1946. reprinted in FRUS, p. 250 (U); [redacted] (b)(1)

(9) President Truman's advisers were the Secretaries of State, War, and Navy, plus his personal representative, Adm. William Leahy of the Joint Chiefs of Staff; they met together as the National Intelligence Authority and commissioned the Fortier Board in "CIG Directive number 1" of 19 February 1946. That directive and the Board's 14 March 1946 report are reprinted in FRUS, pp. 255-271 (U). The transcript of the Board's sessions is Strategic Services Unit. "Factfinding Board--Minutes of Meetings," February-March 1946, [redacted] (b)(3)(n)  
 [redacted] (b)(3)(c)

(10) "Factfinding Board--Minutes of meetings," minutes of 20 February 1946 morning session, p. 2. (S)

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(12) *Ibid.*, pp. 15-16 (S)

(13) SSU, "Factfinding Board--Minutes of Meetings," minutes of 6 March 1946 session, p. 11 (Secret).

(14) *Ibid.*, p. 12. (S)

(15) *Ibid.*, p. 2. (S)

(16) *Ibid.*, p. 6. (S)

(17) The title "Assistant Director" is equivalent to the modern CIA position of "Deputy Director," denoting a rank subordinate only to the Director of Central Intelligence and the Deputy Director of Central Intelligence. The second-in-command at OSO held the title "Deputy Assistant Director for Special Operations," or DADSO. (U)

(18) OSO hired [redacted] SSU's remaining field personnel but only [redacted] SSU headquarters. Various administrative offices of CIG acquired an additional [redacted] SSU personnel in Washington. SSU ceased to exist as an active intelligence organization on 11 April 1947. (b)(1)  
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(20) John Magruder to S. Leroy Irwin, Interim Activities Director, War Department, "Assets of SSU for Peace-time Intelligence Procurement," 15 January 1946, in Michael Warner, ed., *The CIA Under Harry Truman* (Washington, DC: Center for the Study of Intelligence, 1994), p. 23.

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(22) Galloway's order--CIG Administration Order No. 8,

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(23) Anthony Leviero, "Army's World Intelligence Ring Reported Halted by New Agency," *The New York Times*, 21 May 1947, p. 1. (U)

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The new guidance was codified in General Operational Instruction no. 1, approved by Galloway three weeks earlier.

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to Richard M. Helms, Chief, Foreign Branch

here was echoing the March 1946 statement by the Fortier Report that CIG needed "a plan which will permit the special development of purely clandestine intelligence operations...leaving more overt United States Government intelligence collection activities to other agencies prepared and authorized to act in the field with a minimum of embarrassment to the United States." Central Intelligence Group, "Report of Survey of Strategic Services Unit Under CIG Directive No. 1" [the Fortier Report], 14 March 1946, reprinted in FRUS, p. 266. (S)

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(b)(3)(c) to Colonel Galloway. "Report on European Trip." 22 February 1947,

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(45) Acting Chief, SPD-S, to Colonel Galloway, "General Report on Strategic Operations in Europe," 25 February 1947, (b)(3)(c)

(46) [redacted] to Helms, 3 February 1947, (b)(3)(c)

(47) [redacted] (b)(1)  
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(48) (b)(3)(c) to Helms, 3 February 1947. (S)

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