PLANNING FOR POSTWAR ECONOMIC COOPERATION

U.S. TREASURY, THE SOVIET UNION, AND BRETTON WOODS

1933-1946

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A Digest Presented to the Faculty of the Graduate
School of Saint Louis University in Partial
Fulfillment of the Requirements for the
Degree of Doctor of Philosophy

2000

DIGEST

Franklin Roosevelt determined that the postwar political and economic settlement of his administration would be based on a new set of principles and assumptions. The framework sketched by FDR included collective security, mulitlateralism, and mutually beneficial economic and trade relations based on equal access to markets and raw materials, free trade, and currency convertibility. Roosevelt believed that the Soviet Union would play a constructive part and prove a willing partner in the envisioned postwar international order. Through continual demonstrations of American friendship, accommodation, and good will the suspicion and hostility that clouded the relations between the nations could be dispersed.

It was the task of Treasury Secretary Henry Morgenthau Jr. to translate these rhetorical generalities, which he fully shared, into a plan for postwar international monetary cooperation. Morgenthau assigned his subordinate Harry Dexter White the responsibility for planning what became known as the Bretton Woods institutions, the International Monetary Fund (IMF) and the International Bank for Re-construction and Development (IBRD or World Bank).

The dissertation closely examines the efforts of White and the administration to integrate the unique features of the Soviet monetary and trade system with the stated principles of the IMF. In spite of the best efforts of White and the administration and numerous concessions granted during negotiations, the Kremlin ultimately decided not to ratify the Bretton Woods agreements. An assessment of Treasury's planning and negotiations vis-à-vis the Soviet Union suggest that White's choice to use gold as the link to connect the Soviet Union to the IMF was not practicable and was but one example of flawed Treasury negotiating strategy.

This study rejects the charge that White shaped the IMF to serve the interests of the Soviet Union to the detriment of the United States. However this study does conclude that newly-available archival material demonstrates that the Bretton Woods negotiations were "compromised." Through information supplied by White and other Treasury employees Stalin was fully informed on the American negotiating position and strategy. This new information demands a fundamental reassessment not just of the Bretton Woods negotiations, but the whole of wartime Soviet-American economic and political relations.

CHAPTER 1

BRETTON WOODS AS HISTORY

The origin and operations of the Bretton Woods institutions, the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (IBRD), have received an enormous amount of attention from historians, economists, and political scientists. This is due, no doubt, to the belief that these institutions contributed to, or were responsible for, the unprecedented and sustained growth of national economies, trade, and international investment and the low rate of inflation enjoyed by the United States, Western Europe, and Japan between 1945 and the early 1970s. Bretton Woods became a shorthand way to refer to the international, multilateral, capitalist, monetary system based on stable exchange rates supervised by the supranational authority of the IMF.[1]

Accounts of the origin of the IMF have focused primarily, if not exclusively, on the competing versions of international monetary stabilization

[1]The best single work on this issue is Michael D. Bordo and Barry Eichengreen, eds., A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform (Chicago: University of Chicago Press, 1993). This volume of thematic essays considers both the historical and the quantitative dimension of the regime. For a consideration of the international monetary regime since 1971 see Harold James, International Monetary Cooperation Since Bretton Woods (New York: Oxford University Press, 1996).

suggested by John Maynard Keynes of Great Britain and Harry Dexter White of the United States Treasury. The consensus is that the Bretton Woods institutions are more the product of White's proposals than Keynes', though important concessions were made by the Americans during the negotiations. White "won" the struggle to supply the blueprint and framework for the postwar international monetary system.[2]

However White was not able to secure another goal of equal significance, the participation of the Soviet Union in the postwar monetary regime. For White, Henry Morgenthau, Jr., the Secretary of the Treasury, and President Franklin Delano Roosevelt, the monetary negotiations offered the first opportunity to realize their goal of securing the peace through multilateral agreements among the Allied powers. Bretton Woods was to serve as the basis for postwar monetary and economic

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[2]Two recent works are Armand Van Dormael, Bretton Woods: Birth of a Monetary System (London: Macmillan, 1978), and Georg Schild, Bretton Woods and Dumbarton Oaks: American Economic and Political Postwar Planning in the Summer of 1944 (New York: St. Martin's Press, 1995). Van Dormael focuses on the Anglo-American rivalry, Schild on the competing visions of State and Treasury, or political and economic, in postwar planning. Earlier accounts include Richard N. Gardner, Sterling Dollar Diplomacy in Current Perspective (New York: Columbia University Press, 1980); idem, Sterling-Dollar Diplomacy (New York: McGraw-Hill, 1969); and Alfred Eckes, A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971 (Austin: University of Texas Press, 1975). The semi-official history of the IMF is J. Keith Horsefield, The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation, 3 vols. (Washington D.C.: International Monetary Fund, 1969). For a

cooperation as the later Dumbarton Oaks arrangement would serve for diplomatic and political.[3]

The Soviet Union participated in the Dumbarton Oaks meetings, attended the San Francisco Conference, and joined the United Nations. The Kremlin participated in negotiations prior to the Bretton Woods conference, played a substantial and conspicuous role in the July 1944 meetings, and endorsed the agreements reached at the end of the conference, but never ratified the agreements, allowing the deadline to pass without action or comment.

The story of the administration's efforts to secure Soviet participation in postwar monetary and economic institutions and the Kremlin's apparent initial interest and ultimate indifference or aversion has been almost completely overlooked or neglected by historians, economists, and political scientists. It is understandable that economists and political

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history of the IBRD see Robert Oliver, International Economic Cooperation and the World Bank (London: Macmillan, 1975).

[3]For American planning during the war see Harley Notter, Postwar Foreign Policy Preparations 1939-1945 (Washington D.C.: Department of State, 1950), for the UN Ruth Russell, A History of the United Nations Charter: The Role of the United States 1940-1945 (Washington D.C.: Brookings, 1958). For the transformation from isolationism to internationalism Robert Divine, Second Chance: The Triumph of Internationalism in America During World War II (New York: Athenaeum, 1967). For FDR's changing and sometimes contradictory views on postwar arrangements see Gaddis Smith, American Diplomacy During the Second World War 1941-1945 (New York: John Wiley and Sons, 1965) and Robert Dallek, Franklin D. Roosevelt and American Foreign Policy 1932-1945 (New York: Oxford University Press, 1995).

scientists with their bias toward the practical, utilitarian, and functional should find little of interest in the failed American-Soviet Bretton Woods negotiations.[4]

It is harder to understand why historians have not investigated this episode in American-Soviet diplomatic and economic history. The Kremlin and Bretton Woods appear in two types of works, those dealing with the origin of the "Cold War," and those which examine the growth of American economic "hegemony."[5] There is apparently one issue on which the various "schools" of Cold War history can agree, that the Kremlin's initial interest in and ultimate rejection of the IMF and IBRD does not merit a significant place in the narrative tracing the transformation of close wartime collaboration into postwar hostility and the Cold War.[6]

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[4]However an account of these negotiations appeared in a volume sponsored by the World Peace Foundation in which a number of American-Soviet exchanges were considered. See Raymond Mikesell, "Negotiating Bretton Woods, 1944," in Negotiating With the Russians, eds. Raymond Dennett and Joseph E. Johnson (Boston: World Peace Foundation, 1951), 101-118._

[5]As will be explained this term is used in both the descriptive and the pejorative sense.

[6]Bretton Woods appears as a peripheral issue in the only book that focuses closely on American-Soviet economic relations 1941-1945 Leon Martel's, Lend Lease, Loans, and the Coming of the Cold War (Boulder: Westview Press, 1979). Pollard notes that "Moscow's failure to ratify Bretton Woods provides important insights to the origins of the Cold War," but does not provide much in the way of primary source research or analysis. Robert Pollard, Economic Security and the Origins of the Cold War 1945-1950 (New York: Columbia University Press, 1985), 10. Leffler only mentions Bretton Woods as an example of Soviet activities in early 1946.

The issue of American "hegemony" is perhaps more interesting but provides only slightly more illumination on Soviet "non-participation." For one school "hegemony" means the single-minded pursuit of American self-interest and prosperity at the expense of the rest of the world. The IMF and the IBRD, free trade, and multilateralism are the mechanisms by which American business and financial interests exploit foreigners and expropriate profits. During the war the New Deal had been captured by businessmen and the free trade fixation of Secretary of State Cordell Hull. For this group Soviet non-participation was in the national self-interest and was the reasoned response of the Kremlin to efforts to impose the predatory IMF and IBRD.[7]

However there is another, antipodal, view of American "hegemony." In this interpretation it is only

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See Melvyn Leffler, A Preponderance of Power (Stanford: Stanford University Press, 1992), 104. There is no mention of Bretton Woods in Daniel Yergin's, Shattered Peace: The Origins of the Cold War and the National Security State (Boston: Houghton Mifflin, 1978). With the opening of some Soviet-era archives after 1989 an attempt has been made to integrate the new archival material. See John Lewis Gaddis, We Now Know: Rethinking Cold War History (New York: Oxford University Press, 1997), especially 192-195.

[7]For example see Lloyd Gardner, Architects of Illusion: Men and Ideas in American Foreign Policy 1941-1949 (Chicago: Quadrangle Books, 1970), Thomas Paterson, Soviet-American Confrontation: Postwar Reconstruction and the Origin of the Cold War (Baltimore: John Hopkins University Press, 1973), Gabriel Kolko, The Politics of War: The World and United States Foreign Policy 1943-1945 (New York: Pantheon Books, 1990), and G. William Domhoff, The Power Elite and the State: How Policy is Made in America (New York: Aldine de Gruyter, 1990), 153-186.

through the leadership of a "hegemon," the biggest creditor nation, that international economic chaos and disorder can be ended and general prosperity secured. The depression was the result of the inability of Great Britain to continue to act as the hegemon and the unwillingness of the United States to do so. It was only during the war when "idealist internationalists" in the New Deal recognized this that a new international regime could be established. The IMF and IBRD, multilateralism, and free trade were necessary preconditions to full employment, a rising standard of living, and international economic prosperity and growth. Bretton Woods completed the transfer of monetary and economic management from Wall Street and private financial interests to national governments committed to full employment and prosperity. In the words of Secretary Morgenthau the Bretton Woods system was the effort to supply a "New Deal for a New World."[8]

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[8]The debate over the necessity of a hegemon for international economic operations began with Charles Kindelberger, The World in Depression 1929-1939 (Berkeley: University of California Press, 1973). For later developments see Benjamin Rowland, ed., Balance of Power or Hegemony: The Interwar Monetary System (New York: New York University Press, 1976) and Barry Eichengreen, Elusive Stability: Essays in the History of International Finance 1919-1939 (Cambridge: Cambridge University Press, 1990). The "idealist internationalists" characterization is from Fred Block, The Origins of International Economic Disorder (Berkeley: University of California Press, 1977), 33-45. For Morgenthau's views and the New Deal understanding of Bretton Woods see John Morton Blum, From the Morgenthau Diaries, vol. 3, Years of War 1941-1945 (Boston: Houghton Mifflin, 1967), 228-240.

For the "idealist internationalists" Soviet non-participation is variously ascribed to Stalin's suspicion and paranoia, the deteriorating relations between Moscow and Washington, the result of a power struggle in the Kremlin in which economic cooperation with the West was made into an issue, or Soviet incomprehension of the basic and fundamental features of capitalist economies and political systems.[9]

In an effort to provide at least a partial answer to the question of Soviet non-participation in Bretton Woods this study will examine a heretofore neglected question; namely, how effective and intelligent was Treasury's effort to formulate a postwar monetary regime that would prove compatible with the peculiar features and demands of the Soviet economic and monetary system? In order to answer this question some related questions must first be answered. Did Treasury take into account American-Soviet monetary, trade, and economic relations and experience in the interwar period in formulating its monetary proposals? Were the fundamental structures and constraints of the Soviet monetary and trade system understood and allowances

[9]Almost all of the non-"revisionist" historians have advanced one or more of these explanations. For example see William Taubman, Stalin's American Policy: From Entente to Détente to Cold War (New York: W. W. Norton, 1982). The Kremlin power struggle explanation can be found in William McCagg, Stalin Embattled 1943-1948, (Detroit: Wayne State University Press, 1978).

made in drafting proposals? Did American representatives negotiate effectively with their Soviet counterparts and did negotiations contribute to mutual understanding and cooperation?

The relevant Treasury Department records are available and have not yet been systematically examined. Since 1989 archival materials from the Soviet era have provided a much clearer picture of the Kremlin's activities, operations, and opinions in this period, but only a small number of documents have a direct bearing on Bretton Woods. However these documents are useful for providing the necessary background for Kremlin economic and postwar decision making. In addition there are the as yet untapped wartime Soviet publications and public pronouncements bearing on Bretton Woods and economic and monetary issues.

The last few years have brought an additional reason to reexamine Treasury and Bretton Woods. Twenty years after the collapse of fixed gold-dollar-currency convertibility and the revival of managed currency floats and flexible exchange, the language and conditions of the international economy would be one very familiar to White. In the 1990s, like the 1930s, "hot money" movements destabilize national economies, "exchange speculators" mount "attacks" on weak currencies, the fear of "deflation" forces domestic monetary adjustments, and the devaluation of one currency sets off a round of competitive devaluations. The devaluations of the peso, bhat, ringgit, won, ruble, and cruziero in the 1990s mirror the devaluations of the pound sterling, dollar, and franc in the 1930s. While there is no consensus on the solution to current international monetary instability, many look to the stable and fixed exchange rates and orderly capital movements under Bretton Woods as an answer.[10]

Finally there is the revived interest in the career and legacy of Harry Dexter White. He is recognized as the individual most responsible for the stable international exchange and investment regime that stands in stark contrast to contemporary exchange rate instability and continued devaluation crises. While White clearly was only one of many who worked in the 1930s and 1940s for international economic cooperation, economists and historians are interested in examining White as an economist and the role he

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[10]For the 1990s devaluations see Nicholas Kristoff, David Sanger, and Sheryl WuDunn, "Global Contagion: A Narrative," New York Times, four parts, February 15-18, 1999. For suggested reforms see Agis Salpukas, "Remodel World Bank and IMF, Blair Urges," New York Times, September 22, 1998.

played in forging the international monetary consensus that resulted in the Bretton Woods agreements.[11]

White's accomplishments have been somewhat overshadowed by the accusations made public in 1948 that he supplied information to the Kremlin in the 1930s and again in the 1940s. These charges were made by Whittaker Chambers and Elizabeth Bentley, both of whom identified themselves as members of the Soviet espionage apparatus. In addition Bentley said White helped to secure employment for Communists or Communist sympathizers in the administration and tried to influence policy in ways beneficial to the Soviet Union. In 1948 White testified before a federal grand jury in New York on the Bentley charges and at the House Un-American Activities Committee (HUAC). White died only days after his HUAC testimony, and the charges against him were never resolved. However in late 1948 Chambers produced a memorandum which was later determined to be in White's hand. Chambers testified that White had supplied the document before Chambers left the party in 1938.[12]

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[11]See James Boughton, "Harry Dexter White and the International Monetary Fund," Finance and Development 35 (September 1998): 10-16. Boughton is the official historian of the IMF.

[12]For Chambers and the charges he made see Whittaker Chambers, Witness (New York: Random House, 1952), 67-68, 320, 383-384, 429-432, idem, "The Herring and the Thing," Look, December 29, 1953, 14-18, idem, "Close-Up of a Ghost," Life, November 23, 1955, 29-

In 1953 the question of White's loyalty was revived by Herbert Brownell, Attorney General of the new Eisenhower administration, who accused Harry S Truman of appointing White executive director of the IMF in 1946 even though Truman supposedly had already been informed of White's spying activities. Again no conclusion was reached concerning White's activities, but a number of serious allegations were made by Republicans who charged White with actions that benefited the Soviet Union and harmed the United States.[13]

35, and Sam Tannenhaus, Whittaker Chambers: A Biography (New York: Random House, 1997), 218-222, 246, 479. For Bentley's accusations see Elizabeth Bentley, Out of Bondage: The Story of Elizabeth Bentley (New York: Devin-Adair, 1951), 164-165. The testimony of Chambers and Bentley can be found in U.S. Congress. House. Committee on Un-American Activities. Communist Espionage in the United States Government. 80th Cong., 2nd., sess., 1948-1950. Washington, D.C.: U.S. Government Printing Office, 1950, Committee on Un-American Activities. Hearings Regarding Communist Espionage in the United States--Part II 81st Cong., 2nd sess., December 1948, Washington, D.C.: U.S. Government Printing Office, 1950, and Committee on Un-American Activities. Hearings Regarding Communist Espionage in the United States-Part I 80th Cong., 2nd sess., April-August 1948-June 1950, Washington, D.C.: U.S. Government Printing Office, 1950. The only biography of White considers, without reaching any firm conclusions, some of these charges. See David Rees, Harry Dexter White: A Study in Paradox, (New York: Coward, McCann & Geohegan, 1973). A recent dissertation closely examines the testimony of Chambers and Bentley. See Bruce Craig, "Treasonable Doubt: The Harry Dexter White Case 1948-1953" (Ph.D. diss., American University, 1999).

[13]The Republican charges against White and others can be found in U.S. Congress. Senate. Committee on the Judiciary, Subcommittee to Investigate the Administration of the Internal Security Act and Other Internal Security Laws. Interlocking Subversion in Government Departments. Hearings, 30 parts. 83rd and 84th Cong., 1953-1954. Washington, D.C.: GPO, 1953-1956. Both Rees, White, and Craig, "Treasonable Doubt," examine some of the specific charges. Among these that White supplied plates to print German occupation currency without proper authorization for the benefit of the Kremlin, that he suggested the "Morgenthau Plan" for the "pastoralization" of Germany to aid Communism in Germany, that he

Confirmation that White was a "covert source" to the Kremlin in 1944-1945 came with the release in 1995 of the "Venona" materials, the term used for a number of decrypted cables sent from various embassies and consulates to Moscow between 1941 and 1945.[14] Assuming that the identification of the code name with the individual is correct, Harry Dexter White appears fifteen times either as supplying information or as the subject of discussions between other "covert sources" and their controllers. This material has no direct bearing on the Chambers charges of White's spying in the 1930s, but shows White was actively passing along oral reports during the war on subjects of interest to, and to the advantage of, the Kremlin; the terms of a proposed postwar loan to the Soviet Union, American

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held up a gold loan to the Nationalist government in China in order to destabilize it and help the Chinese Communist Party, and that the IMF and IBRD were engineered to help the Soviet Union. None of these charges were made by a responsible investigative or judicial agency. White's brother Nathan attempted to refute each of the charges in Nathan White, Harry D. White: Loyal American (Waban, Mass.: Bessie (White) Bloom, 1956). Craig, "Treasonable Doubt," dismisses the charges but allows that White knowingly supplied sensitive information to Soviet agents.

[14]There are over 2,000 cables, many partial or fragmentary, that were decrypted. Only a small portion of these have a direct bearing on White and Treasury. See Robert Louis Benson and Michael Warner, eds., Venona: Soviet Espionage and the American Response 1939-1957 (Washington, D.C.: National Security Agency and Central Intelligence Agency, 1996), and Robert Benson, Venona Historical Monograph 3: The 1944-45 New York and Washington-Moscow KGB Messages (Fort Meade, Maryland: Center for Cryptologic History, n.d.).

negotiating strategy at the San Francisco Conference, and occupation currency arrangements in Germany.[15]

Some efforts have been made to integrate this new material into the earlier charges made by Chambers and Bentley, the subsequent charges made by Republican politicians, and the policies and operations of the Treasury in this period. The results of this effort are less than completely satisfying.[16] Simply put, not enough preliminary research has been completed on White or Treasury in this period to allow for a serious or informed assessment to be made concerning "espionage." One purpose of this work is to supply that background for the International Monetary Fund and the Bretton Woods negotiations so that an assessment of White's role in these can be made.

Before any assessment of White's career can be made, an account must be provided of New Deal monetary policy and international monetary operations and relations that influenced, shaped, and constrained

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[15]For example see "Kol'tsov's Account of a Conversation With Jurist," New York to Moscow, August 4-5, 1944. National Security Agency, Third Venona Release: Volume 2, (Fort Meade, Maryland: National Security Agency, 1996), 13-16.

[16]The best work to date is John Earl Haynes and Harvey Klehr, Venona, Decoding Soviet Espionage in America (New Haven: Yale, 1999), especially 125-143. Yet even this is marred by small factual errors and demonstrates a lack of knowledge of Treasury administration and operations. Also see Allen Weinstein and Alexander Vassiliev, The Haunted Wood: Soviet Espionage in

White when he later drafted the "White Plan." New Deal monetary and gold policy also provides the background for American-Soviet monetary and economic relations before World War II.

America-The Stalin Era (New York: Random House, 1999), 161-169,

CHAPTER 2

TREASURY AND AMERICAN MONETARY POLICY, 1933-1936

New Deal monetary policy was not the product of Franklin Roosevelt's economic philosophy, the monetary heritage of the Democratic party, "brains trust" professors, or any influential school of academic economists. Rather, FDR fashioned a monetary policy, and thereby an international position, in a series of steps between his inauguration in March 1933 and September 1936. Experimentation, plans adopted and quickly discarded, secrecy, special advisors, and sudden determinations characterized New Deal monetary policy as it characterized much else in Roosevelt's twelve years as president.[17] The steps taken by Roosevelt and his allies and advisors would have a tremendous immediate impact and far reaching consequences on the international position of the United States and the economic, monetary, and trade relations of the depression. Treasury's planning for postwar international monetary cooperation was, in many

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265-267.

[17]Roosevelt's managerial style is well-known and has elicited comment from all of his biographers and most historians of the New Deal. Of particular interest are the comments of Arthur M. Schlesinger Jr., The Age of Roosevelt, vol. 2, The Coming of the New Deal (Boston: Houghton Mifflin, 1958), 511-588, James MacGregor Burns, Roosevelt: The Lion and the Fox (New York: Harcourt, Brace, & World, 1956), 457-487, and Kenneth S. Davis,

ways, fundamentally shaped by Roosevelt's monetary manipulations.

In the summer of 1933 the question that Roosevelt faced was would recovery more likely begin through international cooperation on monetary, tariff, and trade issues or should the United States concentrate on national efforts to revive economic activity and reject international cooperation, which would limit the nation's freedom of action. In late June 1933 FDR decided against international cooperation in favor of a "nationalist" solution to the problems of the depression. An American delegation, led by Secretary of State Cordell Hull, was in London at the World Economic Conference to discuss means to help stimulate economic recovery. During the course of the conference a declaration concerning exchange rate stabilization, with the prospect of an eventual return to the gold standard, was offered by the gold bloc for American approval.[18] The declaration did not go much beyond

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FDR: The New Deal Years, 1933-1937 (New York: Random House, 1986), especially 198-214, 675-676.

[18]Until September 1931 the world's monetary and international exchange system operated on the gold standard. Each nation's currency was expressed as a specific weight of gold, usually fixed by law. Currencies could be exchanged for gold on demand, and gold or currency movements were used to conclude international transactions. For a short account of the operations of the gold standard see Barry Eichengreen, Golden Fetters: The Gold Standard and the Great Depression (New York: Oxford University Press, 1995), 4-12. After World War I a modified "gold-exchange" standard was in operation. See League of Nations, International

platitudes, and conformed with public statements issued by the President as well as resolutions drawn up by the American delegation prior to the conference.[19] Moreover the declaration was thought to embody Roosevelt's position on international economic cooperation expressed to British Prime Minister Ramsay MacDonald and French representative Edouard Herriot in talks preliminary to the conference.[20] Raymond Moley, an economic adviser to the president serving in the State Department, conveyed from London the "perfectly

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Currency Experience (Princeton: League of Nations, 1944), 27-41. In September 1931 Great Britain went "off" gold, refusing to export gold for international payments or exchange sterling for gold. The gold bloc consisted of those nations that were still on the gold-exchange standard, France, Belgium, Switzerland, the Netherlands, Poland, and Czechoslovakia. An account of the conference from the American point of view can be found in Jeanette Nichols, "Roosevelt's Monetary Diplomacy in 1933," The American Historical Review 56 (January 1951): 295-317. For a comparative account looking at long term developments and international cooperation under the League of Nations see Stephen V. O. Clarke, The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933 (Princeton: International Finance Section, Department of Economics, 1973).

[19]FDR's statement of May 16th. "The Conference must establish order in place of the present chaos by a stabilization of currencies, by freeing the flow of world trade, and by international actions to raise price levels." "Roosevelt Scraps Policy of Economic Nationalism to Assist World Parley," New York Times, May 16, 1933. For the resolutions passed by the delegation see Paul A. Warburg, The Money Muddle (New York: Alfred A. Knopf, 1935), 107-113 and Herbert Feis, 1933: Characters In Crisis (Boston: Little, Brown, 1965), 144-152. For preliminary conference planning and goals see League of Nations, The Program for the World Economic Conference: The Experts Agenda and Other Documents (Boston: World Peace Foundation, 1933).

[20]For these meetings see Feis, 1933, 132-143 and Franklin Roosevelt, On Our Way (New York: John Day Company, 1934), 113-115.

innocuous" declaration to the President for his approval.[21]

Roosevelt categorically rejected cooperation in exchange rate stabilization, the gold standard, and other "old fetishes of so-called international bankers" for:

> efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not vary greatly in terms of commodities and need of modern civilization. . . . [t]he United States seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to obtain in the near future.[22]

This message ended the hope that the London Conference would produce international economic, trade, or monetary cooperation. Roosevelt's statement elicited hostile comments in the European press and was a hard blow to British Prime Minister Ramsay MacDonald, who had invested a great deal in the success of the conference. Although negotiations continued for another three weeks and produced some minor agreements,

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[21]The quote is from Warburg, Money Muddle, 116. Also see Raymond Moley, After Seven Years (New York: Harper & Brothers, 1939), 238-256.

[22]Samuel Rosenman, ed., The Public Papers and Addresses of Franklin Roosevelt, vol. 2, The Year of Crisis 1933 (New York: Random House, 1938), 264.

a solution to the depression would not be found through international cooperation.[23]

Roosevelt decided that exchange rate stabilization at the current levels would make impracticable if not impossible the solution of what he identified as the critical and immediate problems facing the United States, collapsed commodity prices and the severely deflated dollar. "A sufficient interval should be allowed the United States to permit . . . a demonstration of the value of price lifting efforts which we have well in hand."[24] The president had two goals in mind in the summer of 1933, a substantial rise in commodity prices, and dollar "reflation," a return to the purchasing power of the 1926 "honest dollar." These considerations compelled FDR to reject international monetary cooperation for "the economics of nationalism."[25]

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[23]For the reaction of the European press see Schlesinger, Coming of the New Deal, 224-225. The "bombshell" message caused the first division in the Roosevelt circle. Paul Warburg left the American delegation before the conclusion of the Conference and, though he was consulted by FDR from time, moved to an anti-New Deal position. See Irving S. Michelman, "A Banker in the New Deal, James P. Warburg," in The Great Depression and the New Deal: The American Economy During the Great Depression, ed. Melvyn Dubofsky and Stephen Burwood (New York: Garland, 1990). Raymond Moley never regained his close relationship with FDR after the conference and soon drifted out of government service. Secretary Hull gained some success in tariff and trade matters. See Michael Butler, Cautious Visionary: Cordell Hull and Trade Reform (Kent, Ohio: Kent State University Press, 1998), 46-81.

[24]Quote is from Schlesinger, Coming of the New Deal, 221.

Roosevelt had hoped to achieve these goals through the steps he had taken since his inauguration on March 4. On March 6 a national bank holiday was declared by presidential proclamation. Among the provisions gold withdrawals from banks and gold exports to settle international accounts were forbidden. One of the justifications for the gold order was the fear that domestic hoarding and international demand for the metal would add additional deflationary pressure on the already severely deflated dollar.[26]

A month later the president issued an executive order that "nationalized" gold. All gold coins, gold certificates, and gold bullion in private hands and all bank gold reserves were to be turned over to the Federal Reserve. Holders of gold were paid the American statutory price of $20.67 an ounce, although the world price then stood at $29.62. On April 20 a second executive order announced that the United States would no longer allow the export of gold under license "for

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[25]This characterization is Schlesinger's, Coming of the New Deal, 177-194. The majority of the administration, Rexford Tugwell, Adolph Berle, Hugh Johnson, and Raymond Moley, believed that the solution to the depression would be found through adjustments in business structure and capital-labor relations, a "nationalist" solution. Cordell Hull and Henry Wallace believed recovery would be stimulated through increasing levels of international trade, the "internationalist" position.

[26]For the proclamation see Rosenman, Papers 1933, 24-26. An explanation of the proclamation follows 26-29. Also see Roosevelt, On Our Way, 58-63.

the purpose of supporting the dollar in foreign exchange."[27]

The primary reason for stopping gold exports was to force a devaluation of the dollar, since there was no lack of gold to back the currency. Roosevelt believed that going off gold would have two beneficial and immediate effects, raising commodity prices and lowering the dollar against the British pound sterling.[28] After Britain left gold in September 1931, the pound had fallen relative to the dollar, making American exports more costly and less attractive. By June 1933, when the London message reached FDR, it was clear that leaving gold had not provided the desired commodity price levels or dollar depreciation.[29]

FDR rejected international cooperation for "the economics of nationalism," but there was no agreement of how "reflation" or the rise of commodity prices could be accomplished. His economic advisors, Raymond

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[27]Rosenman, Papers 1933, 110-114. An explanation follows 114-116. Also see Roosevelt, On Our Way, 58-63.

[28]"As far as gold movements were concerned, the dollar was under no great strain, and the resources available for its support had scarcely been tapped. . . It was not, then, an inability to meet potential foreign demands for gold that contributed the impetus to the abandonment of the gold standard; rather, it was the requirements, or what were felt to be the requirements, of domestic policy." G. Griffith Johnson, The Treasury and Monetary Policy 1933-1938 (Cambridge: Harvard University Press, 1939), 12.

[29]This is the consensus view. See Johnson, Treasury, 18-20, James Paris, Monetary Polices of the United States 1932-1938 (New York:

Moley, Adolph Berle, and Rexford Tugwell disagreed among themselves as to the precise nature and proposed solutions of the American economic crisis. But each was more concerned with industrial and organizational issues than commodity prices and "reflation." And all three were orthodox on monetary matters and were hostile to "monetary manipulation."[30]

Roosevelt also found little interest in commodity prices or reflation from other quarters of his administration. The Treasury Secretary, William Woodin, was incapacitated for much of the summer due to illness. Acting Secretary Dean Acheson, new to government service, was cautious on monetary issues. Farm legislation developed by Congress and the administration supplied no immediate solution to collapsed commodity prices and no solution at all to effect reflation. Secretary Hull at State concentrated on tariff reduction and international trade agreements, long-term solutions that again offered no immediate relief.[31]

Columbia University Press, 1938), 101-108, and Schlesinger, Coming of the New Deal, 246-248.

[30]For influences on FDR's economic thinking before 1933 see Daniel Fusfeld, The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal (New York: Columbia University Press, 1956), 207-250. For his advisors and the monetary approach to recovery see William J. Barber, Designs Within Disorder (New York: Cambridge University Press, 1996), 5-9.

Outside the administration, however, there was a wide array of opinions and proposed solutions to raise commodity prices and "reflate" the dollar, most stemming from traditions of rural Democratic inflation and bi-metalism. Roosevelt resisted legislation that obliged particular action on his part, and the administration was relieved that the Wheeler amendment, mandating free coinage of silver at sixteen to one, was narrowly defeated.[32] A second Congressional inflationary measure was introduced as the Thomas amendment to the Agricultural Adjustment Act. Elmer Thomas, a Democrat from Oklahoma, offered an amendment that would mandate the emission of "greenbacks." Roosevelt had the "amendment amended" and was granted the discretionary power to execute any one or all of four inflationary devices: issue unbacked currency, coin unlimited amounts of silver at sixteen to one, expand the credit base through the issuance of government securities, or reduce the gold content of the dollar up to fifty per cent.[33]

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[31]For Acheson at Treasury see Blum, From the Morgenthau Diaries, vol. 1, Years of Crisis 1928-1938 (Boston, Houghton Mifflin, 1959), 67-74 and Dean Acheson, Morning and Noon (Boston, Houghton Mifflin, 1965), 161-174.

[32]See Moley, After Seven Years, 156-158 and Blum, Years of Crisis, 61-63.

[33]A concise account of inflationist activity in Congress can be found in Jordan Schwarz, "1933 Roosevelt's Decision: The United States Leaves the Gold Standard," in Major Presidential Decisions,

Roosevelt chose not to use any of the powers granted to him under the Thomas amendment, as they did not address commodity prices and deflation. Instead, after the London Conference FDR reconsidered a scheme examined and discarded during his presidential campaign. The plan was to raise commodity prices and reflate the dollar through increasing the price the government paid for gold. The "gold purchase" plan came to Roosevelt through his close friend and trusted adviser, Henry Morgenthau, Jr.

Morgenthau was the son of a wealthy New York financier, Democratic party stalwart, and ambassador in the Wilson administration. He met Roosevelt in 1915 after he bought a farm in Dutchess County New York, not far from the Roosevelt home in Hyde Park. Morgenthau bought and published the weekly paper The American Agriculturist to promote the ideas of progressive farm management and agronomic techniques he learned at Cornell.[34]

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ed. Fred Israel (New York: Chelsea House, 1980), 67-104 and Elmus Wicker, "Roosevelt's 1933 Monetary Experiment," Journal of American History 57 (March 1971): 864-874. Also see Blum, Years of Crisis, 62-67. For the "amending" quote see Moley, After Seven Years, 158-161.

[34]For Morgenthau's early life, friendship with FDR, and political activities see Blum Years of Crisis, 1-34, Henry Morgenthau III, Mostly Morgenthaus, A Family History (New York: Ticknor & Fields, 1991), 213-265, "One of Two of a Kind," Fortune, May 1934, 61, and Joseph Alsop and Robert Kintner, "Henny Penny: Farmer at the Treasury," Saturday Evening Post, April 1, 1939, 97.

Morgenthau and Roosevelt became allies in local Democratic politics after Roosevelt returned to Hyde Park from his service in the Wilson administration as Assistant Secretary of the Navy. They and their wives became particularly close friends during Roosevelt's recovery from poliomyelitis contracted in July 1921, spending many hours together on vacation and at Hyde Park. Morgenthau was not a close political collaborator, but he raised and contributed money and campaigned with Roosevelt beginning with his vice-presidential nomination in 1920.[35]

After Roosevelt was elected governor of New York in 1928 Morgenthau served on the Agricultural Advisory Commission, and when Roosevelt was re-elected in 1930 he was appointed Conservation Commissioner. Morgenthau was an integral part of FDR's effort to secure the Democratic presidential nomination in 1932. Once elected, President Roosevelt appointed Morgenthau to liquidate the Federal Farm Board and establish its successor agency, the Farm Credit Administration.[36]

Morgenthau had little knowledge of or experience in monetary affairs, but while at Cornell had come under the influence of the agricultural economist

[35]Blum, Years of Crisis, 10-15.

[36]Ibid., 15-50.

George F. Warren.[37] Warren fervently believed that a correlation existed between the price of commodities and the price of gold. In Warren's view all that was necessary to raise commodity prices was to raise the price of gold, which had been fixed at $20.67 an ounce by law since 1900.[38] Warren published articles and a book arguing for the reduction of the gold content of the dollar, and had tried to interest Roosevelt in these ideas during the campaign of 1932.[39]

Most academic economists rejected the Warren thesis out of hand, and Roosevelt did not adopt Warren's ideas during his campaign. Roosevelt's economic and monetary platform was conventional and conservative, though some Democrats assumed he would pursue an inflationary policy once in office.[40] Warren's

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[37]Morgenthau appointed Warren his economic adviser at the Conservation Commission. See Fusfeld, Economic Thought of Franklin D. Roosevelt, 125. Morgenthau published the Warren thesis in the American Agriculturist, see Blum, Years of Crisis, 38-42.

[38]The Gold Standard Act of March 14, 1900 declared that the dollar should contain 25.8 grains of gold 0.900 fine, and "shall be the standard unit of value." The law charged the Secretary of the Treasury with maintaining all forms of United States money in parity with this standard. Article I Section 8 of the Constitution gave Congress the power to "coin Money, regulate the Value thereof, and of foreign coin."

[39]George F. Warren and Frank Pearson, Prices (New York: John Wiley & Sons, 1933). For Warren's efforts to induce Roosevelt and Congress to adopt his suggestions see Barber, Designs, 14-22.

[40]Senator Carter Glass of Virginia, instrumental in the creation of the Federal Reserve under Wilson, turned down the proffered Treasury spot due to concerns that Roosevelt would embrace inflation. See Moley, After Seven Years, 118-123.

ideas were warmly received, however, by the Committee for the Nation, a small but influential lobby of pro-inflation businessmen.[41]

Soon after the London Conference Roosevelt invited Warren and Irving Fisher of Yale, another "re-flationist," to the White House and Hyde Park for talks. What finally drew Roosevelt to the Warren thesis was that it provided a fairly simple mechanism for a quick solution to an immediate and pressing problem. Commodity prices slumped again in the early fall of 1933, and Roosevelt feared rural despair and agrarian revolt.

In a letter to the President, Warren emphasized that the reduction of the gold content of the dollar would raise commodity prices. Recognizing the obstacles to this course Warren continued, "[i]f the Treasury is ordered to buy a certain amount of new gold at a certain price, and if the price is raised at frequent intervals, this would probably accomplish the purpose."[42] It was the promise of immediate relief to collapsed farm prices that induced Roosevelt to try to

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[41]Among its members were James Rand of Remington-Rand, Vincent Bendix of Bendix Aviation Corporation, and Lessing Rosenwald of Sears, Roebuck and Company. Senator Elmer Thomas of Oklahoma, an inflationist, was also close to the Committee. See Herbert Bratter, "The Committee for the Nation: A Case History in Monetary Propaganda," The Journal of Political Economy 49 (August 1941): 531-553.

[42]Schlesinger, Coming of the New Deal, 238.

raise commodity prices through governmental gold purchase. As recounted by James Warburg,

> In the end it was not the conviction that the Warren theory was right so much as the fact that Warren offered a program of action . . . Warren said--and believed--that he had a quick cure. We admitted that we had none, and we doubted whether there could be any monetary cure for troubles that we believed were not monetary in nature or origin.[43]

In early September Roosevelt asked the acting Treasury Secretary, Dean Acheson, to find a pretext under which Treasury could purchase gold above the statutory price of $20.67 an ounce. Acheson's response, seconded by Attorney General Homer Cummings, was that there was no legal method to buy gold above the statutory price.[44]

A few days later Farm Credit chairman Morgenthau brought to FDR a number of legal precedents under which the president could order gold purchased above the statutory price. Roosevelt, Morgenthau, and Herman Oliphant, legal counsel at Farm Credit, worked out a plan to invest gold buying in a subsidiary corporation of the Reconstruction Finance Corporation (RFC) based on a Civil War enabling act. Roosevelt ordered Acheson in late October to purchase newly-mined domestic gold

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[43]Warburg, Money Muddle, 133.

[44]For Acheson's account of this meeting see Acheson, Morning and Noon, 175-188, and Blum, Years of Crisis, 67-68.

at the market price. Acheson resisted the order and demanded that it be given to him in writing.[45]

On October 22 Roosevelt in his fourth "fireside chat" announced the government gold purchase plan and explained the philosophy behind the policy:

> Ever since last March the definite policy of the Government has been to restore commodity price levels [and]. . to make possible the payment of public and private debts more nearly at the price level at which they were incurred . . . When we have restored the price level, we shall seek to establish and maintain dollar which will not change its purchasing and debt paying power during the succeeding generation. . . My aim in taking this step is to establish and maintain continuos control. . . This is a policy and not an expedient.[46]

Starting on the morning of October 25, 1933, Warren, Morgenthau, and Jesse Jones, head of the RFC, met in Roosevelt's bedroom to set the daily gold price. As described by Morgenthau's biographer John Morton Blum,

> [t]he price that the morning conference established on any given day made very little difference. The object was simply to keep the trend moving gradually upward, a little above the world price, in the expectation that commodity prices would follow. To prevent the speculators from guessing what the price of gold would be, the conferees

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[45]Accounts of this meeting stress Roosevelt's anger and impatience. See Davis, FDR: New Deal Years, 292.

[46]The transcript can be found in Rosenman, Papers 1933, 420-429. Moley supplied "policy and not an expedient" phrase even though he had no faith in the Warren plan. See Moley, After Seven Years, 281-282.

deliberately varied the daily increment.[47]

The gold purchase "reflation" plan was financed by issuing short-term government liabilities, a deflationary action that absorbed private investment capital. Initially the policy was to be confined to newly-mined domestic gold, but as it became clear that the dollar was not depreciating as expected, the RFC began to purchase foreign gold as well. According to Warren's theory each percentage rise in the price of gold should have effected a corresponding decline in the exchange valuation of the dollar, but after a strong beginning in October and November, the rate of depreciation diminished.[48]

Roosevelt fired Acting Treasury Secretary Dean Acheson on November 16, 1933, allegedly for leaking derogatory information to the press on the gold purchase plan. From FDR's position Henry Morgenthau appeared the logical choice to replace Acheson. Morgenthau had demonstrated his allegiance and energy in the Warren affair and was personally loyal to FDR. Morgenthau, who never imagined himself as Treasury Secretary, was "dumbfounded" when FDR asked him to

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[47]Blum, Years of Crisis, 69.

[48]Eichengreen makes the acute observation that the gold purchase policy could never operate successfully to depreciate the dollar

replace Secretary Woodin, who had requested a sick leave.[49]

Morgenthau inherited the gold purchase policy after it had exhausted whatever usefulness it ever had. In November and December the dollar began to creep up against the pound and franc, and commodity prices slumped, while gold, particularly of foreign origin, poured in. "Dumping" dollars on the market for gold did not depreciate the currency's value, and inherent defects in the Warren theory and the new international conditions may have made any long-term use of it counterproductive.[50]

> The depreciation of the dollar and the enhancement of the price of gold, however, were merely considered means to the end of raising prices, and from this viewpoint the gold buying policy must be largely adjudged a failure. In fact wholesale commodity prices actually moved downward in November and December.[51]

Wall Street, most businessmen, and academic economists were highly critical of the theory and

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as long as the gold embargo precluded arbitrage operations. Eichengreen, Golden Fetters, 340.

[49]For the appointment and Morgenthau's reaction see Blum Years of Crisis, 72-77. Although Henry Morgenthau, Jr., may not have had the Treasury post in mind, his father certainly did. See Morgenthau, Mostly Morgenthaus, 243.

[50]"Warren's link between gold prices and commodity prices suffered from two significant sources of slippage; that between the dollar price of gold and the exchange rate, and that between the exchange rate and commodity prices." Eichengreen, Golden Fetters, 340.

[51]Johnson, Treasury, 26.

operations of the gold purchase policy. Less expected and more damaging was the reproach from quarters basically in sympathy with Roosevelt's goals. Keynes, no believer in that " barbarous relic" the gold standard, in an open letter to FDR called the gold policy "more like a gold standard on the booze than the ideal managed currency of my dreams."[52] Many influential Democrats of the Al Smith wing of the party, as well as administration supporters such as Bernard Baruch and Felix Warburg, were equally dismissive of the Warren scheme.[53]

Roosevelt responded to these critics by his January 15 special message to Congress requesting authorization to transfer the gold held in the Federal Reserve to the Treasury and the establishment of a fund "for such purchases as sales of gold, foreign exchange, and government securities as the regulation of the currency, the maintenance of the government, and the

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[52]"From Keynes to Roosevelt: Our Recovery Plans Assayed," New York Times, December 31, 1933.

[53]For the view of businessmen see "Commodity Dollar Blasted," Barron's, January 24, 1934, 9. For financiers and Smith Democrats see John Brooks, Once in Golconda: A True Drama of Wall Street 1920-1938 (New York: Harper & Row, 1969), 176-178. The most obvious critique of the Warren plan was made by a group of Oxford economists who pointed out that for the "scheme" to work "the rest of the world, or most of it, must be on the gold standard." Letter quoted in Davis, FDR: New Deal Years, 302-303. All of Warren's predictive data came from a period of the operation of the full gold standard. Warren never considered the international implications of his plan, and purchase of foreign gold was not part of his original conception. For Warren's defense of his

general welfare of the United States might require." The message concluded with Roosevelt's statement that "because of world uncertainties" the gold price of the dollar should not be fixed at this time.[54]

This revolutionary monetary proposal found surprising little resistance in Congress. The House passed the Gold Reserve bill 360 to 40, with 68 Republicans joining the majority. In the Senate the vote was 66 for and 23 against.[55] The Gold Reserve Act of 1934 consisted of four major provisions. The dollar could be revalued at any point between fifty and sixty per cent of its earlier value, but it was not stipulated when the revaluation should take place or if it would then be permanent. A gold bullion standard was officially adopted, no gold coins would be minted and international transfers of gold bullion to conclude transactions became the monopoly of Treasury. The gold accumulated in the Federal Reserve since the April "nationalization" was to be transferred to the

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theories see G. F. Warren, "Some Statistics on the Gold Situation," American Economic Review 24 (March 1934): 111-129.

[54]For the text of the message to Congress see Rosenman, Presidential Papers and Addresses of Franklin D, Roosevelt, vol. 3, The Advance of Recovery and Reform 1934 (New York: Random House, 1938), 40-46. Also see Roosevelt, On Our Way, 215-220.

[55]For Congressional action on the Gold bill see "Roosevelt's Managed Currency Swept Through the House, is "Deliberated" in the Senate," Newsweek, January 27, 1934, 22-23, "Roosevelt's Gold Devaluation Plan is Rubber Stamped by Congress and Signed,"

Treasury. Special high-denomination gold certificates were issued and used by Treasury to purchase the gold from the Federal Reserve. These gold certificates replaced gold bullion as the backing and base for the Federal Reserve note. Finally the Gold Reserve Act authorized the Secretary of the Treasury to operate a stabilization fund capitalized by the "profit" realized by fixing of dollar price of gold between fifty and sixty per cent less than $20.67 an ounce.[56]

The fund was thought necessary to defend the valuation of the dollar in the exchange markets. The British managed the floating pound through an Exchange Equalization Account (EEA), and Secretary Morgenthau testified that if "we wanted to sit in on the game, we had to have as many blue chips as the British."[57] The EEA was established in 1932 with two responsibilities: insulate the British domestic economy from short term fluctuations of foreign funds, and maintain the level of depreciated pound. Morgenthau believed that EEA operations were the reason that the dollar did not continue to weaken relative to the pound throughout

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Newsweek, February 3, 1934, 22-23, and Sherwin Badger, "The Gold Bill-Inflation or Stabilization," Barron's, January 22, 1934, 1.

[56]The text of the Gold Reserve Act can be found in Paris, Monetary Policies, 148-157. The stabilization fund is authorized in Section 10, Ibid., 153-154.

[57]Newsweek, January 27, 1934, 22.

1933. In part it appears that Treasury simply wanted the Exchange Stabilization Fund (ESF) to emulate the British and secure the latest tool of monetary management.[58]

The operations of the ESF were "under the exclusive control of the Secretary of the Treasury," with no provision for Congressional audit or oversight. Treasury argued that secrecy was mandated as "exchange speculators" could use information to profit at the expense of the public and through their operations neutralize Treasury's management efforts. Congress did limit the life of the ESF to two years, but Treasury could request reauthorization at that time. The Secretary of the Treasury was to supply an annual report on the operations of the ESF to the president.[59]

Treasury now had an instrument to operate an international managed float of the dollar very much like that of the pound sterling. The dollar price for

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[58]For information on the EEA see Leonard Waight, The History and Mechanism of the Exchange Equalization Account (London: Cambridge University Press, 1939) and Johnson, Treasury, 60-91. For Morgenthau's views see Blum, Years of Crisis, 121, and Johnson, Treasury, 31.

[59]No Congressional appropriation was made to pay for the administration of the ESF. Treasury paid employees out of the interest and profit accruing the Fund. These employees were outside civil service rules and government hiring policies and procedures. This was valuable during a time of decreased funding for federal employment. It appears that Treasury hired a large number of people not directly connected with the ESF with stabilization money. See Rees, Harry Dexter White, 62. Amendments were proposed limiting the powers of the fund in order to preserve the

gold could "float" between fifty and sixty per cent of its previous value. The ESF could operate either to strengthen or weaken the value of the dollar or a foreign currency. To keep the dollar from rising Treasury would buy gold or foreign exchange for dollars, thereby meeting or exceeding the market demand for dollars. If Treasury wanted to arrest a fall in the dollar it would sell gold or foreign exchange for dollars, "soaking up" excess dollars from the market. Similar operations could be carried out either supporting or attacking other currencies.[60]

The key relationship was that between the dollar, the pound sterling, and the franc. These three currencies accounted for the overwhelming majority of all international monetary transactions: sales of goods and services, capital movement for investment and hedging purposes, and exchange reserves held by individuals skeptical of the strength of their national currency. With the passage of the Gold Reserve Act the United States joined Great Britain on a managed float paper standard. Treasury wanted to maintain the pound sterling at or near the traditional $4.86, preserving

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prerogatives of the Federal Reserve, but they were defeated. See Blum, Years of Crisis, 121-123.

[60]For the theory and operations of exchange or stabilization funds see Waight, Exchange, 15-20 and Johnson, Treasury, 60-91.

the "natural" relationship and competitiveness between the currencies. France led the gold bloc, those nations resolved to maintain gold convertibility and statutory gold-currency parity.[61]

The day after the passage of Gold Reserve Act Roosevelt, through a presidential proclamation, revalued the dollar at 59.06 per cent of its former value, or at $35.00 an ounce, just under the upper limit set by the Act. The dollar could still be devalued in terms of gold to the 50 per cent limit set by Congress.[62] This fixing of the dollar value of gold appears to contradict FDR's January 15 statement that "world uncertainties" made dollar revaluation a distant action. With the dollar value fixed, "floating" operations of the dollar would become much more difficult.[63]

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[61]The British Treasury argued that the "traditional" $4.86 pound considerably undervalued the dollar after the 1920s and that U.S. Treasury's efforts to maintain this parity was the prime example of a managed competitive devaluation in this period. See Ian Drummond, The Floating Pound and the Sterling Area 1931-1939 (Cambridge: Cambridge University Press, 1981), 83-85, 174-149. Eichengreen shows that, from their 1929 parities, the dollar was devalued 40 per cent and the pound 38 per cent. Eichengreen, Golden Fetters, Figure 12.2, 351. Useful works on international monetary relations in this period are Paul Einzig, The Sterling-Dollar-Franc Tangle, (New York: Macmillan, 1933), Eichengreen, Golden Fetters, 279-357, and J. W. Beyen, Money in a Maelstrom (New York: Macmillan, 1949).

[62]For the text of the proclamation and following explanation see Rosenman, Presidential Papers 1934, 64-76. FDR does not mention this episode in On Our Way.

[63]"The Administration deliberately relinquished its ability to influence the foreign exchanges by manipulating the gold value of the dollar, and henceforth its scope of action was limited to

The most powerful reason for the revaluation was to use the gold "profit" to capitalize the ESF. With revaluation the value of Treasury's gold stock rose from about $4 to $6.8 billion. $4 billion of the gold in Treasury backed the high denomination gold certificates deposited with the Federal Reserve banks that backed the Federal Reserve notes. The $2.8 billion "profit" was in the value of the gold controlled by Treasury. About $800 million of this was converted into dollars through deposits of gold certificates in the Federal Reserve and were used to retire national bank notes and supply capital for industrial loans.[64]

Of the remaining $2 billion "profit" $200 million was converted into dollars to capitalize the ESF. In this operation gold certificates for the desired amount were deposited by the Treasury in a Federal Reserve bank. The bank in turn credited the ESF account with a like amount of dollars, $200 million of gold would then be transferred from the holdings of the ESF to the gold reserve. The remaining $1.8 billion in gold made up

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affecting quantitatively the demand and supply of dollars and other currencies in the exchange markets, and thus of influencing the exchange rates by way of altering the gold values of *other* currencies." Johnson, Treasury, 39-40.

[64]Ibid., 46-48, and Paris, Monetary, 29.

the "inactive" account of the ESF.[65] Through these operations the Treasury added almost $1 billion in liquidity to the Federal Reserve and aided, to some extent, FDR's efforts at "reflation."[66]

What is much more difficult to understand or justify was the decision that Treasury, through the Federal Reserve, would buy "any and all gold delivered to any United States Mints or the Assay Offices in New York or Seattle, at the rate of $35.00 per fine troy ounce, less the usual mint charges and less one-fourth of one percent for handling charges."[67] This price was considerably above the world gold price and guaranteed, at least for some time, that gold would be attracted to the United States and dollars supplied to those offering gold.[68]

With the dollar revaluation Treasury announced it would sell gold to those central banks still on the gold standard at the gold points. Private gold imports were again allowed, so arbitrage operations replaced direct purchase of gold by the Treasury or its agents.

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[65]See Arthur I. Bloomfield, "Operations of the American Exchange Stabilization Fund," The Review of Economic Statistics 26 (May 1944): 70-71 and Johnson, Treasury, 97-99.

[66]For FDR's explanation of the revaluation decision see Rosenman, Papers 1934, 70-76.

[67]Rosenman, Papers 1934, 65.

[68]Johnson, Treasury, 41-45.

However no private shipments of gold were allowed out of the United States and possession of gold remained illegal. The Gold Reserve Act and the revaluation of the dollar put the United States in a unique position; outside the gold bloc yet not completely detached from gold, fixed in terms of gold currencies with the potential for future devaluations. It was what the administration called the "international gold bullion standard" and Morgenthau termed "the 1934 model gold bullion standard--stream-lined . . . airflow . . . and knee action. It's the one which suits our need."[69] Some economists thought no purpose was served by fixing the gold value of the dollar and thereby surrendering the freedom of action necessary to meet the movements of the floating pound.[70]

The American devaluation was unique in the respect that it was not forced by an exchange crisis, but was imposed to induce a commodity price rise and spur "reflation" in the domestic economy.[71] The monetary

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[69]Quote is from Blum, Years of Crisis, 124.

[70]"it would seem that logic clearly prescribed an avoidance of permanently fixing the dollar's value in terms of either other currencies or of gold." Johnson, Treasury, 39-40.

[71]"The New Deal leadership resorted to devaluation not to protect the balance of payments but to induce domestic expansion or reflation." Eckes, In Search of Solvency, 23. This was echoed by Donald Kemmerer. "The 1933 devaluation of the dollar was unique in the annals of devaluation. . . . We devalued then, we said, because prices had *fallen* too much. . . . Most devaluations are reluctant, even forced, admissions by a nation that it has

transformations of 1933-34 were unprecedented in American history and fundamentally altered relationships and redistributed power, authority, and control among the executive, Congress, and administrative agencies. Direct Congressional intervention in monetary affairs was forfeited by the provisions of the Gold Reserve Act. Treasury became the nexus of monetary affairs, usurping the role of the Federal Reserve. Treasury acted more and more as a central bank, something the Federal Reserve specifically was not. The role of the Fed was slowly but inexorably transformed from an independent policy-setting agency to a subordinate administrative apparatus and fiscal agent of the Treasury.[72]

Morgenthau's influence in the administration grew more than the power that accrued to Treasury through

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inflated its currency too much, or at least has done so to a greater degree than the nations around it. Devaluation is essentially a nation's way of declaring bankruptcy and trying to start over. . . . But a devaluation purposely to bring about a rise in prices and thereby cheat a segment of society in the course of doing so had always seemed to me to be particularly inexcusable." Donald Kemmerer, "The Role of Gold in the Past Century," in Gold as Money, ed. Hans F. Sennholz (New York: Greenwood Press, 1975), 115.

[72]Wicker points out that the Fed's "reluctant performance and persistent opposition" convinced FDR of "the need for fundamental organizational reform of the central banking system of the United States." Wicker, "Roosevelt's 1933 Monetary Experiment," 865. Also see Esther Taus, Central Banking Functions of the United States Treasury, 1789-1941 (New York, Columbia University Press, 1943), especially 236-237. The most significant transfer of authority was "the power to regulate the external value of the dollar," a responsibility of the Federal Reserve system before 1934. For quote and account see Aaron Goldstein, "International

legislation. The Secretary, already a friend and confidant of FDR, proved his utility in the Warren gold-purchase matter and was willing to meet the president's requests and demands without undue hesitation or nagging objections. Morgenthau, while fiscally conservative, had no investment in the business and financial status quo and approved of "experimentation" in monetary matters. Treasury's agenda was shaped by the President and Secretary with but little regard for business and financial requirements or desires.

The new managed currency, "the 1934 gold bullion standard," was established with remarkable ease. Roosevelt ignored all of his expert monetary advisors and the consensus view of academic economists for the Warren gold purchase plan. When that proved ineffective, he abandoned it without a backward glance for a what seemed to be a managed float of the dollar. This was instantaneously dumped for a gold bullion system with the singular feature of a permanent and fixed gold purchase price.[73]

Aspects of Federal Reserve Policy," Review of Economic Statistics 17 (August 1935):71.

[73]A contrary view: "even if Morgenthau and Roosevelt failed to perceive the theoretical weakness of Warren's scheme, their support for the gold buying program proved a politically useful means of deflecting pressure from Congress for more radical inflationary measures." The author goes on to mention monetary management and the shift "from the banks of the Federal Reserve

Thus the monetary standard in place by 1934 might be the most "New Deal" of FDR's various explorations. The system was created with no regard for the experience, advice, or practical knowledge of private financial and investment interests and demonstrated the commitment to state managed currency. The system was national in inspiration and in turn heedless and hostile to the position and requirements of other nations. While the birth of the "1934 gold bullion standard" proved relatively uncomplicated and painless, its growth was accompanied by both confusion and discomfort.[74]

Operations of the Exchange Stabilization Fund

February 1934-September 1936

Two related features characterize American international monetary experience from the dollar devaluation of February 1934 to the outbreak of the

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System, particularly the New York Reserve Bank, to the executive branch" as a positive aspect of New Deal monetary policy. However no mention is made of the Gold Reserve Act. Larry G. Gerber, "Henry Morgenthau Jr.," in Encyclopedia of American Business History and Biography, Banking and Finance 1913-1989, ed. Larry Schweikart (New York: Facts on File, 1990), 323.

[74]It is worth noting that monetary actions finds no place in the various attempts to construct an explanatory theoretical framework for the New Deal. See for example John A. Garraty, "The New Deal, National Socialism, and the Great Depression," The American Historical Review 78 (October 1973): 907-944, Peter Alexis Gourevitch, "Breaking With Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s," International Organization 38 (Winter 1984): 95-125, and Thomas Ferguson, "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," International Organization 38 (Winter 1984): 41-94.

Second World War: the Exchange Stabilization Fund (ESF) was unable to secure its stated objectives, and a steady and increasing influx of gold caused what became know as the "golden avalanche" or "gold deluge." Between 1934 and 1940 Treasury's gold stocks rose from about $6.8 to $22 billion, or from about 40 to 75 percent of the world gold reserves. Going off the gold standard had the paradoxical effect of creating a tremendous demand for gold and the biggest increase in gold mining and production ever seen.[75]

The ESF was to maintain the devaluated dollar in the exchange market and in particular keep the exchange rate at or above $4.86 to the pound sterling. A second, equally important, task was to insulate the domestic economy from the deposits and withdrawals of "hot money," highly mobile speculative capital that, if left unrestricted, could create a whipsaw inflationary/deflationary oscillation in the domestic money supply. To be effective, inflows of "hot money" would have to be identified, kept segregated from the domestic money supply (sterilized), and then released

[75]The world's gold supply had doubled between 1885 and 1918 due to new finds in Alaska, South Africa, Russia, Australia and the introduction of the cyanide reduction process. The supply doubled again between 1934 and 1941 without any new strikes or technological developments, but solely through the rise in the price of gold due to U.S. gold-purchase policy. See Kemmerer, "The Role of Gold," 106.

on demand. Thus the domestic economy could benefit from increased investment without exposing the money supply to sudden and uncontrollable bouts of deflation.

The ESF was unable to accomplish either of these objectives. Unlike the EEA, the American fund had no sort-term assets with which to borrow dollars from the market. Instead gold certificates were exchanged for dollars, which were then used to purchase foreign currencies or gold. ESF purchase operations did not push the dollar down as the dollars did not come from the circulating medium, but from excess reserves in the Fed. This type of operation on a large scale might have weakened the dollar, but a number of factors pressed the dollar upward, and the market digested all of the dollars offered by the ESF without losing its appetite. As a contemporary observer noted, the ESF "could defend only against forces tending to depreciate the dollar, and was helpless in resisting converse tendencies, which were of course the tendencies which were feared."[76]

The EEA at inception had little difficulty holding the pound exchange rate as both the dollar and franc were on gold at known and fixed parities. After the dollar went off gold the EEA ceased to deal in dollars and turned to franc operations. This option offered no solution to Treasury as the dollar-sterling exchange rate was the primary responsibility, not the dollar-franc or sterling-franc. Treasury refused to accept exchange risk, losses that might accrue from depreciation of exchange, and directly converted sterling into gold for deposit in the Treasury account to kept under U. S. earmark abroad. Because of this the ESF more resembled a revolving account, exchanging dollars for gold, or dollars for exchange for gold, than as a true stabilization fund on the British model.[77]

The second failure of the ESF was in the matter of "hot money." For it to function effectively, exchange should be set aside to the amount in which "hot money" enters the country. Then when the funds are withdrawn they come from the sequestered exchange and not the monetary base. However when the ESF wished to purchase exchange, gold certificates were deposited for dollars, thereby adding precisely the amount to the monetary

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[76]Johnson, Treasury, 97.

[77]Detailed accounts of the ESF operations can be found in Johnson Treasury, 92-128, Arthur I. Bloomfield, Capital Imports and the American Balance of Payments 1934-39: A Study in Abnormal Capital Transfers (Chicago: University of Chicago Press, 1950), 147-152, idem "Operations of the Stabilization Fund," 69-87. The operations of the EEA can be found in Waight, Exchange, 20-49 and Lowell Pumphrey, "The Exchange Equalization Account of Great Britain, 1932-1939: Exchange Operations," The American Economic Review, 32 (December 1942): 803-816.

base that was to be sterilized. The lack of dollars in the ESF, the fear of exchange risk, and funding operations from gold rather than domestic borrowing through securities meant that the ESF was useless as a device for insulating the economy from hot money.[78]

The Golden Avalanche

Between the dollar revaluation in 1934 and the end of 1936 Treasury gold stocks grew by about $4.4 billion, from $6.8 to $11.2 billion. This of course translated to a $4.4 billion increase in bank reserves, as Treasury purchased the bullion with gold certificates. This tremendous growth in liquidity did not translate into increased lending and economic activity, but rather added to the already formidable excess reserves held by the Federal Reserve.[79] This condition was described as a "liquidity trap," low demand for credit with a growing supply of money and

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[78]See Johnson, Treasury, 95-98 and Bloomfield, "Operations," 69-76. It should be noted that the operations and administration of the stabilization funds were and are cloaked in secrecy. The contemporary commentators extrapolated their conclusions and observations from financial and monetary data. Only the most general information is available concerning the ESF in Treasury records.

[79]See Table 19-2, "Monetary Gold Stock of the United States 1933-1941," in Lester Chandler, American Monetary Policy 1928-1941 (New York: Harper & Row, 1971), 298. For a discussion of excess reserves see Ibid., 310-316.

low interest rates. Gold imports, once desired, now appeared either without advantage or even menacing.[80]

A number of considerations made sustained and increasing deposits of gold into Treasury accounts undesirable. The Federal Reserve, and the Treasury to a lesser extent, were concerned lest the "inflationary potential" of excess reserve be translated into an inflationary episode or spiral. A one billion increase in reserves had the potential to support more than $11 billion in credit. If there was no immediate threat of inflation, the potential threat had to be recognized given the size of excess reserves.[81]

Gold flows to the United States threatened the economic regeneration and political stability of those countries still on the full gold standard. Gold bloc nations, defending the gold parity of their currencies, were forced to ship gold. Sustained losses would force devaluation, domestic credit crises and deflation, or the abandonment of gold. A devaluation would make the dollar less attractive in foreign markets, while other

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[80]The "liquidity trap" was explored by John Maynard Keynes and serves as the departure point for his General Theory of Employment, Interest, and Money (New York: Harcourt, Brace, 1936).

[81]Emmanuel Goldenweiser, American Monetary Policy (New York: McGraw-Hill, 1951), 174-177 and Chandler, American Monetary, 307-313.

nations giving up gold would threaten the "1934 bullion standard."[82]

A less immediate, but tangible, threat was the full demonitization of gold, making bullion simply another commodity, no longer accepted in international transactions. By 1934 gold had already been denounced and rejected by the Soviet Union and Germany, at least rhetorically, as one of the means of capitalist exploitation. The threat, however, was that once the United States acquired a near monopoly debtor nations would refuse to accept gold or find a substitute for it. Treasury could become "a dumping ground for the excess gold of other nations," left holding a huge amount of a devalued commodity.[83]

The "golden avalanche" highlighted the confusion and ineffectiveness of New Deal recovery efforts. It appeared counterintuitive to send dollars overseas to

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[82]"The United States was the principal source of pressure on the international system and the gold bloc in particular. Gold and financial capital flowed inexorably toward the United States. American producers used their newfound competitive advantage to expand exports to the gold bloc countries and crowd them out of third markets." Eichengreen, Golden Fetters, 351-352.

[83]Lionel D. Edie, "Monetary Stabilization from a National Point of View." The American Economic Review 25 (March 1935), 164. An identical opinion was expressed by Paris. "Some have uttered fears that this pouring of gold into the United States may ultimately make this nation a dumping ground for a commodity which will eventually lose its monetary value." Paris, Monetary, 33-34, and later by Eckes, "if other nations lacked gold to use as backing for their home currencies or to make international settlements, they might seek a substitute for gold. The United States would

acquire metals to store in vaults when the domestic economy was preoccupied with financing the recovery and funding the growing deficit and debt. Other nations, those completely off gold, had begun to recover or, in the case of the Soviet Union and Germany, experience real growth. The managed economies off gold dissipated the metal and began recovery, while the United States sought out the metal and remained mired in a slump.[84]

Treasury was aware of the scale and significance of the "golden avalanche" and attempted to understand the sources of the flow. A November 1935 memorandum informed Secretary Morgenthau that the gold inflow was caused by a combination of repatriated American funds from abroad, European flight capital seeking stability,

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than have a large stock of gold without value." Eckes, In Search of Solvency, 24.

[84]The terms "avalanche" or "deluge" are misleading as gold inflows were of course not a natural phenomena or "act of God" but the product of particular Treasury policies and international economic conditions. Along with this was a parallel "silver avalanche." Congressional agitation resulted in the passage of the Silver Purchase Act in 1934. Among the provisions Treasury had to raise the price of an ounce of silver to $1.29 or until the monetary value of the silver stock held by Treasury reached one-third of the monetary value of the gold stock. The market price for silver in 1933 was 44 cents an ounce. Treasury bought about 1.7 billion ounces of silver by 1938 but was never able to achieve either of the objectives of the Act, raising the price to 65 cents an ounce or establishing a silver to gold ratio in monetary stocks as gold continued to pour in. Treasury opposed the silver-purchase policy but was unwilling to confront the powerful silver lobby in Congress. For the silver-purchase policy see Allan Everest, Morgenthau, the New Deal, and Silver: The Story of Pressure Politics (New York: King's Crown Press, 1950). Also see Blum, Years of Crisis, 183-220, Paris, Monetary, 42-80, Johnson, Treasury, 161-198, and Milton Friedman and Anna Jacobson Schwartz, A Monetary History of the United States, 1867-1960, (Princeton: Princeton University Press, 1963), 483-491.

“speculative funds” from gold countries anticipating a domestic devaluation, and American and foreign securities purchased by foreign investors. None of gold was to pay for American goods purchased by foreign buyers.[85]

The Treasury gold purchase policy, buying “any and all” gold offered, attracted a tremendous amount of hoarded gold, particularly from India and Asia. Mining concerns increased exploitation of existing mines, re-activated old mines, sank new shafts and increased prospecting activity. This great expansion of gold production was encouraged not just by the Treasury purchase price, which could be raised ten percent but not lowered, but also by lower labor and production costs brought by the depression.[86]

Treasury considered ways to slow down, limit, or stop gold inflows but found its options few. FDR and Morgenthau were committed to a managed currency with control in the hands of the Treasury and not in those of the Federal Reserve or private bankers. This

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[85]Hass to Morgenthau, “Cause of Gold Imports 1934-1935,” November 19, 1935, Stabilization Records 1936-1942, Subject File: Gold, Office of the Assistant Secretary for International Affairs, RG 56, National Archives. Hereafter cited as OASIA. Also see Bloomfield, Capital Imports, especially 1-38, and Chandler, American Monetary, Table 19-5, 303.

[86]For increased gold production in this period see Melchior Palyi, The Twilight of Gold: Myths and Realities 1914-1936 (Chicago: Henry Regnery, 1972), 332, and Chandler, American Monetary, 298-300. Gold imports into the U. S. exceeded world production.

precluded any return to a gold standard, though returning gold to circulation was one means to soak up excess reserves. Treasury technicians knew that the gold-purchase policy attracted gold, but thought the dollar devaluation equitable. Lowering the purchase price would slow gold inflows, but "as long as the President has fixed the gold price there is no alternative."[87]

By 1936 Morgenthau and Treasury wanted to strengthen the place of gold in international settlements and establish, if not fixed, then stabilized exchange rates. Treasury's policy of selling gold only to gold standard nations precluded sales to Britain, the biggest buyer of gold after the U. S. Two years after the devaluation of the dollar, with the experience of the ESF, Morgenthau and Roosevelt were eager for what they had rejected in the summer of 1933, some formal cooperation in international monetary affairs centered on stabilization of exchange rates and gold settlement.

The Tripartite Pact: The 24 Hour Gold Standard

An opportunity for increased cooperation on the terms desired by Treasury was presented by a French proposal in the summer of 1936. The Léon Blum government strongly desired devaluation, but needed to present it to the electorate and its coalition partners as "a realignment." The Minister of Finance, Vincent Auriol, wanted to insure that a franc devaluation would not be followed by a devaluation of the dollar and a sinking pound. In late June a special emissary was sent to Washington with a French proposal.[88]

Morgenthau learned that the French government wanted to "realign" its currency, organize an international monetary conference, increase economic and monetary cooperation among the "small democracies" bordering Germany, and reach an agreement with Washington on increased cooperation between central banks. Once concluded, the Franco-American agreement could be presented to London for further discussions. The Secretary and FDR both expressed an interest in increased cooperation and support for a reasonable devaluation of the franc, but Morgenthau categorically rejected bilateral talks and suggested that

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[87]White to Haas, "Use of the Stabilization Fund," June 15, 1935, 4. 360 P Box 1, Chronological File 2, OASIA.

[88]The American view of the negotiations can be found in Blum, Years of Crisis, 142-159. For a British view see Drummond, The Floating Pound, 201-213. For a view based on the French, British, and American archives see Stephen V. O. Clarke, Exchange Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement (Princeton: International Finance Section, Department of Economics, 1977) and idem, "The Influence of Economists on the

negotiations take place simultaneously between Paris, London, and Washington.

Roosevelt wanted international monetary cooperation vested in government agencies, not in the private central banks, and Morgenthau suggested the French should establish a stabilization fund with the profits from franc devaluation which would allow operation in concert with the EEA and ESF. Informal talks on stabilization and the French proposal took place between the three treasuries.[89]

In September the French sent a provisional draft proposal on franc devaluation and international monetary cooperation to Washington. Morgenthau accepted a twenty-five percent devaluation of the franc and promised no retaliatory devaluation of the dollar, but rejected rigid and fixed exchange rates based on central banks' cooperation and a commitment to the restoration of the old gold standard. The Secretary countered that exchange rates should be allowed to fluctuate in a narrow band, cooperation should come through governmental exchange funds, and the gold standard was to be the "1934 model."[90]

Tripartite Agreement of September 1936," European Economic Review 10 (1977): 375-389.

[89]Blum, Years of War, 155-159.

[90]Ibid., 161-163.

The result of these negotiations was the joint release of three statements timed to coincide with the franc devaluation announced September 25, 1936. In the Tripartite Declaration Great Britain, France, and the United States pledged not to engage in future competitive devaluations, cooperate in managing exchange rates through consultation or joint action, and avoid "unnecessary" trade restrictions. This arrangement was not a formal agreement signed by the participating powers, but statements of general principles and common goals in the operation of an international monetary regime. The American and European press hailed the declarations as signaling the restoration of international monetary cooperation.[91]

Washington, London, and Paris placed different emphasis on the value and meaning of the declaration. For Morgenthau it signaled the restoration of the world monetary system on along the lines of the "1934" American model. The British Treasury attached little importance to the long range effect of the agreement and maintained the floating pound. For London a necessary franc devaluation was accomplished without an American devaluation in response. For the British Treasury the most tangible advantage of participation was that now the Bank of England could buy gold from the U.S. For the Blum government the agreement provided political as well as financial and monetary advantages. Morgenthau commented that monetary cooperation "is the greatest move taken for peace in the world since the World War. . . . It may be the turning point for again resuming rational thinking in Europe. . . . After all, we are the only three liberal governments left."[92]

This rhetorical commitment to cooperation was soon translated into a formal mechanism. In October the three nations committed to a daily fixing of exchange rates, buying or selling a common currency to meet the fixes, operating through the national stabilization funds, and shipping gold daily to settle accounts. The principles of the joint declarations and the operations for exchange stability attracted the other members of the gold bloc, Belgium, the Netherlands, and Switzerland. Morgenthau encouraged the widening of the pact as a clear sign that a new international monetary regime was in operation. London was much more skeptical on widening participation and preferred to

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[91]Comments from the London Times, the Manchester Guardian, and Walter Lippmann can be found in Ibid., 173.

[92]For British views of the pact see Drummond, The Floating Pound, 220-222. The Morgenthau quote is from Blum, Years of Crisis, 171.

maintain independence of action through its managed float.[93]

Without quite intending it, and with the reluctant participation of London, the Tripartite agreement integrated the sterling area, the gold bloc, and the "dollar area" into what Secretary Morgenthau termed the "currency club."[94] The dollar was the stable link in the system, fixed in terms of gold, its exchange value moving in a narrow band with the major trading, investment, and reserve currencies. The national stabilization funds, hidden from public scrutiny and political pressure, became "the successors to central banks in international finance."[95]

S. V. O. Clarke has characterized international monetary cooperation under the Tripartite agreement as the "twenty-four-hour gold standard" as participants could withdraw at twenty-four hours notice. Cooperation under the October agreement continued until September 1939 and the outbreak of the war. While specific provisions of the agreement suffered minor violations, the lauded "spirit" of the pact, international monetary cooperation through national stabilization funds, continued to the war and provided the basis for

[93]Drummond, Floating Pound, 213.

[94]Blum, Years of Crisis, 177-182.

Treasury's postwar monetary planning. The significance of the Tripartite arrangement is still the subject of some controversy. However Secretary Morgenthau believed that in September 1936 that he had played a key role in bringing "reason" and cooperation into international monetary affairs.[96]

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[95] Ibid. 179.

[96] Clarke, Exchange Rate Stabilization, 40-54. For the debate over the significance of the Tripartite arrangement see Ibid., 55-58 and Drummond, Floating Pound, 201-203. Drummond concludes that the declarations "which were not meant to constrain British policy, were transmuted into an arrangement that certainly did constrain it." Ibid., 203. For Morgenthau's "greatest achievement" see the laudatory account of Joseph Alsop and Robert Kintner, "The Great World Money Play," Saturday Evening Post, April 6, 1939, 16-73, and "The Secret Finale," Saturday Evening Post, April 15, 1939, 25-29, 99-102.

CHAPTER 3

TREASURY AND THE SOVIET UNION 1933-1937

The day after the Tripartite agreement was announced Morgenthau learned that a large offer of sterling had been made in New York. The Secretary understood this as an effort to drive sterling down and test the will of the pact partners to support a member currency. He immediately ordered the ESF to purchase half the offer to support the sterling price. Morgenthau had wanted to include a stern warning in the joint statement against any efforts to disrupt the pact through drastic unilateral devaluations or dumping of goods or commodities. "This is a notice to Japan, Germany and Italy that we won't stand any monkey business." He was dissuaded by State and included only a general warning in the statement of September 26, 1936.[97]

The Secretary soon learned that the "attack" came from a unexpected quarter. Moscow wanted to sell £1 million, a little less than $5 million, for dollars on Saturday for payment Monday. Only the New York

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[97]"The United States trusts that no country will attempt to obtain an unreasonable competitive exchange advantage and thereby hamper the effort to restore stable economic relations which it is the

exchange was open, since Paris and London already had closed for the weekend. Morgenthau told his exchange advisor "they are trying to break this agreement and I am calling the President and will ask him whether I can give this out publicly." Morgenthau then ordered the remaining sterling to be purchased. In a hastily called press conference the Secretary "exhibited no little annoyance, even chagrin, at what he regarded as an attack on the monetary agreement so recently made." Morgenthau told the newsmen gathered of the large purchase of sterling by the ESF that morning, the only public account by an American official of the operations of the Fund. He warned that no nation should attempt to destabilize exchange arrangements and expressed the hope that "this incident will not be repeated."[98]

Soviet officials responded that the offer of sterling was "a routine banking transaction announced long in advance."[99] This position was supported by the Chase National Bank, the agent for the transaction. Observers in Wall Street and Washington thought it was

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aim of the three Governments to promote." Quote and episode can be found in Blum, Years of Crisis, 166-167.

[98]Morgenthau quote from Ibid., 174. Press conference remarks from Turner Catledge, "£1,000,000 Offered by Russia Quickly Bought by Morgenthau," New York Times, September 27, 1936.

[99]"Russians Bewildered by Attack," New York Times, September 29, 1936.

an effort on the part of the Russian State Bank (Gosbank) to avoid an exchange loss with the anticipated devaluation of sterling, "Russians do not like to lose money."[100] Morgenthau never retracted his original accusation, and the following week the Soviet press mocked Morgenthau as a Don Quixote "riding to the rescue of the English pound."[101]

Morgenthau was understandably sensitive over the activities of Gosbank. The Soviet Union represented the only remaining potential serious threat to the "1934 gold exchange standard" and Tripartite cooperation. The threat was not from "attacks" on sterling or the franc, possible only to the limited extent that Gosbank held these currencies. Gosbank wanted the franc and particularly sterling to maintain value. Rather that threat emanated from possibility, or really the probability, that the Soviet Union would begin to offer large amounts of gold on the world market that would increase the flow of the "golden avalanche."[102]

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[100]Blum, Years of Crisis, 173-176. For "Russians" quote see "US, Britain Push to Aid Gold Pact," New York Times, September 29, 1936.

[101]"Morgenthau Scored by the Soviet Press," New York Times, October 1, 1936, and Harold Denny, "Soviet Press Hits at Morgenthau," New York Times, October 4, 1936.

[102]As exchange was immediately converted to gold and deposited, purchase of exchange resulted in the purchase of gold. Morgenthau

From the early 1930s to the end of 1936 no large movements of Soviet gold had appeared in European exchange markets, only those small transactions necessary to finance the Soviet trade deficit.[103] This was unlikely to remain the case. Beginning in 1928, and with increased emphasis after the spring of 1933, the Soviet Union expanded and modernized its then-moribund gold mining and processing capability. The motive was the increased demand for foreign exchange engendered by the implementation of the Five Year Plan in 1929. Exchange was needed in much greater amounts than that generated by the sale of timber, furs, and agricultural commodities to pay for the machine tools, plant, and technology needed for the rapid industrialization envisioned by the plan. The quickest method to gain exchange was through the sale of gold for the needed currency.[104]

The Kremlin's drive for gold was given added incentive between 1931 and 1933 with Japan's move into

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boasted of the "profit" made on the sterling transaction, but this profit meant more gold deposited in Treasury and additional excess reserves.

[103]Gold movements to the London open market between 1934 and December 1936, "Gold and Silver" weekly in The Economist. Soviet silver appeared in London in this period in response to the American silver purchase policy.

[104]See "Foreign Trade Policy of the USSR," Economic Review of the Soviet Union, (August-September 1934), 175-176. Also see Robert Paul Browder, The Origins of Soviet-American Diplomacy (Princeton: Princeton University Press, 1953), 28-32.

Manchuria and Hitler's accession to the German chancellorship. The gold reserve of the USSR became a vital element of the military preparedness program, as gold or foreign exchange was needed to purchase arms and munitions. The Soviet currency, the ruble, had no international value and was forbidden by law to circulate outside the country.[105]

Tsarist Russia had been a large producer and supplier of gold, but war, revolution, civil war, and Bolshevik policy caused the dissipation of the gold reserve and the contraction of gold production. Lenin ordered the seizure of mine properties and cancellation of foreign mining concessions. Most mining engineers, technical personnel, and miners had left the industry or fled the country. Control of the mines had passed from private or foreign hands to the district governments, which had neither the capital nor the expertise to operate the mines profitably. By the mid-1920s many of the pits were no longer actively worked, were flooded, or had inoperable or unmaintained equipment. What production remained was done with outmoded machinery and technology under the direction of party managers and untrained technical staff and personnel. Production had fallen so much that by the middle 1920s a Soviet source claimed that some of the gold used to settle foreign accounts was purchased from other gold-producing countries.[106]

The key figure in the revival of gold mining and processing was Aleksandr Serebrovskii, appointed chairman of the newly-created Gold Trust, Glavzoloto, in 1928. An Old Bolshevik, Serebrovskii was trained as an engineer and had worked in Belgian mines before the First World War. He fought in the Red Army during the civil war and later worked in the petroleum industry, rising to chairman of the Petroleum Syndicate by 1926. Serebrovskii was given full authority and responsibility to increase Soviet gold output, and he quickly identified the lack of trained mining engineers and modern equipment as key bottlenecks. Soon after his appointment Serebrovskii traveled to the United States, recruited experienced mining engineers, and acquired the latest gold mining and processing equipment and technology.[107]

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[105]See pp. 223-233 below for the Soviet monetary system.

[106]For Soviet gold mining in the 1920s see Antony Sutton, Western Technology and Soviet Economic Development 1917-1930 (Stanford: Hoover Institution on War, Revolution, and Peace, 1968), 92-94. For the claim that foreign gold was purchased see Amtorg. Russian Gold (New York: Amtorg, 1928), 7. This work suggests that the Tsarist reserve was almost completely dissipated by the mid-1920s.

[107]For biographical information on Serebrovskii see "Serebrovskii, Aleksandr Pavlovich," in The Modern Encyclopedia of Russian and Soviet History, vol. 34 (Gulf Breeze, Fla.: Academic International Press, 1976) and John D. Littlepage and Demaree Bess, In Search of

Serebrovskii hired about 175 American mining engineers and technicians to supervise production at existing mines, re-open abandoned properties, open new mines, and act as roving consultants. It was in this period that the Kremlin began to favor American technology, equipment, and personnel over the already established European firms and staff.

John Littlepage, an American engineer recruited by Serebrovskii in 1928, left a detailed account of his ten years as a mining engineer and administrator in the Soviet gold industry.[108] He eventually rose to the position of vice commissar in Glavzoloto, the highest administrative position ever held by a foreign citizen. Littlepage observed that the Gold Trust "was a model Soviet enterprise," but suffered from a labor force of recently-dispossessed "kulaks," farmers with no

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Soviet Gold (New York: Harcourt, Brace and Company, 1937), 1-40. "The Soyuz-Zoloto (All-Union Gold Trust) is modernizing the mines by the installation of new machinery much of which is purchased in the United States." Amtorg, Russian Gold, 67.

[108]Littlepage arrived late in 1928 and left in 1938. In the last two years of his employment he was removed from gold and assigned to "the base metals division of the Soviet mining industry." See Henderson to Morgenthau, Despatch 401, American Embassy Moscow, June 23, 1937, Morgenthau Diary, volume 79, page 98. The Morgenthau Diary is a collection of memoranda, correspondence, and stenographic records that the Secretary had collected, bound, and paginated. Of particular interest and importance are the transcripts of the daily meeting of the "9:30 group," the assistant secretaries and close advisors of Morgenthau. There are also stenographic transcripts and summaries of meetings taken with others in the administration and foreign representatives and records of telephone conversations. There are more than eight hundred volumes each of several hundred pages. The Diaries are on deposit at the Franklin Roosevelt Presidential Library at Hyde

experience in machine work or mining. Mine rationalizations and technical improvements introduced by traveling American engineers would, soon after their departure, be abandoned and operations revert to unsafe and inefficient methods.[109]

Littlepage gave no statistics on production, as he had signed a non-disclosure contract with Glavzoloto, but his book makes clear that the number of newly-opened mines coupled with the full exploitation of existing properties, new extraction technologies, and the use of private prospectors considerably increased Soviet gold output in the period 1928-1936.[110]

In May 1933 Stalin revived independent gold and mineral prospecting, outlawed in 1929, and offered inducements and rewards to successful prospector/extractors. "Within a remarkably short time, the Gold Trust had several hundred thousand men and women working under the control of its Prospectors Department."[111] According to Serebrovskii, the prospectors had a strategic as well as an economic function. Impressed by the mass movements associated

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Park, New York. Hereafter the material will be cited as MD followed by volume number, a colon, and page number or numbers.

[109]Littlepage, Soviet Gold, 265-266.

[110]"The Soviet government has some obscure reason for wanting to keep them [gold production figures] secret." Ibid., 267.

with the “gold rushes” of the late nineteenth century, Stalin thought prospectors would create a counter in Siberia to the Japanese presence in Manchuria.[112]

The Soviet press and trade missions abroad gave a prominent place to and extensive coverage of increased gold production. In the early 1930s articles appeared in the Soviet press, claiming overfulfillment of production plans, describing the opening of new mines and mining areas, and the modernization and mechanization of plant and processing technology. “The Soviet Union has attained second place, following the Transvaal, in gold production. . . . It is believed in the not distant future it will be possible even to overtake the output of the extremely rich Transvaal fields and to bring the USSR first in world gold output.”[113]

Figures published by the League of Nations Economic and Financial Organization appear to confirm these claims. The League’s economists estimated that

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[111] Ibid., 124. The prospectors has access to goods unavailable elsewhere, for payment in gold.

[112] Serebrovskii noted that “Stalin showed an intimate acquaintance with the writings of Bret Harte. He said that the new districts of the United States were opened up from the beginning by gold and nothing else.” Quoted in Timothy Green, The World of Gold Today (New York: Walker and Company, 1973), 84.

[113] The quote is from ”The Gold Industry of the U. S. S. R.,” Economic Review of the Soviet Union, 9 (June-July 1934), 145. Also see “Gold Mining on the Increase,” Ibid., 9 (March 1934), 75,

Soviet production increased about five times between 1929 and 1936, moving the USSR from fourth to second in world gold production. The 1935 output was still only about half that of the Union of South Africa, but almost equal to the combined output of Canadian and American mines.[114]

For some observers the increase in world gold stocks was a positive development. John Maynard Keynes, the eminent British economist, argued that increases in the gold supply would not fuel inflation and should be welcomed for adding liquidity and keeping interest rates low. Keynes, no doubt in a moment of Bloomsbury wit, observed that "Communist efficiency . . . may serve to sustain yet awhile the capitalist system."[115]

For Secretary Morgenthau the prospect of increasing gold flows out of the Soviet Union was neither welcomed nor an occasion for whimsy. In the summer of 1936 FDR charged the Federal Reserve and Treasury with reviewing their policies for controlling the money supply and developing a response to the "hot

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"Gold Production Plans Fulfilled," Ibid., 9, 121, and "New Gold Discoveries," Ibid., 9, 241-242.

[114]League of Nations, World Economic Survey 1935-1936 (Geneva: League of Nations, 1936), 246-247.

[115]"Mr. Keynes on Gold Supply," The Economist, September 12, 1936, 469-470.

money" problem and excess reserves. The Fed had already doubled the reserve requirements, soaking up some of the excess reserves. Other actions proposed by Fed Chairman Marriner Eccles were rejected by Morgenthau as "crude." The Secretary believed that Treasury had primary responsibility for the management of the inflows of gold and foreign funds.[116]

In November Morgenthau proposed all new gold inflows be placed into an "inactive" account, "a fund detached from the monetary system which would inhale and exhale gold solely to settle international balances, while the management of the monetary system concerned itself with the domestic economy."[117] Gold purchases would be "sterilized" through the sale of government paper rather than the inflationary gold certificate method.

Eccles objected to Morgenthau's proposal, citing "the expense of taking care of the gold we don't want," blaming gold inflows on "Treasury operations and those of the Stabilization Fund" [which] have been responsible for bringing gold in. The price had been

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[116]See Blum Years of Crisis, 359. For Fed policy in this period see Emmanuel A. Goldenweiser, American Monetary Policy, 175-177.

[117]"Meeting in Secretary Morgenthau's Office," November 23, 1936, MD 46:137.

pegged at $35 and that is why gold comes."[118] The Fed Chairman abruptly reversed his course and publicly supported sterilization after Morgenthau took the dispute to Roosevelt. On December 21, 1936, Morgenthau announced that future purchases of gold would be financed by the sale of ninety-day Treasury bills and the gold placed in an inactive account. Proceeds of the sale of gold from this account would be used to buy or redeem the obligations issued by the Treasury.[119]

Under Treasury sterilization policy the monetary and credit base would not expand due to inflows of foreign funds and gold, but the policy had a number of drawbacks as well. The sale of Treasury bills would absorb capital that could be used for more productive purposes and was therefore "deflationary." No effort was made to identify and separate "hot money" from "normal" flows, as the entire amount of gold was sterilized. There was some question if there ever would be any "proceeds" from the sale of sterilized gold as the "golden avalanche" continued unabated.

Perhaps the greatest problem was that monetary

[118]For Eccles' criticisms see Eccles and Goldenweiser, "Meeting in Mr. Morgenthau's Office," December 8, 1936, MD 47:324 and Eccles to Morgenthau, December 21, 1936, MD 49:111.

[119]See Blum, Years of Crisis, 365-366 and Turner Catledge, "Treasury Steps in to Stem Gold Flow into Bank Credits," New York Times, December 22, 1936 and "Sterilized Gold to be Disclosed," December 29, 1936.

policy was not firmly in the grip of either the Federal Reserve Board or Treasury. Each used the tools at its disposal to deal with the excess reserves problem, and this dual authority and lack of coordinated monetary management is assumed by later observers to have played a significant if not determinant role in the 1937-1938 "recession."[120]

Any addition to the steady and increasing "golden avalanche" not only would strain Treasury's sterilization policy but also could call into question the efficacy and intelligence of the New Deal monetary and gold purchase policy. Republican Senator Arthur Vandenberg had already identified the administration's gold policy as vulnerable to attack, had done so during the presidential campaign of 1936 and had continued the attacks in Congress after FDR's reelection. Morgenthau was understandably concerned that gold or large amounts

[120]The "downturn of business which followed August 1937 . . . . was the most rapid, though, of course, not the most extensive, shrinkage in business activity which has ever been recorded in the United States." The author did not emphasize the monetary aspect of the recession in his account. See C. O. Hardy, "An Appraisal of the Factors ("Natural" and "Artificial"} Which Stopped Short the Recovery Development in the United States," American Economic Review 29 (March 1939): 170-182. For an account that sees the monetary aspect as contributing to the timing and severity of the recession see Friedman and Schwartz, Monetary History, 543-545. For an account that sees the recession solely in the terms of monetary policy see Richard Timberlake, "Gold Policy in the 1930," The Freeman May 1999, 36-41.

of foreign exchange purchased by Treasury would elicit a hostile response from Vandenberg.[121]

Late in 1936 Morgenthau requested the American embassy in Moscow to obtain and convey to Treasury any information available on Soviet gold production, reserves, and movements. In February and March 1937 Morgenthau received a reply both from the embassy and directly from Ambassador Joseph Davies. The gold reserves of Gosbank were estimated at about $335 million, and the figures for gold production essentially matched the League estimates. The embassy emphasized that Soviet gold reserves and production were treated as a "military secret" and cautioned that "such information as is given out is probably exaggerated."[122]

Ambassador Davies reiterated this point and explained that the numbers that appeared in the Soviet press were used as propaganda against Germany and Japan. If he were not already aware, Morgenthau now knew that the Kremlin was quite sensitive on gold data, "a military secret," and that claims in the Soviet

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[121]For Vandenberg's 1936 and 1939 criticism of Treasury gold policy see 121-125 below.

[122]"Paraphrase of Telegram Received," February 15, 1937, MD 55:119-121.

press on gold reserves and production were probably exaggerated to some extent.[123]

The Secretary sounded out State on the possibility of some Soviet participation in the Tripartite arrangement. During discussions early in March 1937 Morgenthau suggested that one way to support the franc, which was again faced with pressure to devalue, was to bring the large Soviet gold stocks into the Tripartite arrangement, "[w]ith their large holdings of gold it might make just the sufficient difference in the present crisis."[124] Herbert Feis, special economic advisor at State, did not like the idea, and Morgenthau dropped it, saying that his thinking on the issue had not yet "crystallized."[125] The destabilizing influence of large Soviet gold flows, and their positive potential if harnessed to the Tripartite arrangement, clearly played in Morgenthau's mind.

Thus the Secretary was disturbed, but not surprised, to learn on the morning of March 16, 1937, that "large amounts" of Soviet gold had appeared in London. Treasury's liaison with the Bank of England informed Morgenthau that the Bank expected between $243

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[123]"Ambassador to Morgenthau," March 15, 1937, MD 60:95.

[124]Quoted in Blum, Years of Crisis, 460.

[125]Ibid.

and $486 million in gold from the USSR to be offered in London. The Bank thought that the gold was new production and observed that this was the first sign of gold movements "out of Russia" in two years of "watching the situation with great interest."[126] In March and April about $91.4 million of Soviet gold appeared at London, the bulk of which was purchased by the Fed after arbitrage operations.[127]

Morgenthau contacted the Soviet embassy and invited representatives to his home for informal and exploratory talks concerning the movements of Soviet gold. Morgenthau had already negotiated with representatives of the Soviet Union, an experience that began with great optimism for mutual benefit but ended in disappointment and mutual recriminations. While at Farm Credit Morgenthau had been asked by Roosevelt to approach representatives of Amtorg, the Soviet trade agency in the United States, to negotiate the sale of surplus grain to the USSR and convey Roosevelt's

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[126]Knoke to Morgenthau, "Memo on Telephone Conversation with Bolton of the Bank of England," March 16, 1937, MD 60:132-135. Actually the first movement of Soviet gold took place the week ending January 21, 1937 when about $5.5 million was offered at London. See "Gold and Silver" The Economist, January 21, 1937, 435. Dollar amounts are converted from pounds using $4.90 to £1; the rate fluctuated between $4.89 and $4.94 in this period.

[127]From "Gold and Silver" The Economist, September 1937. Gold received in Treasury with the "Russian" stamp. 1934 $1,707, 1935 $140, 1936 $3,839,360. White to Morgenthau, December 1, 1940, Stabilization Records, 1936-1942, Box 74, Subject File: Gold,

interest in normalizing relations between the countries. Woodrow Wilson refused recognition to the Bolshevik regime between 1917 and 1920 and the United States had not extended diplomatic recognition to the Soviet Union by 1933.[128]

One argument for recognition, assiduously promoted by the Kremlin, was that the USSR represented a huge potential market for American commodities and manufactured goods. Without diplomatic recognition the Soviet Union purchased large amounts of cotton and machine tools. Would not recognition would make loans and credits easier to obtain for the Soviet Union and thereby greatly increase American exports, contributing to American economic recovery?[129]

OASIA. Before January 1934 the U.S. Assay Office would not accept Soviet gold.

[128]For Morgenthau's role in recognition see Blum, Years of Crisis, 54-57, and Browder, The Origins, 99-102, 126-131. For background on diplomatic relations and the decision to recognize see Edward M. Bennett, Recognition of Russia: An American Foreign Policy Dilemma (Waltham, Mass.: Blaisdell Publishing Company 1970), and John Richman, The United States and the Soviet Union: The Decision to Recognize (Raleigh, N.C.: Camberleigh and Hall, 1980).

[129]The economic arguments for recognition can be found in Browder, Soviet-American Diplomacy, 25-48, Bennett, Recognition of Russia, 90-103, 108-114, Jonathan Boe, American Business: The Response to the Soviet Union 1933-1947 (New York: Garland Publishing, 1987), 39-43, and Andrew J. Williams Trading with the Bolsheviks (Manchester: Manchester University Press, 1992), 155-173, Joan Hoff Wilson, Ideology and Economics: U.S. Relations with the Soviet Union, 1981-1933 (Columbia, Mo.: University of Missouri Press, 1974), 115-132, and Katherine Seigel, Loans and Legitimacy: The Evolution of Soviet-American Relations 1919-1933 (Lexington: The University Press of Kentucky, 1996), 136-137.

Morgenthau participated in the recognition process from the preliminary negotiations of the spring of 1933 through the signing of the final agreements on November 17, 1933. He worked with Soviet Foreign Commissar Maksim Litvinov, sent from Moscow, and his aides Konstantin Umanskii and Ivan Divilkovskii. Negotiations quickly centered on three issues, freedom of religion for Americans in the USSR, cessation of Soviet propaganda activities in the United States, and resolution of the debt issue. The debt issue was a tangle of claims against the Tsarist and Provisional governments mixed with those stemming from the repudiation of foreign investment and seizure of property by the Bolshevik government.[130]

The sticking point was the debts. State and Litvinov could not come to an agreement, and the impasse threatened to put an end to the negotiations. Roosevelt intervened and in a series of personal meetings with Litvinov concluded a "Gentlemen's Agreement." State and Roosevelt believed that the Soviet Union agreed to settle the debts issue by paying not less than $75 million and not more than $150 million to the United States in the form of steep interest payments on a projected credit. Litvinov and

[130]The Litvinov negotiations are covered in Browder, Soviet-

the Commissariat of Foreign Affairs believed the agreement was for the payment of no more than $75 million to resolve all claims, the money to come from a long-term low-interest loan granted by the United States.[131]

Soon after his appointment as Secretary of the Treasury, Morgenthau rescinded three Treasury directives restricting trade with the Soviet Union. In 1920 the Mint had forbidden any gold of Soviet origin to be accepted for assay. This made it difficult for the Soviets to complete transactions with the United States and doubtlessly lessened trade between the nations. In the early 1930s restrictions were placed on the import of certain lumber and wood products and safety matches from the USSR. Congress, facing a depression and hoping to protect American producers, found that the USSR used forced labor in particular logging areas and "dumped" matches. Vacating these orders, Morgenthau hoped to remove any obstacles to trade between the nations and act as an honest broker.[132]

American Diplomacy, Bennett, Recognition of Russia, 114-127. The debt issue by Williams, Trading with the Bolsheviks, 21-27.

[131]For the terms and various interpretations of the Gentlemen's Agreement see Bennett Recognition of Russia, 139-141, 182-3, and Browder, Soviet-American Diplomacy, 117-122, 211-2.

[132]"Revocation of Three Outstanding Orders," January 24, 1934, MD 1:5-9. Also see "Lifting of Restrictions on Soviet Products,"

Recognition, and the lifting of trade sanctions, did nothing to spur American economic recovery or increase Soviet-American trade, which collapsed after 1931.[133] The settlement of the debt under the terms of the "Gentlemen's Agreement" never took place and caused mutual recrimination and charges of negotiating in bad faith. This issue became a sticking point between the newly-appointed Ambassador Bullitt and the Foreign Commissariat, and for Hull and State was emblematic of Roosevelt's personal and irregular diplomacy. By 1936 the Soviet Union had publicly announced a policy of minimal imports and boasted of self-sufficiency in machine tools and cotton, the dominant American exports to the USSR.[134]

The other expected benefit of recognition, cooperation in the Far East on the matter of continued

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Economic Review of the Soviet Union 9 (February 1934), 46-7. The article claimed that "no convict labor is employed in the lumber industry of the Soviet Union" and "that within the Soviet Union there is no foreign market value for matches." American representatives in the Soviet Union were to research the forced labor issue but it never was resolved. William Henry Chamberlin, a newspaper reporter, did go to Karelia to investigate convict labor. He was told there by his driver "this isn't Karelia, it's *katorga* [hard labor or penal servitude]." William Henry Chamberlin, The Confessions of an Individualist, (New York, Macmillan, 1940), 151-152.

[133]Statistical information on Soviet-American trade can be found in Appendix A, Tables I, II, & III, in Browder, Soviet-American Diplomacy, 223-225.

[134]For the "Gentlemen's Agreement" see Donald Bishop, The Roosevelt-Litvinov Agreements: the American View (Syracuse: Syracuse University Press, 1965).

Japanese expansion, also came to naught. Roosevelt's Far Eastern policy was hampered by an isolationist Congress, a cautious State Department, and his own lack of commitment to a particular course.[135] After 1934 Soviet policy towards Japan changed, and cooperation with the United States on China and Japan receded in importance. Morgenthau must have been quite aware of the difficulty of completing successful negotiations with Soviet representatives given the divergent values and outlooks of the two powers.

It must have been with tempered optimism that Morgenthau initiated negotiations with Soviet representatives in the spring of 1937. The optimism originated in Morgenthau's belief that it was self-evident that it was in the interest of the Soviet Union to cooperate with the United States on gold and therefore protect the current value of gold and its place as the final arbiter of international settlements. Through cooperation, the United States, Great Britain, and the USSR could exercise practical control over gold production and distribution.

On Sunday April 11 Counselor Umanskii, who remained in the U.S. after the Litvinov mission, met

[135] For a close and quite critical analysis of FDR's policy in the Pacific see Frederick Marks III, Wind Over Sand: The Diplomacy of Franklin Roosevelt (Athens, Ga.: University of Georgia Press, 1988).

with Morgenthau and Herbert Feis of State at the Morgenthau home.[136] Morgenthau explained that gold bought by the Federal Reserve was now sterilized at a cost to the Treasury, but he reiterated that the U.S. was committed to purchasing gold at $35.00 an ounce less one quarter of one per cent commission. He continued that both the United States and the Soviet Union have "a tremendous stake" in gold, that "it is to your interest to cooperate and make gold valuable and not to do everything possible. . . (Oumansky) To depreciate it. (HMJr) Yes. That's the whole story."[137] Morgenthau suggested that it would be possible to transfer Soviet gold to the U.S. without alerting the market and to realize more of the income generated by gold sales by eliminating transaction commissions if Gosbank opened an account with the New York Federal Reserve Bank. After drawing no response to the assertion that the Soviet Union held gold to the value of $6 billion, Morgenthau held out the possibility of some Soviet participation in the Tripartite Pact: "I think the Russian State Bank should have here--should

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[136]This account of the origin of these meetings differs substantially from Blum, Years of Crisis, 467 where it is said that "Morgenthau was cautiously receptive to overtures from Russian Ambassador Troyanovsky and his associate Constantine Oumansky. . ." All the materials examined suggest that Morgenthau initiated the series of meetings.

send here somebody who could understand what we are doing; what the Tripartite agreement is; what it means; what is there in it for you."[138]

Morgenthau suggested that once an account was opened with the New York Fed, Soviet gold could be deposited and held under earmark, and then sold as needed or be used to settle international transactions by changing earmarks, the custom among the Tripartite states.[139] Umanskii attentively followed Morgenthau's arguments but seemed not to understand fundamental principles of the American gold policy: "you have to buy it because of this necessity of sterilizing gold?" As would became apparent, he did not fully grasp earmarking. In response to questions concerning Soviet gold reserves and production, Umanskii replied, "we have gold and gold enough but will not waste it because we most always keep in view an emergency situation."[140] Umanskii agreed to convey to Moscow the advantages of opening an account and dealing directly with the New York Fed and request information on gold reserves and

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[137]The transcript of the meeting "Conference at the Secretary's Home," April 11, 1937, MD 64:81-95.

[138]Ibid., 87. Morgenthau claimed that the $6 billion figure was from the League of Nations, but I have found no source for this. Ibid., 86.

[139]Ibid., 91-92.

[140]Ibid., 92.

production. In order that Morgenthau and Feis gain a better understanding of Soviet foreign trade policies, Umanskii sent two articles by Commissar of Foreign Trade Arkadii Rozengolts. There the Americans learned that the Soviet Union "has now freed itself from technical and economic dependence on other countries," that a principal task of foreign trade was the accumulation of foreign exchange reserves, that gold and foreign exchange went into a "war chest," and that between 1933 and 1935 $80 million in gold and silver was exported from the Soviet Union.[141]

Umanskii brought Moscow's reply to Morgenthau's overtures to Treasury on April 22. Gosbank would open an account with the Fed and would supply the necessary information. The bank would assign a permanent representative to Washington "as suggested by you."[142] Morgenthau began a campaign to gain approval for the Soviet request before it was formally presented. In a series of telephone conversations with Marriner Eccles, the Federal Reserve chairman in Washington, and George Harrison, chairman of the New York Federal Reserve, Morgenthau expressed the view that both State and

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[141]Hass to Morgenthau, "A Digest of Two Articles on Russian Foreign Trade," April 30, 1937, MD 66:368-369.

[142]See Blum, Years of Crisis, 467-473. The transcript of the meeting with Umanskii "Meeting in the Secretary's Office," April 22, 1937, MD 65:371-383.

Treasury wanted an account for Gosbank at the Fed both for cooperation in gold movements as well as for political reasons."[143] Both Eccles and Harrison were somewhat reluctant, Harrison fearing Soviet participation in the Tripartite arrangement and Eccles concerned with increased gold inflows and reserve requirements, but agreed that if Gosbank furnished the necessary information and if the application was approved by the Board of Governors an account would be opened for it.[144]

Morgenthau then turned to the unresolved debts, hoping that cooperation on gold could be expanded to settlement of this issue. He asked State to supply him with a copy of the "Gentlemen's Agreement," the terms of which had not been made public, and arranged a meeting of Treasury advisors on international monetary affairs with Robert Kelley of State. Kelley had helped negotiate the debt agreement and was in charge of the Eastern Europe desk.[145] He would act as liaison to Secretary Hull. Morgenthau moved aggressively on the

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[143]Morgenthau to Harrison, "Memo of Phone Conversation," April 22, 1937, MD 65:384.

[144]Meeting of Feis, Lochhead, Morgenthau, phone conversation with Marriner Eccles of the Federal Reserve Board and George Harrison of the New York Federal Reserve Bank, April 22, 1937, MD 65:391-3, 398, Harrison to Morgenthau, MD 66:213.

[145]Morgenthau, Feis, Viner, Kelley, "Meeting in the Secretary's Office," MD 67:242-256.

stalled debt problem, but his request to establish direct contact with Soviet ambassador Aleksandr Troianovskii on this issue was rejected by Roosevelt.[146]

Morgenthau did meet with Troianovskii, though, in May to appeal for information on Soviet gold reserves and production to be supplied to Treasury.[147] "If we could have a free exchange of information, the way our Bureau of Mines publishes all these statistics, and we could work out together mutual problems on this thing--what we are going to do about gold?--looking towards the future, I should think it would be most useful to both Governments. . . it is the unknown factor that worries people."[148] The Secretary emphasized that "the United States Treasury is so situated that it can keep a secret."[149] It seems that Morgenthau missed a possible inference on why the Soviets did not wish to supply gold statistics. Troianovskii's response, that "we have four aces. You have interest in the game.

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[146]"Memorandum," May 19, 1937, MD 69:113, Morgenthau to Kelley, May 19, 1937, MD 69:115.

[147]"The worst thing is the lack of knowledge. I don't care how big your production of metals is, its the unknown factor that worries people." "Meeting Secretary's Morgenthau's Office," May 26, 1937, MD 70:112.

[148]Ibid.

[149]Ibid., 113.

But once you know . . . ." was interrupted by Morgenthau's explanation of international finance and how Treasury competed with London in "the biggest game in the world."[150] Troianovskii, after again obtaining Morgenthau's guarantee of complete secrecy, promised to convey the request for information on gold reserves and production to Moscow.

On June 15 Troianovskii presented Moscow's response to Morgenthau and Feis. The Soviet Union would cooperate with the United States in the international gold market but would not supply any information on gold reserves or production as this was a matter of strictly domestic interest. Its cooperation would be on the same basis as agreements already concluded concerning timber and sugar in which voluntary restrictions were placed on the goods through international multilateral agreements.[151] In a new development Troianovskii allowed that Moscow would even consider taking dollars for Soviet gold to be kept under U.S. earmark in Moscow or at some other place.[152]

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[150]Ibid.

[151]"Memorandum: Soviet Participation in International Arrangements Dealing with the Sale of Soviet Timber and Sugar in the World Market," MD 73:77-80.

[152]"[W]e are ready to sell to your government the gold for dollars even if you don't want to have gold exported from our country. We are ready to discuss the possibility of deposit of gold in some

Misunderstanding and confusion marked the first attempted transaction between Gosbank and the New York Fed. On July 12 Umanskii met with Morgenthau to complain that the Fed did not purchase 10,000 kilograms of gold in London as requested. Morgenthau explained again that the gold was to be delivered at New York, since the purpose of having an account with the Fed was to avoid the gold point penalty and transaction costs incurred by arbitrage operations between London and New York. He continued that Treasury would treat the USSR as an equal with all other nations, but could not make exceptions for one government. Again Morgenthau used the opportunity to press for increased cooperation and for information on Soviet gold: "I think the visible and the invisible supply of gold have a direct bearing on the price of gold."[153]

These inconclusive negotiations took place during the "gold scare" of April-June 1937. The new and large offerings of gold on the market met decreased purchases by the British EEA, lowering the London price. Roosevelt's anti-inflation pronouncements and policies fueled rumors that Treasury was planning a reduction in the gold purchase price or would place barriers to the

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place without exportation." "June 15, 1937, 10:30 a.m.," MD 73:25. Neither Feis nor Morgenthau had a response to this bold offer.

[153]"RE: RUSSIAN GOLD DEALINGS," July, 12, 1937, MD 78:163.

free flow of foreign gold into the United States.[154] The flight from gold resulted in the sale of gold for dollars, adding to the sterilization burden. As described by the League of Nations:

> The impression gained ground in many quarters that some action to reduce the official buying price for gold in the United States of America was contemplated and that such a reduction might start another period of credit restriction, falling prices and lessened economic activity.[155]

Any gold that Treasury could keep off the market would help to the end the "gold scare." Morgenthau was surely disappointed that he was unable to integrate the Soviet Union gold into his "1934" gold standard. His apprehensions on the possible destabilizing effects of large Soviet gold movements were fully borne out in 1937.

The gold scare ended by late June 1937 not because the Soviets began to move gold through direct dealings with the Fed, but because Treasury maintained the gold price and the British EEA resumed its gold purchases.[156]

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[154]Northrop to White "Press Comments on Gold," July 12, 1937, Stabilization Records 1936-1942, Box 74, Subject File: Gold, OASIA. Also see "The Gold Problem," and "Leaders Consider Import Tax on Gold," New York Times, April 20, 1937 and "Gold Cut Again Denied by Treasury," New York Times, June 2, 1937. Johnson, The Treasury, 156-157, suggests that the gold scare was caused by the suspension of British gold purchases and ended when they resumed.

[155]League Of Nations, World Economic Survey 1936-1937 (Geneva: League of Nations, 1937), 158.

Morgenthau succeeded in opening an account for Gosbank with the New York Fed but failed to reach his more ambitious goals. Cooperation on gold movements from the Soviet Union was not forthcoming, information on reserves and production would not be supplied Treasury even with secrecy guaranteed, debt settlement remained a dead letter, and Soviet participation in the Tripartite arrangement was at best a remote possibility.

Information reached Morgenthau and Treasury in the summer and fall of 1937 that put into question the existence of a large Soviet gold reserve or continuing increases in production. In June the American embassy in Moscow sent Morgenthau a telegram which quoted "a reliable source that during the past six to ten months production of Soviet gold had been diminishing rather than increasing." This was due to "the executions, arrests and removals of competent engineers and specialists" associated with the January 1937 trial of the "Anti-Soviet Trotskyite Center."[157] Vice Commissar

[156]About $161 million of Soviet gold was offered on the London market January to September 1937; $96 million January to April, $21 million May to June, $44 million July to September. From The Economist, "Gold and Silver." "The maintenance of the gold price depended upon the willingness of the United States and the United Kingdom, and mainly the former, to continue absorbing the quantities of gold coming forward." League of Nations, World Economic Survey 1937-1938 (Geneva, League of Nations, 1938), 159.

of Heavy Industry Yurii Piatikov, Serebrovskii's nominal boss, a defendant in the trial was accused of "wrecking" in the mining industry at the order of Leon Trotsky. The embassy telegram reported that "Serebrovsky . . . is again under attack and it is believed that he will be removed from his post."[158]

In support of these statements the embassy included reports given by two American mining engineers, one employed by Glavzoloto, that described the disruptions caused by the arrest of "technically competent men" and their replacement by "new and inexperienced engineers." The reports also noted the low productivity and high costs of Soviet mining operations in spite of new equipment and other investments.[159]

In August Morgenthau received a letter from Ambassador Joseph Davies, who reported a conversation with Foreign Commissar Litvinov concerning gold. In response to a question posed by Davies, Litvinov, at

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[157]American Embassy, Moscow to Secretary of State, "Paraphrase of Telegram," June 22, 1937, MD 74:62.

[158]Ibid.

[159]See "Memorandum on difficulties in the Soviet Gold industry, forwarded by Ambassador Davies, dated July 3, 1937," MD 77:126. For the report of August Chopp who was employed by Glavzoloto see "Strictly Confidential," June 30, 1937, MD 77:133-138, for that of Harry Wilson see "Strictly Confidential," June 23, 1937, MD 79:99-104. Littlepage reported a slowdown in the development of newly-discovered deposits. Littlepage, Soviet Gold, 268.

first evasive, "did say however, that he could state confidentially to me that the current estimates were rather exaggerated." Davies again told the Secretary that the Soviet leadership is "constantly exaggerating its size [the gold reserve] for propaganda purposes and its possible effect on their enemies."[160]

The most likely explanation for the unprecedented movements of gold from the USSR to London in the spring of 1937 was the release of Soviet reserves made possible by the arrival of the Spanish gold reserve in Moscow on November 5, 1936. The government of the Spanish Republic moved the reserve from Madrid to Cartagena in September 1936 to escape advancing insurgent forces. The reserve of about $788 million was the fourth largest in the world after the United States, France, and Great Britain, but was only one-half that of Britain, one-third of France, and one-eleventh of the United States.[161] About one-quarter of the reserve was spent between October 1936 and February 1937 in the purchase of arms, munitions, food, and other material necessary for the prosecution of the

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[160]Davies to Morgenthau, "In Re: Soviet Gold-Baltic Policies-European Peace," August 12, 1937, MD 77:127.

[161]About the same as that of Belgium, Switzerland, or the Netherlands. Gerald Howson has the Spanish reserve fifth, behind the USSR, but there are no reliable data for the Soviet reserve. See Gerald Howson, Arms for Spain : The Untold Story of the Spanish Civil War (New York: St. Martin's Press, 1998), 121.

war. The Largo Caballero government made the decision to move the remaining 7,800 cases of gold, mostly in the form of coin, to Moscow for safekeeping and subsequent disbursement. The 510.08 metric tons of gold, valued at about $518 million, was to be used to purchase Soviet material and munitions and foreign exchange as per order of the Republican government.[162]

This $518 million was almost twice the claimed gold backing for the Soviet currency, and no single gold movement of the period can be compared to the transfer of the Spanish reserve. The disappearance of the Spanish gold reserve was noted by insurgent forces and by the economists of the League of Nations, though they did not credit the Spanish reserve to Soviet stocks.[163]

The Kremlin charged the Spanish government about $171 million for material supplied. Starting in 1937 the balance, about $346 million, was sold for foreign exchange and placed in the Soviet-controlled Banque Commercial de l'Europe du Nord (BCEN) in Paris. The exchange was to be used to purchase material and

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[162]The best account of the transfer and subsequent developments is found in Burnett Bolloten, The Spanish Civil War: Revolution and Counterrevolution (Chapel Hill: University of North Carolina Press 1991), 145-158. Also see Howson, Arms for Spain, 121-129, 151-152, 203, 217.

[163]League of Nations, World Economic Survey 1937-1938, 162.

armaments unavailable in the Soviet Union for delivery to Republican Spain. During 1937 about $110.6 million in gold bearing the "Russian" stamp was purchased by the New York Federal Reserve and transferred to Treasury.[164] It appears that the "unprecedented" movement of Soviet gold was the conversion of the Spanish gold to exchange to be used for arms purchases. It is not clear whether and when the Spanish reserve was melted and recast into bullion with the Gosbank stamp. But much of the movement of gold out of the Soviet Union in 1937 and into 1938 must have been the result of the transfer of Spanish gold and its subsequent disbursement. The gold movements of 1937 were the product of an ongoing financing effort and not the opening of a golden flood from the Kremlin.

Morgenthau was right to be concerned with the potential disruptive effects of increased gold flows from the Soviet Union on Tripartite cooperation and New Deal monetary management. The Secretary's fruitless efforts to increase cooperation over gold movements or effect debt settlement were needed and worthy. It is useful here to review what Morgenthau and Treasury learned in this episode. A number of sources pointed out that the size of the Soviet gold reserve was

[164]White to Morgenthau, February 1, 1940, Stabilization Records

“exaggerated” and much smaller than assumed and found in foreign estimates. This should have been some relief to one concerned with the increasing volume of the “deluge.” The smaller the Soviet reserve, the less threatening Soviet monetary actions could be.

Morgenthau also had good information based on eyewitnesses’ accounts on the disruptions to Soviet gold mining caused by the series of purges, show trials, imprisonments, and executions in 1937-1938. Piatakov and the mining industry had a prominent role in the “United Opposition” trial. From Littlepage it is clear that “wrecking” took place in Soviet gold mining. This “wrecking” was little more than a series of accidents caused by unskilled labor working at a forced pace with antiquated equipment and mostly incompetent management. When goals, targets, and “norms” were not met, the obvious explanation, to Stalin, was “wrecking” or “Trotskyite” activity.

Serebrovskii was promoted, not demoted, after the trial of Piatakov, but was himself arrested in 1938 and died in the camps not long afterward.[165] One can only

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1936-1942, Box 74, Subject File: Gold, OASIA.

[165]Serebrovskii was an ally of Sergo Ordzhonikidze, Commissar of Heavy Industry, and was not close to Piatikov. It is not yet clear what role, if any, Serebrovskii played in the downfall of Piatakov. Ordzhonikidze “committed suicide” in February 1938. For a narrative and attempted explanation for the Piatikov affair and the death of Ordzhonikidze see Robert Conquest, The Great

speculate on Morgenthau's response to the news that Commissar of Foreign Trade Rozengolts, recommended as "authoritative" on trade and gold, had been secretly planning the overthrow of the Soviet regime with Nazi Germany.[166]

By 1938 the Soviet mining industry, like much else in the Soviet Union, had been "wrecked" by purges and executions. Skilled engineers and managers were dead or in prison and all of the foreign engineers had been relieved of their duties, their contracts abrogated, and ejected from the country. Any objective assessment of future gold production in the Soviet Union would have to take into account the destruction of skilled Soviet managers and the expulsion of foreign experts.

Morgenthau's sparring with Troianovskii over gold data and financial information should have convinced the Secretary that there was no basis for cooperation predicated on access to Soviet information. Statistics and figures routinely issued by other governments were for the Soviet Union "a military secret." Even with Morgenthau's repeated guarantees of complete

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Terror: A Reassessment (New York: Oxford University Press, 1990), 140-173.

[166]"Rosengoltz and Krestinsky testified that they, with Rudzutak and Gamarnik, had constituted the main center of the conspiracy after the arrest of Rykov and Bukharin in February 1937. . . . Their connection with German espionage, arranged through Trotsky, had dated back to 1922-1923." Conquest, The Great Terror, 359.

confidentiality and secrecy, Ambassador Troianovskii specifically and categorically rejected furnishing any information on gold. Morgenthau's irregular and sympathetic overtures to the Soviet Union were no more successful than the official and formal efforts of State, efforts derided by Morgenthau and FDR. The Secretary's accommodationist and conciliatory overtures were answered with a mix of incomprehension, arrogance, and bluster.

Soviet representatives in the United States had no authority to negotiate and did not fully grasp the basic features of the American monetary and gold-purchase policy. These difficulties, hurdles, and distortions in the relations between the states were to be exaggerated rather than ameliorated in the following years. By 1937 the Roosevelt administration had worked out a satisfactory international monetary arrangement with Britain and France, one that would serve as a basis for later cooperation. No comparable arrangement was concluded with the Kremlin, and even rudimentary sorts of communication and information proved laborious and frustrating.[167]

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[167]One must keep in mind that Soviet representative abroad were well aware of the possible consequences of their profession and contact with foreigners, denunciation, imprisonment, or execution.

CHAPTER 4

TREASURY "GOES TO WAR," 1938-1940

In 1938 Treasury moved to center stage in the administration's effort to deter future aggression, aid China in its struggle against Japan, and support Britain and France against German demands. Morgenthau was convinced that American policy, as determined by the State Department, in both Europe and Asia was one of appeasement that was doomed to failure. He believed that tangible support and action would, or could, end the demands of the "aggressor powers" and make any future war unnecessary.

There were, however some serious constraints on the ability of Treasury to act on Morgenthau's beliefs. In 1935 Congress passed the Johnson Debt Default Act which prohibited public or private loans to foreign governments in default on their World War I debt. While Finland had kept up its payments, both France and Britain were in default. There was some debate whether the provisions of the Act proscribed loans to the Soviet Union, as neither the tsarist nor provisional government debts had been settled. However the stalled "Gentlemen's Agreement" with the Kremlin would have to be settled before the Johnson Act restrictions could be considered in relation to Moscow. Only China and Latin

America remained as potential beneficiaries of American public and private credit for the "anti-aggressor" design of the Secretary.[168]

Congress also passed the Neutrality Act in 1935 which embargoed the export of any "arms, ammunition, or implements of war" to any belligerent nation. It was left to the president to determine when a state of "belligerency" existed and declare particular nations as a "belligerent." The executive was given some room to maneuver by the legislation, but the expression of Congressional sentiment was clear that the government United States should keep strictly neutral in foreign conflicts and not support or become identified with any side. This was of course a serious impediment to Morgenthau's desire to aid China, France, and Great Britain.[169]

An October 1937 speech in Chicago by FDR marked the divergence of the executive from the legislative branch on the issue of involvement in foreign conflicts. "Peace-loving nations" should "quarantine" aggressor nations. But a quarantine could be

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[168]For the Johnson Act see Dallek, American Foreign Policy, 253-255 and William Langer and S. Everett Gleason, The Challenge to Isolationism 1937-1940 (New York: Harper and Brothers, 1952), 51, 232.

[169]For the 1935 Neutrality Act and subsequent amendments see Dallek, American Foreign Policy, 117-137, 180-192, 200-214 and Langer and Gleason, Isolationism, 202-232.

collective and active, not separate and passive. "There is no escape through mere isolation or neutrality . . . . There must be positive endeavors to preserve peace."[170] The stimulus for this speech was the advance of Japan into northern China and along the Chinese coast after the "Marco Polo Bridge Incident" of July 1937. Congress and FDR struggled over the best means to secure peace and America's national security, either strict non-participation and neutrality or some form of collective diplomatic or economic coercion and action.[171]

Morgenthau was likely more fully committed to the latter course than even his president. Treasury had the will, and believed it had the means, to aid China, France, and Britain and hinder Germany and Japan. During the Czechoslovak crisis in the fall of 1938 FDR asked the Secretary to suggest financial or economic means by which the United States could help Britain and France. FDR wished to demonstrate American support for Britain and France and caution Hitler, without directly involving the United States or contravening Congressional legislation. Morgenthau provided three options that could be used separately or in

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[170]Dallek, American Foreign Policy, 144-151.

combination, none of which were of major significance but would serve to demonstrate American governmental opinion and support. Roosevelt, intrigued by one of the suggestions, asked Secretary of State Cordell Hull to approve the action. Hull rejected the proposal, counseled caution, and countered that the issue of the Austrian debt to the United States be opened with Germany.[172]

For Morgenthau this was another demonstration of the ineffectiveness of State Department policy and the timidity and obtuseness of Hull. The Secretaries had clashed numerous times over specific items of aid to China and over the general American response to Japanese aggression. Morgenthau strongly felt that only confrontation or direct action would impress Tokyo, and Berlin as well. The Munich "sell out" of Czechoslovakia coming on the heels of Hull's brusque rejection of support for the Allies induced Morgenthau to act.[173]

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[171]For a critical view of the "quarantine" speech and subsequent actions see Marks, Wind Over Sand, 65-74.

[172]The options were making the Export-Import Bank financial agents for Britain and France, using the Tripartite agreement to make gold movements and earmarking easier and guaranteeing the gold price for a year, or applying countervailing duties or an embargo on German goods. For this episode see Blum, Years of Crisis, 516. In March, 1938, the Anschluss made Austria and part of Germany.

[173]For Morgenthau's view of Hull see "The Immobile Mr. Hull," in Blum, Years of Crisis, 508-513.

In an October 17, 1938 letter to FDR the Secretary reviewed what he viewed as seven years of aggression appeased in Asia and Europe. There was no end to the demands made by Japan, Germany, and Italy, and each effort to meet a “final” demand simply resulted in renewed and bolder exactions. Morgenthau recommended that while there was still time the administration needed to act to “check the aggressors.” The United States must

> use our great financial strength to help safeguard future peace for the United States, and to make your “Good Neighbor” policy really effective, we should introduce at once a program of peaceful action on two fronts-in the Far East and in Latin America. In these two areas we can move effectively and with the least complication . . . . We can stop that penetration by an intelligent use of a small proportion of our enormous gold and silver holdings.[174]

The letter continued that efforts by Treasury to aid Chinese resistance to Japanese aggression, suggested by the President, had been frustrated and blocked by State. Morgenthau called for a positive program, so that the United States no longer would simply have to accept a fait accompli, or act in response to initiatives of others. A positive program would bolster the anti-appeasement forces in Britain

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[174]The letter can be found in Blum, Years of Crisis, 526. For the significance of this letter see Ibid., 523-528 and Rees, White, 74-75.

and France, give heart to the small nations and neutrals, support Chinese resistance, and send a strong signal to the aggressor nations.

With this “declaration of war” Morgenthau became the leading advocate for preparedness and action in the administration. He supported aiding the allies, within legal bounds, rearming the United States, resisting Axis demands, and amending or overturning neutrality legislation. The Secretary began to study military matters, aircraft production, munitions, and defense issues and frequently consulted with the Secretary of War. Along with Harold Ickes, the Secretary of the Interior who did not have much influence in foreign affairs or a strong personal relationship with FDR, Morgenthau supported the “interventionist” position at Cabinet meetings. The Secretary charged Treasury planners with developing means to translate American gold and silver reserves into effective aid for China and Britain.[175]

In the spring of 1939 Morgenthau advanced a bold and ambitious program that, if adopted, would bolster the anti-appeasement forces while simultaneously undercutting the influence of the deficit-spending wing of the New Deal who were agitating for a huge new "pump-priming" program. Building on the idea of using the "enormous gold and silver holdings," Treasury planners developed a program to "lend rather than spend" to economic recovery. Morgenthau was quite concerned by the mounting national debt and annual deficit which he funded through bond sales and other operations.[176]

The foreign aspect of Morgenthau's plan grew directly from the 1938 plan rejected by Hull, loans to Latin America to secure the Western Hemisphere and a $100 million credit to aid China. The new element was that now the Soviet Union was included in this defense/anti-appeasement strategy. A large dollar credit to "Russia" would accomplish four things:

> (a) Be an important factor in helping recovery in the United States.
>
> (b) Make substantial contributions to the solution of our surplus cotton problem.
>
> (c) Settle the outstanding debts between Russia and the United States and clear the decks for future economic collaboration between the two most powerful countries in the world, which, irrespective of their political differences, constitute, for the present time at least, the core of resistance against the aggressor nations.
>
> (d) Bring pressure to bear against the Chamberlain Government to seek closer

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[175]See John Morton Blum, From the Morgenthau Diaries, vol. 2, Years of Urgency 1938-1941 (Boston: Houghton Mifflin, 1965), 44-50.

[176]For Morgenthau and deficit spending see Ibid., 36-43 and Barber, Designs Within Disorder, 102-115.

> military collaboration with Russia in stopping German aggression.[177]

Treasury planners suggested that the outstanding debt of the Soviet Union could be settled, "payments amounting to $15 to $20 million," by using the spread between the 8 per cent charged on the $250 million credit to the Soviet Union and the cost of borrowing, applying the difference to the debt. The credit would be used primarily to sell cotton stockpiled in the United States, and could be financed "by special government guaranteed serial notes and hence not appear on the budget, or out of silver seiniorage at no cost."[178]

To this recommendation Morgenthau added a feature to make repayment easier for the Kremlin and more attractive to the United States. The cotton could be paid for by the delivery of manganese, a strategic material produced in the Soviet Union, in short supply, and needed for the American armaments program.[179] This "lend rather than spend" plan, with minor modifications, received the approval of the White

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[177]White to Morgenthau, "Interoffice Communication," March 31, 1939, Box 6, File 14a, White Papers, Seely Mudd Library, Princeton University. Hereafter cited as White Papers, Princeton. Also see an earlier draft in File 15a, Ibid.

[178]Ibid.

House. It met strong resistance in Congress, however, and Morgenthau's attempt simultaneously to by-pass State and avert increased deficit spending failed.[180]

Although frustrated in his larger plan, Morgenthau continued his efforts to settle the Soviet debt in order to normalize relations and strengthen bonds between the nations. Clearly in Morgenthau's mind Tokyo and Berlin would take note of, and respond to, closer relations and signs of cooperation between Washington and the Kremlin. This effort paralleled that of FDR and the leaders of Britain and France who, in the wake of Munich, tried to find some sort of basis for cooperation between the Kremlin and the western democracies.[181]

Treasury believed that Stalin desired debt settlement, was anxious to establish a more intimate relationship with the United States, and that the negotiations would be short and successful.[182] Morgenthau was given permission to reopen debt

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[179]Blum, Years of Urgency, 38. The State Department had identified manganese as one of the strategic materials needed by the United States needed. Ibid., 45.

[180]Ibid., 36-42.

[181]Dallek, American Foreign Policy, 171-198.

[182]"And anyone who settles that debt at this time-and the conditions are rather easy of settlement there now, both private and public debt-will accomplish a rather brilliant stroke." Harry Dexter White at meeting of the "9:30 group" June 19, 1939, MD 197:256.

negotiations by Roosevelt and Hull, and Umanskii, now ambassador, was called to Treasury for talks.[183] In the June 22, 1939, meeting Umanskii was "non-committal" on the debt issue but promised to convey the American proposal to Moscow. As there was some disagreement between State and Treasury on the precise provisions of the "Gentlemen's Agreement" and the legality of extending a credit to the Soviet Union before the debt issue was settled, the 1933 agreement was retrieved from the White House safe. It turned out that the amount agreed upon to settle the debt was between $75 and $150 million, considerably more than the $15 to $20 million mentioned in the earlier Treasury recommendation.[184]

Treasury soon learned that "trade talks" were taking place in Berlin between the Soviet Union and Germany. This confirmed that the replacement of Litvinov by Viachyslav Molotov as Foreign Commissar indicated a departure in Soviet foreign policy and a rejection of the "Litvinov line." A report from Berlin

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[183]Hull to Morgenthau, "Memo of phone conversation," June 23, 1939, MD 198:168-171. FDR to Morgenthau, "Memo of phone conversation," June 23, 1939, Ibid., 335.

[184]For the meeting with Umanskii see "Meeting in the Secretary's Office," June 30, 1939, MD 199:428-437. For a copy of the "Gentlemen's Agreement" see July 26, 1939, MD 205:100-104.

noted that observers were "skeptical of any real results" stemming from the talks.[185]

On July 5 Morgenthau received a phone call from Ambassador Umanskii who wanted to review the debt issue before he left for Moscow. During the conversation Morgenthau observed that a solution to the debt problem would be the key to the solution of other outstanding problems between the nations.[186]

The bright hope of debt settlement, dimmed by Umanskii's seeming disinterest, was quenched by the news from Berlin during August. A follow-up report on the German-Soviet trade talks noted that they were "moving forward."[187] Not long afterward the world, and Treasury, learned that Germany and the Soviet Union had concluded a nonaggression pact. The news of course ended any hopes of Morgenthau, or FDR, that the Soviet Union would remain a strong opponent to future German moves in Europe. However the news of the pact did little to change the importance of the Soviet Union in Asia where it remained the most reliable ally of China and opponent of Japanese expansionism.

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[185]State to Morgenthau, July 3, 1939, MD 201:64A.

[186]Umanskii to Morgenthau, Record of telephone conversation, July 5, 1939, MD 201:87-89.

[187]Telegram Received, MD 206:66 B, C.

Morgenthau's efforts to forge closer cooperation with the Soviet Union may well have been doomed from the start. The approach on debt settlement was made when the Litvinov "collective security" strategy had already been dropped by the Kremlin. Stalin had been greatly disappointed by the lack of cooperation after recognition and concluded that the United States, with its domestic constraints, was an unreliable and too-distant ally to be of any use.[188]

Both the character of the diplomats as well as the lack of diplomatic representation contributed to the failure to fashion any real cooperation or communication between the states. The recall of Ambassador Troianovskii and his replacement by Umanskii hindered efforts to bring a rapprochement between the nations. Umanskii was universally disliked, detested and apparently unable to complete any negotiations or act with civility.[189] Molotov later expressed the view that as the Soviet Union practiced "centralized

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[188]See Adam Ulam, Expansion and Coexistence: The History of Soviet Foreign Policy 1917-67 (New York: Frederick A. Praeger, 1968), 211-215.

[189]Cordell Hull described Umanskii as "insulting in his manner and speech and had an infallible faculty for antagonizing those of us with whom he came in contact." Quoted in Thomas Maddux, Years of Estrangement: American Relations With the Soviet Union, 1933-1941 (Tallahassee, Fl.: University of Florida Press, 1980), 98-99. Dean Acheson said he "had no redeeming qualities." See Dean Acheson, Present and the Creation: My Years in the State Department (New York: W. W. Norton, 1969), 34. Molotov later characterized

diplomacy" the character or personality of individual ambassadors was not of great importance. "In most cases ambassadors just transmit what they are told to pass on. . . . Ambassadors had no independence, and they could not have had any because of the situation was so complicated. It was impossible for the ambassador to take any initiative."[190]

Compounding this hindrance to effective diplomatic relations and communication was the lack of American representation in Moscow during this period.[191] Ambassador Davies officially left his post in June 1938 and his replacement, Laurence Steinhardt, did not arrive in Moscow until August 1939, much too late to have any influence on Soviet-American cooperation or the pact. FDR chose his Moscow ambassadors outside of normal State Department channels and thereby hoped to establish direct connections between the White House and the Kremlin. Through this "personal diplomacy" Roosevelt believed he could solve those problems between the nations that State had been unable to conclude.

Umanskii as "a lightweight." Felix Chuev, Molotov Remembers: Inside Kremlin Politics (Chicago: Ivan R. Dee. 1993), 69.

[190]Chuev, Molotov Remembers, 67-69.

[191]See David Mayers, The Ambassadors and America's Soviet Policy (New York: Oxford University Press, 1995), 123-125. Steinhardt was appointed March 1939, but did not present his credentials until August 11, 1939, just two weeks before the pact was announced.

There is some debate on the efficacy of "personal diplomacy" and the American ambassadors in Moscow after recognition. Both William Bullitt and Joseph E. Davies have been roundly criticized for their actions, omissions, interpretations of events, and attitudes. This debate does not need to be examined in detail to conclude that "personal diplomacy" was not the solution to the problems between the United States and the USSR. The fact that Roosevelt wanted to replace Davies with an ambassador from "the Jewish banking community of New York" suggests that FDR was out of touch with what was needed in Moscow. The time for economic incentives and pressure had long passed, if it was ever really viable, and what was needed was an envoy who could commit the United States to some positive collective action with Britain, France, and the Soviet Union. The hesitant and tardy selection of the new ambassador illustrates the limitations of FDR's hesitant and tardy "personal diplomacy."[192]

Morgenthau again was frustrated in his efforts to establish economic cooperation between the Soviet Union

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[192]For the FDR quote and the interregnum between Davies and Steinhardt see Dennis Dunn, Caught Between Roosevelt & Stalin: America's Ambassadors to Moscow (Lexington, University Press of Kentucky, 1998), 87-98. For criticism of "personal diplomacy" see Marks, Wind Over Sand. For a more sympathetic view of FDR and the Soviet Union see Edward Bennett, Franklin D. Roosevelt and the Search for Security: American-Soviet Relations, 1933-1939 (Wilmington, Del.: Scholarly Resources, 1985), 167-187.

and the United States in order to forestall continued Japanese or German aggression. The Secretary, however, developed what he thought might prove a new basis for trade and economic relations between the nations--the exchange of a scarce and strategic material, manganese, for dollars needed by the Soviet Union. This venture failed at this time. But Morgenthau would later revive scarce and strategic raw materials as a basis for economic relations between Moscow and Washington. It should be noted that Treasury's proposal for cooperation with the Soviet Union did not mention gold exchange as a basis for economic relations. This could have been because Treasury was not convinced, given past experience and information, that the Kremlin controlled a large gold reserve. It is more likely, however, that Treasury's reluctance to utilize the gold nexus was more a function of Treasury's growing gold problem.

The Gold Problem 1940

The outbreak of the war in Europe in September 1939 forced Treasury to review the administration's gold and silver purchase polices and consider the place of gold in wartime and future monetary and exchange relations. The gold-purchase policy had attracted some criticism before 1939, but much of it appeared to be partisan attacks that had been effectively deflected or ignored. The German invasion of Poland on September 1, 1939, followed by the declarations of war by Britain and France, strengthened the value and place of gold in international exchange. However, depending on the outcome of the war, gold might either remain valuable or be "demonitized," no longer accepted to conclude international transactions.

Britain and France could be expected to maintain support for the international gold bullion standard. The British Empire produced about 55 per cent of the world's annual gold output.[193] London processed and profited by the sales of imperial gold, as well as serving as a way-station for gold flows from the Continent to New York. France's gold reserve closely matched Britain's, and, outside of the Soviet Union, which released no reliable statistics, France was either second or third in gold holdings.[194] France,

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[193]For gold production 1934-1939 see Frank D. Graham and Charles Whittlesey, Golden Avalanche (Princeton: Princeton University Press, 1940), 23. Also see League of Nations, World Economic Survey 1938-1939 , 161-163. For the place of London in gold sales and transshipments see Graham and Whittlesey, Golden Avalanche, 104-109.

[194]France claimed $2.7 billion in gold reserves in 1939, Great Britain $2.6 billion in 1938. Great Britain stopped releasing gold figures after September 1939. See League of Nations, World Economic Survey 1942-1944 (Geneva, League of Nations, 1945), 188, Table 14, "Recorded Central Gold Reserves."

Britain, and the United States were linked by daily gold transactions and other cooperative actions through their stabilization funds.[195]

Under the "cash and carry" provision of the amended Neutrality Act, it was in the interest of Britain and France to maintain the dollar value for gold, for at some point their reserves would be needed to acquire the dollars necessary for armaments and war materials.[196] Transport of the gold, however, was likely to present some problems. Gold sold by Paris or London had to be delivered to New York for payment. Either neutral bottoms would be used for shipment, or the Allied nations had to chance the sinking of gold-laden ships, threatening to sever their economic lifeline to the United States.

The "demonitization" threat was contingent on a partial or complete Axis victory. Germany, Italy, and Japan had depleted their gold reserves on armament and material purchases before the war, and now held minimal

[195]For the activities of the stabilization funds in this period see League of Nations, World Economic Survey 1938-1939, 179-181.

[196]The Act was amended in November 1939 to allow for sales of military goods, if approved by the Munitions Board, on a "cash and carry basis." American bottoms could not be used to transport the goods. See Langer and Gleason Isolationism, 231-235. For gold convertibility and the Allies powers see John C. DeWilde, David Popper, and Eunice Clark, Handbook of the War (Boston: Houghton Mifflin Company, 1939), 190-193.

reserves.[197] The managed currency/state trading regimes of these nations, coupled with a similar system in operation in the Soviet Union, threatened the place of gold in a world dominated by clearing agreements, blocked balances, and managed trade. In public statements Axis leaders and finance ministers denounced and rejected the place of gold in monetary affairs, even as these nations assiduously acquired and hoarded the metal. Gold was not an essential element of the proposed economic "new orders" of Europe and Asia.[198]

Treasury had both immediate and long-term considerations in planning for the future of gold. First was the issue of the already large and rapidly-increasing stocks owned by the Treasury. Gold maldistribution had become even more pronounced through the first half of 1939, and all signs pointed to an acceleration of this trend, not its end.[199] Second, purchases of gold could help the Allied war effort, an

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[197]The German gold reserves in 1939 $43 million, the Italian $144 million. League of Nations, World Economic Survey 1942-1944, 188.

[198]See for example J. H. Carmichael, "Commodity Status for Gold Scouted," New York Times, January 21, 1940, Otto D. Tollischus, "Germans Hold U.S. Faces Gold Crisis," New York Times, February 3, 1940, "Gold Standard's End Scouted by Heimann," New York Times, February 19. 1940, and John H. Crider, "Gold Hoard Stirs Growing Concern: Value, Should Germany Win, Gives Washington Subject for Worried Surmise," New York Times, May 19, 1940.

[199]In 1938-1939 about $3.1 billion of gold was purchased by the Treasury. See Richard H. Timberlake, Monetary Policy in the United States: An Intellectual and Institutional History (Chicago: University of Chicago Press, 1993), 281, table "Gold and Silver Stocks in U. S. Treasury 1914-1942.

action desired by Secretary Morgenthau, but might as well result in dollars "leaking" to the Axis. The Soviet Union had gold reserves, enormous potential gold production, and at the time pursued economic cooperation with Germany.[200] Purchases of Soviet gold might well result in Germany gaining access to dollars, and thereby greatly complicate Treasury's effort to restrict Germany's access to dollars and other assets.[201]

In the long term, the defeat or surrender of Britain or France individually or in combination would remove either one or both legs of the international gold standard and would probably greatly restrict or shut America out of European markets. With Japan in control of the China coast, the United States could well find its trade and markets restricted to South America. Even there the U.S. was in competition with old British and new German and Italian commercial and business connections.[202]

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[200]An economic agreement between Germany and the Soviet Union was concluded on February 11, 1940. However economic cooperation had begun with the negotiations preceding the pact in July 1939. See Aleksandr Nekrich, Pariahs, Partners, Predators: German-Soviet Relations, 1932-1941 (New York: Columbia University Press, 1997), 148-158.

[201]For U. S. efforts to deny dollar assets to Germany and Italy through the Office of Foreign Funds Control see Blum, Years of Urgency, 133-138, 326-338.

In Treasury the locus for the gold issue was the Division of Monetary Research, headed by Harry Dexter White. The Division was formed in March 1938 when the international aspect of monetary policy was split from the domestic side, which remained with the Division of Research and Statistics. Monetary Research was to "provide information, economic analyses, and recommendations" for the operations of the Stabilization Fund, the Gold and Silver Purchase Acts of 1934, capital flows into and out of the U.S., the exchange position of the dollar, and the monetary, fiscal and banking polices of foreign countries.[203]

Secretary Morgenthau, due to his lack of experience in finance or monetary affairs, leaned heavily on the advice and expertise supplied by the Division and White. There was very little that White did not know about, influence, or shape in foreign monetary affairs. Secretary Morgenthau trusted White completely and relied on him heavily for his excursions to the Hill and for his weekly encounters with the press. White owed his position and rapid rise to the

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[202]For background on this issue see Notter, Postwar Foreign Policy Preparation, 28-38. For Treasury's response see Blum, Years of Urgency, 50, and Dallek, American Foreign Policy, 233-236.

[203]For the creation of the Division of Monetary Research see U. S. Department of the Treasury, Annual Report of the Secretary of the Treasury on the State of the Finances 1938 (Washington, DC: Government Printing Office, 1938), 187.

service and support he was able to provide the sometimes diffident and difficult Treasury Secretary.[204]

White had been closely involved with the gold issue since his first assignment at Treasury. He came to Washington in late June 1934 as a temporary employee of the "Currency and Banking Study Group." White was hired by Jacob Viner, a University of Chicago economist who was serving as "Special Assistant" to Secretary Morgenthau.[205] The result of White's summer assignment was a study entitled the "Selection of a Monetary Standard for the United States."[206] The study concluded that the current "international gold standard" was to be preferred to a return to the old gold standard or the adoption of a managed currency. For White the "international gold standard" combined the flexibility and protection afforded the domestic price level of a managed currency with the promotion of international

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[204]For the relationship between the Secretary and White see Rees, White, 62-69, Blum, Years of War, 889-90, and Morgenthau, Mostly Morgenthaus, 309-314. For the Secretary's reliance on "expert advice" see Alsop and Kintner, "Henny Penny," 98-100.

[205]For the press release on the Viner group and White see "Tax Reform Programs and Studies," Records of the Office of Tax Analysis, June, 24, 1934, Box 62, RG 56, National Archives. Viner and White were both students of Frank W. Taussing of Harvard, a government consultant and expert on tariff policy. White had won the David A. Wells prize for economics for his dissertation "The French International Accounts, 1880-1913," which was published as a book in the Harvard Economic Studies Series in 1933.

[206]White to Viner, "Selection of a Monetary Standard for the United States," September 22, 1943, Box 1, Folder 2, White Papers, Princeton.

trade supplied by fixed exchanges or the gold standard. White noted that the public had an ingrained bias against inflation, but was not concerned with exchange-rate fluctuations. He also observed that the public was not well-informed on monetary matters, and was prone to suasion by "influential opinion makers."[207]

The report was a thorough survey of alternative money standards, but in conclusion was cautious and essentially supported the status-quo established in the first months of 1934. White did suggest that the ESF could safely be liquidated, that some U.S. gold might be deposited in the Bank for International Settlements, and that Treasury should gain control of monetary policy and end the dual authority exercised by Treasury and the Federal Reserve. But while White did not support a decrease in the gold price of the dollar, he recognized that "neutral observers" might conclude that the high price paid by Treasury for gold attracted the metal.[208]

At the completion of his temporary assignment White moved to the Division of Research and Statistics, Foreign Commercial Policy Section, as a full-time

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[207] Ibid., 239-240.

[208] Ibid., 245ff, Chapter XXI

employee.[209] There he produced numerous memos and studies of the ESF, the British EEA, exchange cross rates, and developed the Treasury position on the gold-purchase policy.[210] By late 1935 White, now an Assistant to the Director, clearly articulated Treasury's defense of and explanation for gold inflows into the U.S. In a draft for a speech to be given by Secretary Morgenthau, White rejected the notion that the high price drew gold to Treasury.[211] Rather, there were two sources of gold inflows, repatriated American investments abroad and foreigners who felt that "the United States is a safer, a more profitable, and a more desirable place in which to keep their liquid assets."[212] It could be expected that when conditions in Europe stabilized gold would begin to flow back. Little significance was placed on increased gold production as a source for gold inflows or the

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[209]See White to Mr. Director, "Classification of Staff: Foreign Commercial Policy Section," June 20, 360 P, Box 1, Chronological File 2, OASIA.

[210]Some examples: White to Haas, "Managed Currency vs. the Gold Standard," and White to Haas, "Recovery Program: The International Monetary Aspect" March 15, 1935, Box 2, White Papers, Princeton, White to Haas, "Use of the Stabilization Fund," June 15, 1935, 360 P. Box 1, Chronological File 2, OASIA, White to Haas, "Cause of Gold Imports, 1934-1935," November 19, 1935, 360 Q Box 14, Staff Memoranda of Harry Dexter White 1941-1946, Subject File: Gold, OASIA.

[211]"Gold Imports into the U.S.," December 1935, Box 3, File 8a, White Papers, Princeton.

stimulation the fixed American price had on gold production.

This Treasury position on gold inflows faced Congressional scrutiny in the fall of 1936. Senator Arthur H. Vandenberg, a Republican of Michigan, sent a letter critical of Treasury's gold-purchase policy to Secretary Morgenthau.[213] Vandenberg wanted to know if "buying gold at an arbitrarily enhanced domestic price" caused the large inflow of gold and the increasing amounts of American securities held by Europeans.

> It would seem to be a fair deduction that while Europe cannot find the means to pay our war debts, it can and does find the means to buy our securities; and it would at least superficially appear that our own gold-purchase program not only encourages this process, but subsidizes it at the expense of the American people.[214]

Vandenberg also expressed concern that the large "instant foreign call" holdings in the U.S. could be withdrawn at short notice, putting deflationary pressure on the money supply. The Senator asked the

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[212]"the responsibility for the inflow of such large sums of gold cannot be justly laid at the door of the United States. . . the world wishes to participate in our recovery." Ibid.

[213]Vandenberg voted for the Gold Reserve Act of 1934 and supported a number of New Deal initiatives, but he was strongly opposed to the silver bloc and inflation. He was the unofficial Republican leader in the Senate and considered standing for the Republican nomination for president in 1936. For this period of Vandenberg's career see C. David Tomkins, Senator Arthur H. Vandenberg: The Evolution of a Modern Republican, 1884-1945 (Michigan State University Press, 1970), 96-98.

Secretary to answer eight specific and detailed questions.

Morgenthau's reply was almost certainly drafted by White and represented the positions White developed since early 1935. The Secretary agreed that only a small amount of the gold inflow was caused by payment for American exports to Europe, while the bulk "represented a new inward movement of capital." This capital had two sources, repatriated American investments and new foreign investment flowing to the United States. American money returned because conditions stabilized after the adoption of the Gold Reserve Act early in 1934. Foreign investors were seeking safety and security in America, eager to participate in the "American recovery." Gold was accumulating, Morgenthau's reply continued, because Americans were not investing abroad.

Morgenthau reassured Vandenberg that Treasury monitored foreign investment and was not concerned that the withdrawal of "hot money" might squeeze the money supply, which had more than adequate gold cover. Without directly addressing the issue that a high fixed gold price attracted bullion, Morgenthau stated that

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[214]For the September 2 Vandenberg letter see "The Morgenthau-Vandenberg Exchange of Letters on United States Gold Policy," New York Times, September 25, 1936.

Treasury did not encourage gold sales, but only administered the laws passed by Congress.[215]

The Secretary acknowledged that large gold stocks and excess reserves were a potential problem for Treasury. However, if gold began to flow back to Europe in response to improved economic and political conditions there, "it would be an excellent thing for the United States and the rest of the world."

Business and press opinion favored the Treasury position. An article in the New York Times reported that "the financial community generally concurred" with Morgenthau's defense of the gold policy. For Wall Street the gold question came down to the desirability of large amounts of foreign investment in the market. The financiers interviewed did not believe that there was too much "frightened capital" invested or that its withdrawal would raise interest rates or shrink the supply of money. They did not expresses an opinion whether the price paid for gold attracted inflows or address Vandenberg's other specific questions.[216]

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[215]Ibid. Morgenthau's reply was printed with Vandenberg's letter, which Morgenthau released to the press. This exchange was somewhat overshadowed by news of the coming franc devaluation and the announcement of the Tripartite Pact. See "France Now Ready to Devalue Franc; Britain and U.S. Aid," and "U.S. Cooperation on Franc Seen," New York Times, September 25, 1936. A sub-head on the latter story, "Morgenthau Tells Vandenberg Gold Activity Has Brought Great Gains to Nation."

Two days later an editorial in the New York Times used the Vandenberg-Morgenthau correspondence to comment on America's trade policy. Characterizing Morgenthau's response as "thoughtful, carefully detailed, and in the main convincing," the editorial continued that the tariff barrier, a problem not mentioned by either party, blocked imports and thereby made dollars difficult to obtain through normal business channels. The editorial concluded that "Senator Vandenberg, a high protectionist who fears imports," should not be surprised that given the lack of dollars, gold inflows were necessary to complete foreign transactions.[217]

The flow of gold to Treasury continued and accelerated after 1938. At the Division of Monetary Research White began to reassess the American gold position, the problem of excess reserves, and "hot money" even before September 1939.[218] In a systematic

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[216]"Morgenthau View On Gold Upheld," New York Times, September 27, 1936.

[217]"An Instructive Reply," New York Times, September 28, 1939. It should be noted here that one of Morgenthau's closest childhood friends was Arthur Sulzberger, who married Iphigene Ochs and became the publisher of the New York Times. See Morgenthau, Mostly Morgenthaus, 219.

[218]White to Morgenthau, "The effect of a refusal by the Treasury to buy foreign gold," March 18, 1938, 360 P, Box 3, Chronological 10, OASIA. Gass to White, "Should the United States Establish a Free gold market?" August 23, 1938, 360 Q, Box 15, Subject File: Stabilization Fund, OASIA, "Hot money: What it is and What we should do about it," February, 1939, Box 1, White Papers,_ Princeton.

study completed for Secretary Morgenthau, White reversed his earlier position and concluded that gold inflows were a real and mounting problem but advised that the United States should wait for Britain to broach the subject rather than initiate negotiations.[219] White believed that an effective policy could be realized only through international agreement to restrict gold production among the gold-producing countries, particularly Great Britain.[220]

White recommended two positive steps that could be taken before an international agreement was reached. The reserve requirement for deposits by foreigners in American banks should be raised to one hundred per cent, and taxes and licenses should be used to restrict "large capital and gold inflows . . . "hot money."[221] An embargo on gold imports, reduction in the dollar price of gold, allowing the private ownership of gold, and "stimulation of American investment in foreign countries" were rejected on various grounds. The study

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[219]"Summary of Analysis," undated, Box 3, File 8e, White Papers, Princeton. This must date from late 1937 early 1938 as gold sterilization is mentioned. On waiting for the British to first approach see Ibid., 11.

[220]"[T]he gold problem can not be solved by independent action of the United States. It is a world problem and can be solved only through international cooperation. . . The world gold problem is our problem. Because of our large gold holdings and large gold production we have a vital stake in its satisfactory settlement." Emphasis in the original. Ibid., 6-7.

acknowledged that tariff reduction would be a positive step, but it could not be a decisive one.[222] Neither of the actions recommended were implemented, and the "golden deluge" continued and increased as the war drew near.[223]

The Division reviewed every aspect of Treasury gold policy throughout the fall of the 1939. As international cooperation seemed to be precluded for the immediate future, planning centered on reducing gold inflows and putting existing gold to use in ways which would remove it from the monetary base, lessening the excess reserves/inflation possibility.[224]

In the first few months of 1940 the Division continued to examine gold and silver in the light of the war. Four areas were identified as particular concern: increasing excess reserves, the depletion of the gold stocks of foreign countries, the cost of gold

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[221] Ibid., 11-18.

[222] Ibid., 4-6.

[223] One scheme White seems particularly drawn to was a "Gold Investment Committee" that would make gold loans to foreign countries, particularly those resisting Japanese or German aggression. See Rees, White, 105-106, and MD November 20, 1939. For a critique of gold loans see Peter Drucker, "Can the Gold Problem Be Solved?" Harper's, April 1, 1939, 130-137. Drucker pointed out that the gold would simply be returned for dollars and thereby have no effect on gold maldistribution.

[224] White to Morgenthau, "Memos Prepared on in Preparation: The Future of Gold, Methods of Reducing Gold Imports, Plan for the Utilization of Surplus Gold, How Much Gold Will the United States Get?, Now is the Time to Begin to Use Stabilization Fund Gold and

acquisitions, and the prospect of demonitization.[225] Planning centered on the issues of how to manage excess reserves, a role traditionally taken by the Federal Reserve.[226] Demonitization was not considered an immediate threat, but note was made of the Swedish policy during and after the First World War in which gold was refused in preference for certain commodities.[227] Again a wide range of measures were considered, but no decisive changes in policy were made. Each of the proposed actions entailed possible or probable consequences that the Division felt were fraught with risk.

White realized that the gold purchase policy was attracting growing concern and criticism from Congress, the press, economists, and could be a Republican issue in the upcoming elections.[228] The expected

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Silver Certificates," November 15, 1939, Box 12, File 30, White_ Papers, Princeton.

[225]"Proposed Agenda for Conference To Be Held In The Treasury February 26 on Gold and Silver," February 20, 1940, 1-3, Box 2, File 6d, White Papers, Princeton.

[226]"What are the instruments of monetary policy?" February 26, 1940, "Questions on Monetary Policy," Gass to White, February 27, 1940, "Methods available for the absorption of excess reserves through the use of the existing powers of the Federal Reserve Board and the Treasury," February 27, 1940, Box 2, File 6d. "Questions on Foreign Capital in the United States." Box 1, File 5c, White Papers, Princeton.

[227]As early as 1937 Ambassador Davies informed FDR that Sweden was stockpiling commodities rather than adding gold reserves. See Davies to Roosevelt, August 22, 1937, President's Secretary File, Box 49, File, Diplomatic Correspondence: Russia 1937-1940, Franklin Roosevelt Presidential Library. Hereafter Roosevelt PSF.

Congressional criticism came in early 1940. As foreseen it was both partisan and connected with the coming elections. What was not predicted was that the attack seemingly championed the "moral embargo" against the Soviet Union declared by the president. In the wake of the German invasion of Poland, the Soviet Union, under the secret protocols of the Hitler-Stalin pact, occupied the eastern third of Poland and, in October, concluded agreements with the Baltic states effectively making them protectorates of the Soviet Union.[229] On November 30, 1939 the Soviet Union invaded Finland after territorial demands made by the Kremlin were rejected. These moves, and the abrupt about-face represented by the pact, elicited a strong anti-Soviet reaction in the United States, and well-meaning, if ineffective, support for Finland.[230] FDR led the response, denounced the "rape of Finland," called for a "moral embargo" of the Soviet Union, and encouraged

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[228]"Proposed Agenda for a Conference to be Held on Gold and Silver," 1, Box 2, File 6d, White Papers, Princeton.

[229]A good account of the negotiations of the non-aggression pact, the secret protocols, and territorial arrangements can be found in Nekrich, Pariahs, Partners, Predators, 114-145.

[230]For American opinion on the Soviet Union in this period see Ralph B. Levering, American Opinion and the Russian Alliance 1939-1945 (Chapel Hill: University Of North Carolina Press, 1976), 15-45, and Maddux, Years of Estrangement, 114-127.

Morgenthau to, within his powers, aid Finland and hinder exports to the Soviet Union.[231]

For Senate Republicans, as well as isolationist Democrats, the "moral embargo" supplied a pretext to attack the gold purchase policy and criticize the administration's "tilt" to Britain and France. In practice "cash and carry" made the United States a virtual ally of Britain and France and adversary of Germany.[232] Senator Arthur Vandenberg renewed his attacks on Treasury gold policy in 1940, but this time from a new flank. The Michigan Senator hoped to win the Republican presidential nomination in 1940 as the isolationist "middle-of-the-road" candidate. Attacks on purchases of Soviet gold allowed him simultaneously to criticize the administration's amended neutrality policy, suggest that gold purchases could not be "neutral," and twist the tail of the Soviet bear, to the delight his Finnish and Polish constituencies, both in and outside Michigan.[233]

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[231]For FDR's actions see Dallek, Foreign Policy, 208-212, for Morgenthau's response, Blum, Years of Urgency, 129-132, other administration activity Maddux, Years of Estrangement, 117-127.

[232]For this view see Langer and Gleason, Isolationism, 218-235.

[233]For Vandenberg's presidential ambitions and activities see Tompkins Vandenberg, 159-181. On the Senate floor Vandenberg called for a return of nonrecognition. See Congress, Senate, Senator Vandenberg, 76th Cong., 3rd sess., Congressional Record (January 11, 1940): 290-1, Ibid., (February 7, 1940): 1175-92.

Vandenberg was joined by Republican Senator Townsend of Delaware, who declared that Treasury's gold-buying operations were aiding Russia more than Finland.[234] Senate majority leader Alben Barkley responded to the charge by stating that gold was delivered in payment for goods sold, that we are not "deliberately buying gold from Russia" and that "it would be of no particular damage to Russia if we should cease altogether the purchase of gold."[235]

Secretary Morgenthau responded to the Republican attacks in a press conference in February 1940. The preceding day a Soviet freighter arrived in San Francisco with $5.6 million worth of gold on board. The press report stated that this was the first direct shipment of Soviet gold to the United States in almost three years and was to help replenish Soviet commercial balances in its New York bank. The delivery seemed to be made in some haste, and the freighter was to next call at Manzanillo, Mexico, where American copper was awaiting transshipment. There was speculation that "Soviet ships were being used to transport American

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[234]"Russia Keeps Gold-Output Figures a Secret, Treasury Replies to Townsend's Assertion," New York Times, February 2, 1940.

[235]"United Press February 1, 1940 12:57 P.M." Staff memoranda of Harry Dexter White 1941-1946, Box 15, Subject File: Russia, 360 Q, OASIA.

copper over the Siberian route to German munitions plants."[236]

At the press conference the Secretary stated that the arrival of the Soviet gold was "such an unimportant matter I haven't paid much attention to it. . . just an ordinary daily transaction." Morgenthau said he had not heard reports that "President Roosevelt had been urged to stop buying Russian gold on the ground that such purchases aided Soviet hostilities against Finland."[237]

The same day Senator Vandenberg put into the Congressional Record his reply to a letter he had received from Secretary Morgenthau concerning the amount of Soviet gold Treasury had purchased. Vandenberg summed up his criticism of Treasury's policy.

> We are buying all this Russian gold, which, I understand, costs not more than $11 dollars an ounce to mine, at $35 an ounce. It is all part of our general gold folly. We do not want the gold. We cannot use it. Every extra ounce is a liability rather than an asset. Yet we still buy and buy and buy. In the case of Russia we subsidize a nation whose public policy about 99 percent of America condemns.[238]

[236] "Soviet Ship Brings $5,600,000 Gold to U.S. To Replenish Commercial Balances Here," New York Times, February 8, 1940.

[237] "Soviet Gold Here Viewed as Routine," New York Times, February 9, 1940. This article stated that the arrival of Soviet gold was not to replenish Soviet balances, which were "not inconsiderable."

[238] Congress, Senate, Senator Vandenberg, 76th Cong., 3rd sess., Congressional Record (February 8, 1940): 1209.

Though Morgenthau's public statements expressed no apprehension at additional gold inflows and emphasized the continuation of the charted course, indications reached the press that Treasury wanted some positive action on gold to lessen the threat of excess reserves and stem the flow of gold. The Times reported that Treasury did not fear gold demonitization, but was concerned about the growing maldistribution of monetary gold reserves and wanted excess reserves to be put to use. The report accurately noted that on world gold production, reserves, and cooperation, "Soviet Russia is the big question mark."[239]

A more serious and fundamental analysis of Treasury gold policy was made by Frank Graham, a Princeton economics professor best known for his work on hyperinflation and as critic of the classical model of international trade.[240] In the late 1930s Graham

[239]John Crider, "Gold Stock Verges on $18,000,000,000," New York Times, February 5, 1940. The article was generally friendly to the Treasury position and information for the article may have been leaked from the Division of Monetary Research. "The problem of putting excess gold to use is constantly receiving attention from Treasury experts. . . Other schemes constantly pass through the office of Harry White, the Treasury's principal monetary expert." White had a close relationship with Drew Pearson's "runner" David Katz. See Craig, "Treasonable Doubt," 130 n. 62.

[240]Graham was born in Canada and received a Harvard Ph.D. in 1920. He taught at Rutgers and Dartmouth before settling at Princeton in 1921. He was best known for Exchange, Prices and Production in Hyperinflation, Germany 1920-1923 (Princeton: Princeton University Press, 1930).

wrote a number of articles examining the administration's gold policy.[241] In 1940 Graham, with Charles Whittlesey another critic of the gold policy, published Golden Avalanche, a summary of their views.[242]

The primary cause of the "golden avalanche" was "our policy of buying gold freely at a high fixed price."[243] This policy removed monetary management from the hands of the Treasury and Federal Reserve. Treasury had to buy gold, and thereby supplied dollars for foreigners to purchase American securities. This flight to dollars of "hot money" would have been checked under the old gold standard, but the "1934 model gold standard" had no provision for offsetting actions or automatic limits. Through the gold mechanism, which foreigners "would be foolish not to take advantage of," the United States was becoming a debtor nation, and gold bears were guaranteed profit.[244]

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[241]Frank Graham, "The Prospect of Inflation," Foreign Affairs, 15 (July 1937): 685-694 and "Has Gold A Future?" Foreign Affairs, 17 (July 1939): 578-598.

[242]Frank Graham and Charles Whittlesey, Golden Avalanche (Princeton: Princeton University Press, 1940). Frank Graham and Charles Whittlesey, "Fluctuating Exchange Rates, Foreign Trade, and the Price Level," The American Economic Review, 24 (September 1934): 401-416. C. R. Whittlesey, "The Gold Dilemma," Quarterly Journal of Economics, 51 (August 1937):581-603.

[243]Ibid., vii. The authors believed that a fixed price was adopted due to the agitation of conservative banking and financial interests, see ix, 79.

[244]"this movement of gold to the United States is an indication that foreigners prefer dollars to gold. . . *gold can be no better than dollars.* But, because gold would fall immediately in dollar

The Federal Reserve "can neither stop the movement of gold or prevent member banks from using it to build up their reserves with Reserve Banks."[245] The Fed no longer had the power to control or check credit expansion, due to the continuous deposit of gold certificates by Treasury when gold was purchased.[246] Inflowing gold had been diverted from the monetary base, "sterilized," in 1937-1938. However this course simply drew attention to the pointlessness and cost of Treasury's gold policy and would be painful politically.[247]

Graham allowed there might be a justification for the gold purchase policy on the grounds that it helped to accomplish American foreign policy goals, but there could be no economic rationale.[248] One means to stem,

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value if we should adopt the logical course of ceasing to buy the metal freely, *gold may prove very much worse than dollars*." Italics in the original. Graham Ibid., 71-72.

[245]Ibid., 176.

[246]See the annual report of the Board of Governors of the Federal Reserve System cited by Graham, Golden, 176. A struggle ensued between the Federal Reserve, Treasury, and the RFC over the recommendations. See Frederick R. Barkley, "Federal Reserve Board Asks Fiscal Reform," New York Times, January 2, 1940, "Jones, Opposing Reserve Board Proposals, Says He Has Seen No Indications of Inflation," New York Times, January 9, 1941.

[247]Graham and Whittlesey, Golden Avalanche, 155-157.

[248]Ibid. 110-112, 227. "Our present gold policy, in fine, defies justification on any rational economic grounds. Whatever defense there is must rest on political considerations. Gold is the instrument whereby the United States, in effect, is today strengthening the economic, political, and military position of foreign Powers opposed to Nazism."

not stop, the "avalanche" would be through the restriction of gold imports via a tariff or other barrier that would effectively lower the price of gold. But this would not address the fundamental problem. A permanent solution would await the abandonment of a strictly fixed dollar price for gold and the adoption of a flexible, managed currency.[249] The most advantageous policy would combine the flexibility of a managed currency with a reserve composed not of gold, but of a "basket" of goods held and administered by the monetary authorities, a commodity reserve currency.[250]

This form of currency would allow the monetary authority to set "traps" to punish bear speculation. With the fixed dollar-gold price bears were given access to a constantly-replenished honey jar. With a commodity reserve currency, bears would have to be on guard, sometimes the jar might be empty, and the bears "trapped."

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[249] "The attempt to maintain a fixed price for any commodity which may rise, but not fall, in money value, is, in the long run, all but hopeless. . . . A flexible exchange value of a currency, within a not very narrow zone around the "point of equilibrium" is essential to forestall the success of bear speculators and defeat of the exchange policy. Frank Graham, "Achilles' Heels in Monetary Standards," American Economic Review 30 (March 1940): 16.

[250] "A money with goods, rather than a gold reserve, offers the greatest promise, not only of invulnerability but also benefactions" Ibid. The replacement of the gold standard with a commodity reserve currency was suggested throughout the 30s and 40s. See Jan Goudriaan, How to Stop Deflation (London: The Search Publishing Company, 1932) and Benjamin Graham Storage and Stability (New York: McGraw-Hill, 1937). John Maynard Keynes and

For the authors the primary problem with the administration gold policy was that monetary control was reactive and passive rather than active and aggressive. Bears and exchange speculators could and did profit by gold transactions, and Treasury had no means of defense or attack. Inflation or demonitization were secondary, and future, concerns. The immediate object was a flexible currency able to rise and fall around a fixed point. Then Treasury "will have the bulls by the horns and, in other than the usual sense, the bears by the tails. They will be able to give a twist to either whenever they so desire."[251]

Not everyone accepted the Graham prescription of increased government intervention and monetary management. Quite the opposite tack was taken by Harry Scherman, who rejected increased governmental interference in monetary matters and forcefully argued that inflation was the primary danger posed by the "golden avalanche." Scherman was not as intellectually imposing as Graham, but he probably understood "middlebrow" culture, taste, and opinion better than any of his contemporaries. Scherman, whose background

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Frederich Hayek continued this debate through the decade, and renewed it after the war.

[251]Graham, "Achilles' Heels," 21.

was in advertising and mail-order book sales, in 1926 co-founded the Book-of-the-Month Club. The club was wildly successful, influential, profitable, and spawned a host of imitators.[252]

By the late 1930s Scherman recast himself as a public pedagogue on matters economic, and published the best seller The Promises Men Live By.[253] Here he argued that only through a strict adherence to the gold standard could the public protect itself against the government's eventual repudiation of its debt through inflation or currency devaluation. Any "money" not convertible to gold was simply government debt, or promises to pay at a future date. Inflation and other governmental manipulation of money harmed the poor, yet was welcomed by them due to general ignorance on economic matters and popular fictions.[254]

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[252]For information on Scherman see Janice Radway, A Feeling For Books: The Book-of-the-Month Club, Literary Taste, and Middle-Class Desire (Chapel Hill: University of North Carolina Press, 1998), 154-186. Scherman later was a member of the National Bureau of Economic Research.

[253]Harry Scherman, The Promises Men Live By: A New Approach to Economics (New York: Random House, 1938).

[254]Scherman was not taken seriously by academic economists. The review of Promises Men Live By in The American Economic Review stated that he tended to "oversimplify difficult problems . . . It is the omission of disagreeable complications . . . which makes his analysis incomplete and misleading." September 28, 1938, 580-581. Scherman on inflation: "long-term creditors who will be damaged will not be rich people, but principally those who are poor or moderately well off-the creditors of the savings banks, insurance companies and like institutions." Scherman, Danger, 7.

In magazine articles Scherman turned his attention to the mounting national debt, produced by years of deficit spending.[255] The problem was that government debt was "dead horse" debt, backed only by promises to pay in the future, unsecured. Holders of governmental debt had no means to induce payment. Governments paid their debt through taxation or borrowing, "refinancing," to meet their obligations. Given current financial demands and needs, governments would pay only debt interest and "roll over" the growing balance. The final debt reckoning could be postponed, but not avoided. There was a limit to which taxes could be raised, and government borrowing faced limits as well. At some point governments would find a means to "repudiate" their debt burden.[256] Scherman understood that secured "book debt" created purchasing power, but "debt is beneficial only if it is paid," and governmental debt would be repudiated.[257]

In his 1940 book, The Real Danger in Our Gold, Scherman argued that one of two inflationary courses

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[255]Harry Scherman, "Is Posterity Just Around the Corner?," Saturday Evening Post, April 22, 1939. For an earlier critique of the New Deal see, "One-Legged Nation," Saturday Evening Post, December 31, 1938.

[256]"As soon as it is unmistakably to the advantage of any government to break any promise, economic or otherwise, we all know what happens." Ibid., 79.

[257]Ibid., 78.

would be pursued. Either the government would use its monopoly on gold ownership and power to change the gold content of the dollar to devalue and use the "profit" to pay off the government debt, or excess reserves would be mobilized to pay the debt or government operating expenses. Either course would be highly inflationary, unfair to the small investor, and an attempt to pay an obligation with money of less value or purchasing power.[258] The attraction was that either way the government could discharge obligations without using tax revenue necessary for current operations or borrowing additional funds. The "money" created would be indistinguishable from any other federal reserve note, and also indistinguishable from "printing press" money or fiat currency.

The problem was the convergence of the mounting government debt load and the massive gold stocks held by Treasury. As long as the government had a monopoly on gold ownership there would be the temptation to revalue the currency and use the "profit" to discharge debt. Scherman pointed out that in 1934 $675 million of the $2.8 billion revaluation "profit" was used to

[258]Harry Scherman, The Real Danger in Our Gold: How the job you have, the business you are in-and your whole future-are imperiled by the Government's gold at Fort Knox (New York: Simon and Schuster, 1940). The material appeared in much the same form under the same title, Saturday Evening Post, July 6-13, 1940.

retire government obligations.[259] He observed that the revaluation “profit” was “actually *a seizure of an enormous sum of purchasing power by the Government from its citizens*.”[260]

The solution was to remove gold from the Treasury and allow it to flow into private hands. This could be accomplished only after the “Gold Prohibition Law,” the Gold Reserve act of 1934, was repealed. Scherman observed that the other democracies went off gold without making private ownership of gold illegal, and that in prohibiting private ownership of gold, the United States was in the company of Hitler, Stalin, and Mussolini.[261]

Scherman advised his readers to make repeal of the “Gold Prohibition Law” an issue in the coming election. With gold in circulation the problem of excess bank reserves would be solved and the inflation threat from that quarter ended. Without a Treasury monopoly of

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[259] Ibid., 49. It was used to retire greenbacks, the “fiat” currency in circulation since the Civil War.

[260] Emphasis in the original, Ibid., 60. Graham agreed that gold was nationalized just so the government could realize this “profit.”

[261] Ibid., 58. Scherman was adamant against the gold prohibition law and saw it as the beginning of the end of democracy and the beginning of tyranny, Americans “will never be able to identify government monopoly of gold ownership as the source of all the social and economic distress that would finally change our way of life beyond all recognition.” Ibid., 52.

gold stocks the whole of the revaluation “profit” would not accrue to the government, ending the inflation threat from that quarter.[262]

While Treasury was certainly aware of its domestic critics, the crucial, determinant, and immediate concern was the outcome of the war.[263] Only a German victory would give the demonitization threat substance. This threat grew as the “phony war” came to an abrupt end and Denmark, Norway, the Netherlands, Belgium, and more than half of France came under German occupation. While Great Britain and the Empire remained outside the German orbit, eastern European and Balkan states were drawn economically and politically to Berlin. The economic, financial, trade, and monetary order of the continent would be reconstructed along lines laid down by Hitler and his economic and monetary advisors. Gold had been denounced by the Nazi party as “the noose that strangles the German people” and “a Jewish trick” since the early 1930s. However no official statements on the

[262]Scherman developed this idea more fully in “Will We Have Inflation?” Saturday Evening Post April 12, 1941. The connection between inflation and Treasury monopoly of gold ownership was made more explicit in 1941 when the gold and inflation articles were issued as a book, Will We Have Inflation?, (New York: Simon and Schuster, 1941).

[263]For views from academic economists see Alvin Hansen, “Gold in a Warring World,” Yale Review, 4 (June 1940): 686-689 and Edwin Kemmerer, “Our Present Gold Problem,” Vital Speeches, 6 (June 1, 1940): 499-503. Hansen was a “Keynesian” with influence in the administration, while Kemmerer was a classical economist and

place of gold in the new economic order had issued from Berlin.[264]

In July 1940 Walter Funk, Minister for Economic Affair and President of the Reichsbank, announced the "Funk Plan." The Minister touched on trade, finance, and monetary affairs. Existing bilateral trade relations would be quickly replaced by a "multiangular" Continental free trade system with clearing operations handled in Berlin. Imports to Germany would not be discouraged and would be paid for by export of "high quality industrial products." But in any conflict between import policy and Germany's freedom of action and independence, imports would lose out.[265]

Funk addressed economic and trade relations with the United States and warned against the creation of a Western Hemisphere trade cartel or any attempt to

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consultant on the monetary arrangements in South American and China.

[264]Stories and speculations had appealed in the American press from various German sources and American and British observers. For gold's demonitization see Otto D. Tolischus, "Germans Hold U.S. Faces Gold Crisis," New York Times, February 3, 1940, Percival Knauth, "Germany Predicts End of Gold Use," New York Times, June 26, 1940, and "Plan to End Gold as Money Basis Is Gaining Popularity in Germany," New York Times, July 1, 1940. For gold to remain for international transactions see "National City Bank Letter," New York Times, June 3, 1940, "Declares Germany Will Drop Barter," New York Times, June 26, 1940.

[265]See "Funk Warns U.S. On Trade Policies," New York Times, July 26, 1940. "Multiangular" means all transactions funnel through Berlin, a series of bilateral arrangements.

establish hemispheric autarky.[266] He then turned to the issue of gold.

> We do not know what the Americans will do with their gold. The gold problem is in the first instance a problem for the United States. In relation to European currencies, gold will not have any importance at all, because a value of a currency does not result from its gold cover, but from a decision of the government.[267]

Morgenthau's efforts to translate Treasury's economic and financial strength into effective international action and to integrate the Soviet Union into the "anti-aggressor" bloc failed. This was due in part to the reluctance of Roosevelt to commit to any particular course or work in concert with other nations. However it is also an indication of the weakness of economic means to produce desired diplomatic ends. The Secretary was fully convinced that the American gold horde supplied a powerful instrument of international relations. The Funk announcement showed how quickly this instrument could be turned into a liability. It would take conscious management and new efforts to translate Treasury's gold stores into some sort of effective international advantage.

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[266]This was likely meant to reach the Central and South American finance ministers who were meeting in Havana with State and Treasury representatives see below.

[267]Quoted in Van Dormael, Bretton Woods, 6.

CHAPTER 5

U.S.-SOVIET RELATIONS AND THE TREASURY, 1939-1941

The fall of France and the speculations concerning the "new economic order" of Europe forced the Roosevelt administration to reassess not just the place of gold in the world, but the position of the Soviet Union as well. The "moral embargo" announced by FDR in December 1939 had a significant impact on Soviet imports of American machine tools and raw materials, though Treasury continued to purchase Soviet gold. This was effected not by legislation or executive order, but through Treasury's control of export licenses and the personal influence and connections of the Treasury Secretary.

FDR specifically cited molybdenum, used as a hardener for steel and a replacement for tungsten, as a material to be embargoed. The United States was the leading producer and the Soviet metallurgical industry a major consumer. Exports of molybdenum to the Soviet Union had increased in 1939, and it was assumed that some molybdenum was being transferred to Germany. Morgenthau, through a childhood friend and the coincidence of the contract with Amtorg coming up for renewal, was able to stop molybdenum exports to the Soviet Union almost completely.[268]

Morgenthau was again able, unofficially, to slow or stop the export of machine tools to the Soviet Union and Japan. During consultations with representatives of the National Machine Tool Builders Association on bottlenecks in aircraft production, Morgenthau suggested that Soviet and Japanese orders be canceled or postponed in favor of domestic, French, and British orders. This advice was followed and resulted in bitter protests to State from Amtorg and the Soviet government.[269]

The President charged Treasury with monitoring exports to the Soviet Union, particularly critical materials and machine tools. A February 1940 report stated that exports and transshipments had greatly increased since the previous year. Copper and gasoline were exported, and copper and tin were transferred at U.S. ports. The memorandum noted that molybdenum and machine tools exports were down sharply since the first of the year.[270]

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[268]The U.S. produced over 90 per cent of world's molybdenum supply in 1939. For this episode see Blum, Years of Urgency, 125-129. Morgenthau's closest childhood friend was Henry Hochschild who by 1939 controlled American Metals-Climax which controlled molybdenum. Also see Morgenthau, Mostly Morgenthaus, 218-219.

[269]Blum, Years of Urgency, 116, and Maddux, Years of Estrangement, 125-127.

Treasury's efforts were but one aspect of the administration's harassment and hampering of the Kremlin's import efforts. State and the Navy Department also blocked exports to the Soviet Union, and State protested the seizure of American property in eastern Poland and Bessarabia and demanded compensation. Soviet engineers were barred from visiting manufacturing facilities after arrangements had already been made. Relations between Moscow and Washington were brought to their lowest point since 1933. Ambassador Umanskii and Amtorg bitterly protested and denounced the American policy. Congressmen, not all Republicans, called for a return of non-recognition of the Soviet Union. In the House, the Dies committee began investigations of Communist influence and organizations, equated communism with fascism, and passed legislation to regulate and monitor foreign-directed activity or subversion.[271]

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[270]Bell to White, February 9, 1940, 360 P, Box 3, Chronological 15, OASIA. "Memorandum to the President," February 13, 1940, Ibid. Prior to the president's request Harold Glasser of the Division of Monetary Research reported on shipments to the Soviet Union after visiting the New Jersey port. It should be noted that Glasser was later identified as supplying information to the Soviet Union. See Glasser to White, "Report on Trip Concerning Exports to the U.S.S.R.," February 1, 1940, Ibid.

[271]For Soviet-American relations in this period see Levering, American Opinion and the Russian Alliance, 63-75 and Maddux, Years of Estrangement, 119-127. The Smith Act (Alien Registration Act), besides regulating aliens in the United States, made it a crime for anyone, citizen or alien, to espouse the violent overthrow of the government. The Voorhis Act required the registration of all organizations subject to foreign control. For the Dies committee

With this as background Morgenthau, at the President's request, tried to "keep Russia on the fence" in the summer of 1940.[272] At least three elements contributed to this decision: there was no advantage in pushing the Soviet Union into even closer cooperation with Germany, the Kremlin still was China's most significant ally in its struggle against Japan, and Treasury believed certain "strategic and critical" materials found in the Soviet Union would be needed for defense preparedness, which could be acquired by the U.S. and thereby denied Germany.[273]

Morgenthau and White believed that reviving an earlier plan would provide a way to supply military aid to China, acquire strategic materials from the Soviet Union, and "keep Russia on the fence." The proposal was a three-way arrangement in which the dollars paid for Soviet manganese, chromium, asbestos, and platinum

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see August Ogden, The Dies Committee: A Study of the Special House Committee for the Investigation of Un-American Activities, 1938-1943 (Washington: Catholic University of America Press, 1943). The Committee released a report in January 1941 that among other charges, stated that "the Soviet Union was acting as the "financial front" in this country for the totalitarian powers." See Henry Dorris, "Dies Says Nazis Get Russian Funds Here, Reports $15,000,000 Shifted in 2 Months," New York Times, January 4, 1941.

[272]Morgenthau told undersecretary of State Sumner Welles he was "to carry out the President's mandate, to do something keep Russia on the fence so we can keep peace in the Pacific." Quoted in Blum, Years of Urgency, 347.

[273]For FDR's thinking see Maddux, Years of Estrangement, 128-147. For Morgenthau's see Blum, Years of Urgency, 256, and "The U.S.S.R. as a source of strategic and critical materials" cited in

would be used by the Kremlin for Chinese military aid and armaments.[274] This Treasury plan was not a hurried effort outside Treasury's knowledge and competence, but the result of a long and intimate involvement in Chinese military and monetary affairs. In 1934 one aspect of Treasury's silver purchase policy was support for those countries on a silver standard, particularly China. Although the Silver Purchase Act had an effect opposite of what had been predicted, knocking China off silver and onto a fiat currency, Treasury continued to support the Chinese currency with silver purchase agreements.[275]

In 1938 after all means of supplying dollars to the Nationalist government had been exhausted, Treasury negotiated an arrangement whereby China would secure the advance of $25 million, through the RFC, for the

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"Division Memoranda and Reports from February to July 1940," Box 12, Folder 6d, White Papers, Princeton.

[274]See "Memorandum for the Secretary," July 15, 1940, 360 P, Box 4, Chronological 19, OASIA.

[275] For Treasury's relations with China see Blum, Years of Crisis, 204-220, 479-497, and Years of Urgency, 58-63, and Rees, White, 68-75, 106-107. For an analysis of the impact of American silver purchases on China see Milton Friedman, "Franklin D. Roosevelt, Silver, and China," Journal of Political Economy 100 (February 1992): 62-83. For general background see Shun-hsin Chou The Chinese Inflation, 1937-1949 (New York: Columbia University Press, 1963) and Arthur Young, China's Nation Building Effort, 1927-1937: The Financial and Economic Record (Stanford: Hoover Institution, 1971).

delivery of tung oil.[276] Conscious that at this time only the Soviet Union was giving China military aid, Morgenthau told Sumner Welles that "we are driving China right into the arms of Russia. . . If we give them a loan they have two friends instead of one."[277] The Soviet Union had been the strongest supporter of the KMT after 1937, supplying aircraft, pilots, and munitions. The $250 million in credit extended between 1937 and 1939 equipped a large number of Chinese troops, and the Soviet aircraft and pilots provided an effective counter to Japanese air operations.[278]

Treasury learned from the long and laborious struggle to supply a relatively small amount of aid that neutrality legislation made giving effective aid to China quite difficult. A three-sided arrangement was suggested by Harry Dexter White to avoid conflict with Congress, deliver useful aid to China and acquire valuable material for the United States. The U.S. would purchase between $100 and $200 million in strategic raw materials from the Soviet Union. In turn

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[276]Tung oil was a paint ingredient and in short supply. One provision of this transaction was that the money could not be used for arms or munitions. But of course it was assumed that the money would be used indirectly for the fight against Japan. See Blum, Years of Urgency, 63.

[277]Ibid.

[278]See F. F. Liu, A Military History of Modern China 1924-1949 (Princeton, Princeton University Press, 1956), 166-173 and Max

the Kremlin would supply the KMT with military aid of equal value. White added that "to eliminate the risk of Russian non-delivery of goods" Soviet gold could be held on earmark in the U.S.[279] While neither Treasury nor White wanted additional gold inflows, bullion proved the only reliable connection between the countries.

Welles rejected this proposal, as he thought that "the Russians might misunderstand any advances which we made toward them in the name of good relations with China."[280] Too many unresolved issues remained between the nations for any rapprochement. The Baltic states had "voted" to join the Soviet Union in July, and in response Washington froze Baltic assets in the U.S. and maintained relations with the representatives accredited to Washington by the now "defunct" governments. Gosbank informed Welles that the earmarked gold of the Baltic states in the United States had been "purchased" and so was to be transferred to Soviet control. Undersecretary Welles rejected this request, and responded that there had yet

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Beloff, The Foreign Policy of Soviet Russia 1929-1941, (London: Oxford University Press, 1948), 167-198.

[279]"Memorandum For The Secretary," July 15, 1940, Ibid., 1.

[280]Welles' comments were conveyed to Morgenthau by Stanley Hornbeck in a meeting at Treasury. See Cochran to Morgenthau, August 15, 1940, Stabilization Records 1936-1942, Box 79, Subject File: Russia, OASIA.

to be compensation for American property seized in eastern Poland, Bessarabia, and now the Baltics. Umanskii bitterly protested the freezing of assets and refusal to transfer the Baltic gold to the Russian State Bank.[281]

Clearly it would be most difficult for Treasury to establish closer cooperation with the Kremlin in China under these circumstances. However in September 1940 after Japan occupied Indo-China and the Tripartite Pact linking Germany, Italy and Japan was announced the situation was again transformed.[282] China now faced the cut-off of its last rail connection to the sea, and thereby aid from the West. The Kremlin had to reconsider its support of Chinese resistance and weigh the possibility that future Japanese expansion would be at the expense of Siberia and Sakhalin rather than of the colonial possessions and the United States.

These considerations induced Morgenthau to revive the three-way proposal in the fall of 1940. FDR approved the presentation of the proposal to Ambassador Umanskii. This version of the three-way plan was more

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[281]See numerous files July-November 1940, Stabilization Records 1936-1942, Box 79, Subject File: Russia, OASIA. Also see Maddux, Years of Estrangement, 131-132, and Blum, Years of Urgency, 328.

[282]A useful short account of the negotiations leading up to the Tripartite Pact, the agreements, and their implications is William Langer and S. Everett Gleason, The Undeclared War 1940-1941 (New York: Harper and Brothers, 1953), 1-32.

a quid pro quo than a rigid arrangement linking the nations. Moscow would be paid in dollars for the export of strategic materials, and would then extend a dollar loan to China. China would use the loan to buy munitions and material from the Soviet Union. Umanskii was interested in selling raw materials and acquiring dollars, but he would not link these sales to future military aid for China.[283] Thus Treasury's three-way plan died a second time, but the notion that strategic raw materials could link the two nations remained, to be revived later. Stalin slowly curtailed military aid to China while he considered his options vis-à-vis Japan in the light of the Tripartite Pact.

A number of circumstances militated against closer cooperation between Washington and Moscow in this period. FDR was not completely committed to the idea and did not fully trust the Kremlin. He was wary of outrunning Congressional and public opinion. State and Treasury worked at cross-purposes, and Morgenthau held back with one hand and offered with the other. Stalin must have calculated that American dollars and future delivery of machine tools and perhaps aircraft did not

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[283]Maddux, Years of Estrangement, 134, and Blum, Years of Urgency, 362. See also Ullmann "The U.S.S.R. As a Source of Strategic and Critical Materials," "Exhibit A," September 12, 1940, Stabilization Records 1936-1942, Box 79, Subject File: Russia, OASIA.

carry the same weight as arrangements with immediate neighbors. Would the Kremlin ship manganese, chromite, and platinum to the United States when molybdenum shipments had been cut off and existing contracts went unfulfilled? The United States was a distant and unreliable neighbor, and Stalin was surrounded by predatory powers for whom American moral posturing and protests carried little weight.

By 1941 State had come to the conclusion that the "moral embargo" no longer served any purpose and probably was forcing the Soviet Union more firmly into the German grasp. On January 23 the embargo was lifted in a public statement released by Undersecretary Welles. Only a small amount of material began to flow to the Soviet Union due to the priority of the U.S. defense preparedness program, bureaucratic inertia, and residual anti-Soviet feeling.[284] The final blow to administration's desire to keep Moscow as a champion of China came in April 1941 when a neutrality pact was

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This was another episode in which Hull felt that Morgenthau had overreached and Morgenthau believed Hull timid and faint-hearted.

[284]Blum, Years of Urgency, 258-260. Also see Young to Secretary, "Re: Russian Clearance Problems Requiring Immediate Attention," March 1, 1941, and "March 6, 1941," Presidential Diary Henry Morgenthau Jr., 831-834 and 843. The Morgenthau Presidential Diary is a record of the meetings, conversations, and related documents between the Secretary and FDR. The material was later collected and paginated consecutively. The Presidential Diary is deposited with the Franklin Roosevelt Presidential Library at Hyde Park, New York. Hereafter this material will be cited as PDHMJr followed by the page number or numbers.

concluded between the Soviet Union and Japan. While this agreement did not go as far as some had feared, it signaled that Japan would turn to south and west, and Soviet aid to and support for China would diminish, if not end completely.[285]

By the spring of 1941 Morgenthau and White had twice failed at attempts to fashion cooperation with the Soviet Union in order to bind together the anti-aggressor nations. In 1937, to help buttress the international monetary regime uniting the United States, Great Britain, and France, Treasury approached the Kremlin and suggested that by combined cooperative action in the monetary field Hitler could be deterred from his aggressive stance. The Soviets rejected this sort of cooperation if it meant furnishing information on gold reserves and production.

A second Treasury effort to cooperate with the USSR lasted from 1939 to 1941. First Morgenthau attempted to solve the debt issue in order to "clear the decks" and allow Washington and Moscow to act in concert against Hitler. This course was made impossible by the Hitler-Stalin Pact. Treasury did not give up, but shifted focus to relations between the United States, China and the Soviet Union. Now it was strategic materials which were to be the means to link the two states for the common goal of supporting China and resisting Japanese aggression. Again this effort to mobilize financial and monetary resources to improve Soviet-American relations failed. However these experiences and lessons would provide the basis for wartime aid to the Soviet Union and give Morgenthau, and especially White, some sense of Soviet desires and capabilities when planning for the postwar world began.

Perhaps the most important development of this period was that Morgenthau, Treasury, and White began to operate, with the approval and encouragement of FDR, in areas normally associated with diplomacy and the State Department. This position would prove critical once the United States entered the war and mobilized its monetary and financial resources to support its allies. Treasury had assumed and would assume yet more responsibility and authority in matters heretofore the sole prerogative of the State Department.

Financing the Soviet War Effort: Gold, Raw Materials, and Lend Lease

The German invasion of the Soviet Union on June 22, 1941, came as no great surprise to the

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[285]Langer and Gleason, The Undeclared War, 345-359.

administration or Prime Minister Churchill. The invasion did, however, force a reexamination of American-Soviet relations and the American supply policy and problems. The dominant theater of the war now shifted to the Soviet Union as the invasion threat to the British Isles receded. The administration had to consider what ratio of the limited American productive capacity should be apportioned to domestic preparedness, British needs, and how much if any should go to the Soviet Union. The administration had to consider the possibility that the Soviet Union might offer only limited resistance and be forced into capitulation or surrender, thereby losing arms and materials to the Germans.[286] Conversely American aid could provide the moral and material edge needed to insure continued Soviet resistance to the German invasion. The question was how far, if it all, and under what terms would the United States aid the Soviet Union?

The decision for an aid program for the Soviet Union was reached relatively quickly. The day after the invasion Prime Minister Churchill promised to supply "whatever help we can" to the Soviet Union and called

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[286]Both Ambassador Steinhardt and the military attaché in Moscow thought this likely. See Mayers, Ambassadors, 131-132.

on his allies to do the same.[287] The following day Undersecretary of State Welles condemned the German attack without specifically committing to aid the Soviet Union. At a later press conference Roosevelt stated that "we are going to give all the aid we possibly can to Russia," while noting that the Kremlin had yet to request help and that British orders took priority over new demands. When asked if aid sent to the Soviet Union would be under the lend-lease program, Roosevelt avoided an answer.[288]

The lend-lease program had been developed specifically to solve the problem of British dollar shortages and by-pass the Johnson Act and the "cash and carry" provision of the amended Neutrality Act. In November 1939 Congress ended the complete arms embargo and allowed munitions to be procured in the United States. Purchasers had to pay in "cash," and no American vessels could be used to "carry" purchases away. The amendment was understood as a means to help

[287]"Any man or state who fights on against Nazidom will have our aid. . . we shall give whatever help we can to Russia and the Russian people. We shall appeal to our friends and allies in every part of the world to take the same course and pursue it, as we shall faithfully and steadfastly to the end." Winston Churchill, The Grand Alliance (Boston: Houghton Mifflin, 1950), 373.

[288]See Raymond Dawson, The Decision to Aid Russia, 1941: Foreign Policy and Domestic Politics (Chapel Hill: University of North Carolina Press, 1959), 115-122.

Britain and France and a rebuke to Germany.[289] Both the British and French established purchasing missions in the United States and orders for armaments, particularly aircraft, soared.[290]

These new orders for military goods caused a split in the administration. Stimson, Knox, and the service chiefs thought that the bulk of new production should be used for the defense of the United States and the Western Hemisphere.[291] Morgenthau was the strongest proponent of furnishing Britain and France with means to resist future German aggression, arguing that this was the best way to defend the United States.

Morgenthau gained knowledge of and influence in arms sales through his appointment as the coordinator of American aid to the Allies in December 1938.[292] He worked quite closely with the British Purchasing Commission in its efforts to acquire aircraft. Treasury

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[289]Langer and Gleason Isolationism, 231 ff.

[290]For background on Lend-Lease see Warren F. Kimball, The Most Unsordid Act: Lend-Lease 1939-1941 (Baltimore: John Hopkins University Press, 1969), Alan P. Dobson, Wartime Aid to Britain (London: Croom Helm, 1986), and Blum, Years of Urgency, 159-206. For the British view see R. S. Sayers, Financial Policy 1939-45 (London: HMSO, 1956), 363-398.

[291]Stimson (War) and Knox (Navy), both interventionist Republicans, were brought into the cabinet in June 1940 to replace the isolationist Harry Woodring (War) and Charles Edison (Navy). Aside from the new tilt in the cabinet to interventionism, the move was aimed at securing bipartisan support of FDR’s foreign policy and hopefully winning some Republican votes in the 1940 election for a third term.

reviewed contracts to insure the British and French were not being gouged and provided other services and good offices.[293]

This close cooperation did not mean, however, that the material did not have to be paid for. Although gold sales were the simplest means to acquire dollars, Morgenthau preferred Britain liquidate its American securities for dollars rather than add to the "golden avalanche."[294] The Secretary also hoped that British branch operations and subsidiaries in the United States would be sold to American investors.[295] Every time British dollar difficulties were brought up to FDR, he suggested that British investors sell their Argentinean railway investments, as if this small sum could support the ambitious arms purchase program. Treasury statistics and presidential, congressional, and general public opinion held that the British still controlled large, untapped resources that could be readily converted into dollars.[296]

The British tried to limit their orders to match their dollar balances, but the administration

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[292]Kimball Unsordid, 4-5. For some examples see PDHMJr, 412, 472-473.

[293]Kimball, Unsordid, 30.

[294]Ibid., 27.

[295]Blum, Years of Urgency, 169-171 and Kimball, Unsordid, 64.

continually encouraged an aggressive purchase policy and suggested that means would be found to finance the commitments. An illustration of this is the British acquisition of $612 million in French military orders in June 1940. The transfer was effected to deny the material to the just-forming Vichy government. But it doubled British dollar liabilities and had not been provided for in on-hand or anticipated dollar balances.[297]

The American policy of encouraging orders and sales, and forcing the British to liquidate assets to finance them, suggested to some contemporary and subsequent observers that the United States was taking "economic advantage of the United Kingdom's plight." It is more likely, though, that "economic imperialism was a subconscious temptation rather than an actual policy."[298] The difficulty arose from Treasury's inability to distinguish total British assets from the much smaller sum that could be liquidated for dollars without incurring a substantial loss.[299] Through this

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[296]Blum, Ibid., 217-228.

[297]Ibid., 321.

[298]Quote from Kimball, Unsordid, 10.

[299]Harry Dexter White was the most forceful advocate at Treasury for increasing pressure to liquidate assets. See Kimball, Unsordid, 107. For an clarification of the categories of British assets see R. S. Sayers, Financial Policy, 1939-1945 (London: His Majesty's Stationary Office, 1956), 368-370.

pursuit of dollar assets the U.S. Treasury was able to gain unprecedented access to British financial information and slowly came to the conclusion, avowed by the British for some time, that "Britain's broke; it's your money we want."[300]

Once FDR and the administration realized how close Britain was to insolvency, events moved rather quickly. A December 1940 letter from Churchill to Roosevelt outlining Britain's overall position, not just its economic situation, has rightly been understood as the catalyst for the lend-lease program. Roosevelt turned to Morgenthau and Treasury for draft legislation as they had intimate knowledge of the British position, understood the production and procurement process, and were the strongest proponents of aid the Britain. As described by Warren Kimball,

> The essence of the plan was a broad and general grant of authority. The President clearly wanted blanket permission as to how much and to whom to distribute war goods. . . Roosevelt wanted it written so that the United States could lend the materials and then have the law very vague on how they were to be repaid. It was to be, as one of Morgenthau's subordinates put it later, a "shoot the works" bill.[301]

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[300]British Ambassador Lord Lothian to American reporters, November 23, 1940. New York Times, November 24, 1940. Also see Kimball, Unsordid, 96-98.

[301]Kimball, Unsordid, 132.

The legislation, H.R. 1776, was drafted by Treasury lawyers with help from War, Navy, and State, specifying that Treasury was to administer the program if adopted.

During hearings it became clear that while FDR and Treasury were now convinced that Britain was "broke," Congress and the public was not. In an unprecedented demonstration of trust, and at American urging, the British government furnished detailed financial information and statistics. Morgenthau effectively used this information at the hearings to establish Britain's financial crisis.[302]

In a dramatic move urged for some time by Morgenthau, the British government forced the owners of American Viscose, a British company, to liquidate their holdings. Morgenthau thought this was necessary to convince the public that Britain was converting all of its assets to dollars, but many in Britain were embittered by the timing and yield of the sale.[303] Regardless of the merits or motivations of the sale, it

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[302]Ibid., 141-145.

[303]Blum, Years of Urgency, 235-241. Viscose stock was sold by a group of American investment bankers (Morgan Stanley, Dillon Read, Mellon Securities and Lehman Brothers) and realized only $40 million on a property that was estimated to be worth $100 million. At first Morgenthau thought this sale a great accomplishment: "It had been the most difficult fight I think I have waged against the vested interests and also the most significant, because of the tie-up between the so-called City in London and our own Wall Street is terribly close. I consider this a Great New Deal victory." Ibid., 239. However it soon became clear that these

seemed to tip the balance so that Congress easily passed the bill, under which Britain received almost $30 billion in goods and material from 1941 to 1945.

From the spring of 1940 to March 1941 Great Britain sold $335 million worth of securities, conveyed $235 million in dollar balances and transferred $2 billion in gold to the U.S. to pay for material.[304] On the road to lend-lease the British government and its financial managers disclosed sensitive financial information and agreed in principle to negotiate lend-lease settlements along the multilateral and free trade lines long desired by Hull. These somewhat vague and prospective commitments to end Imperial preference and exchange control on the part of Great Britain were taken quite seriously by State and Treasury. By the summer of 1941 negotiations over postwar "considerations" for lend-lease deliveries had developed into the specific language of Article VII which barred "discrimination" in trade between the nations. This, coerced, agreement on postwar free trade was cemented in August 1941 by the terms of the

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sort of forced stock sales offered no solution to the British financial crisis.

[304]Mark Harrison, The Economics of World War II (Cambridge: Cambridge University Press, 1989), 94. Also see League of Nations, World Economic Survey 1939-1941, 134-139.

Atlantic Charter concluded between FDR and Churchill.[305]

Comments, perhaps some in jest, were made concerning the suitability of the British crown jewels or the Magna Carta as partial payment for aid, and FDR approved "giving consideration to British library holdings of rare books in connection with trade or financial terms to be worked out under the Lend-Lease Bill."[306] While in retrospect this may appear in poor taste or exploitative, it is not so different from the acquisition of French art by the British during the First World War in return for sterling transfers to the French government.[307]

Lend-lease was possible only because the administration, Congress, and American public recognized Britain's financial straits, were convinced by various actions that all other means of finance had been exhausted, and understood that British investments had been fully mobilized. Since lend-lease came

[305]For "consideration" and Article VII see Dobson, Aid to Britain, 35-61. In August 1941 FDR and Churchill agreed on eight principles to guide their future cooperation and the postwar world. It must be remembered that the United States was not a belligerent at this point. The fourth point was a conditional commitment to free access to markets and raw materials. For this episode and British resistance to this and other provisions see Ibid., 62-92.

[306]"Memorandum for H. M. Jr.," March 17, 1941, PDHMJr, 859.

through hard bargaining and “horse trading,” there was little room for misunderstanding of the relative positions of Washington and London after this sometimes acrimonious process. Perhaps the most important feature of lend-lease was that the terms and details of the discharge of obligations was left to the discretion of the president and postponed until the end of the war. In fact “consideration” or “Article VII” negotiations began almost immediately between Washington and London. In these talks the United States strongly argued for the elimination of Empire preference and the sterling bloc and supported a multilateral, free trade regime along the lines so long advanced by Cordell Hull.[308]

The lend-lease bill passed in March 1941 was the most wide-ranging and open-ended grant of authority ever given an American president. The only limitations insisted on by Congress were that reports were to be made at lest every ninety days and that Congress should renew the legislation and make appropriations

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[307]A short account of the sale of French art is told in Robert Heilbroner, The Worldly Philosophers, 4th ed. (New York: Simon and Schuster, 1972), 249. The idea was Keynes'.

[308]For these talks see Dobson, Aid to Britain, 35-88 and Sayers, Financial, 398-413.

annually.[309] Lend-lease (An Act to Promote the Defense of the United States) was understood by Congress and the public as a way to defend America by aiding Britain and as a means to forestall direct U.S. military involvement in the European war. FDR, the Congress, Treasury, and the American people could not foresee that it would become the dominant arrangement and the primary contribution of the United States once she entered the war as an active belligerent.

Lend-lease was not automatically extended to Moscow at the German invasion of June 1941, though there was no legal bar for doing so. Attempts in the House and Senate in committee to prohibit any future participation by the Soviet Union were easily defeated. FDR had the authority "in the interest of national defense" to extend lend-lease aid but chose instead to follow a path with the Soviet Union similar to that taken with Great Britain. The administration supported an ambitious purchase and supply program that was to be paid for through conventional means. Barriers to the export of goods already ordered and ready for shipment were removed, and all license and priority restrictions were lifted. When asked by reporters how the Soviets would pay for their orders, Roosevelt always professed

[309]Congressional modification of the legislation is covered in

the belief that the Kremlin had sufficient resources, though he never specified what these might be.[310]

Behind this "smokescreen" frantic efforts were made by the administration to supply the Kremlin with loans, credits, or grants to pay for the mounting orders. Roosevelt wanted public opinion to coalesce behind support for the Soviet Union and Congress to renew and fund lend-lease before it was extended to the Soviet Union.[311]

It appears that at this time the Kremlin preferred credits to participation in lend-lease. Aid requests under lend-lease were subject to intense study and negotiations in an effort to produce the most productive, efficient, and responsive supply and armaments program possible. Orders were often substantially modified or abandoned through this process. Seemingly the Kremlin did not want to supply any information whatsoever on its requirements or engage in any negotiations of alternatives or modifications of aid requests. Also lend-lease goods were not simply "given" to the recipient but were

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Kimball, Unsordid, 77-85 and Dawson, Decision to Aid Russia, 57-72.

310 Dawson, Decision to Aid Russia, 115-117, and Maddux, Years of Estrangement, 198-205.

311 For the "smokescreen" comment see George Herring, Aid to Russia, 1941-1946: Strategy, Diplomacy, and the Origins of the Cold War (New York: Columbia University Press, 1973), 11.

transferred with the knowledge that payments or "considerations" of some sort would be required after the war. With credits or loans this sort of snare or encumbrance could be avoided and postwar commitments kept to a minimum.[312]

The Kremlin's first effort to finance wartime aid came with the negotiations between Ambassador Umanskii and RFC chairman Jesse Jones in July 1941. Umanskii was steered to the RFC by State after he submitted a request for $1.8 billion in supplies. The ambassador requested a $500 million non-interest bearing loan from the RFC. Jones asked for information on Soviet gold reserves, dollar balances, and other assets to consider as collateral for the loan. After a long series of talks Umanskii secured $50 million to be repaid after the war by the export of certain "critical and strategic" raw materials.[313]

Desperate for dollars, in August Umanskii approached Morgenthau and appealed for help. The ambassador complained that Jones was uncooperative and that none of the promised $50 million had yet been released. Since the Kremlin had an immediate need for

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[312]Umanskii specifically asked for loans and rejected lend-lease aid in July 1941 to his later great regret. See Dawson, Decision, 165-167.

[313]Ibid., 126-129.

dollars, what could the Treasury Secretary do to help? Morgenthau offered to advance $10 million for gold to be delivered within 180 days. This transaction was executed immediately and the dollars made available to the Kremlin. In October the same transaction was repeated, this time for $30 million. In these negotiations Umanskii secured a guarantee that the price Treasury paid for gold would not be changed for one year.[314]

How long gold could be used to finance the supply program depended on the size of the Soviet gold reserve. Treasury in 1939 estimated it between $400 and $750 million, probably closer to the lower figure. But a fall 1941 estimate put the Soviet gold reserve at $1.4 billion and some suspected there was a "hidden reserve" of up to $900 million. The only information on Soviet dollar balances came from the Chase National Bank on deposits held there, and no effort was made to discover other possible dollar resources.[315]

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[314]The promise not to lower the gold price see Gaston to White House, August 15, 1941, MD 431: 31-36. For Umanskii's request and Morgenthau's response see "August 15, 1941 11:25 a.m.," MD 431:218-245.

[315]For the higher estimate on gold reserves see Hawkey to Cochran, "Subject: Russian Government's gold reserves now placed at $1,436 million," September 2, 1941, Box 79, Stabilization Records, Subject File Russia, OASIA. For the hidden reserve see Southard to Gaston, August 28, 1941, "Mr. Jones [of the RFC] asked whether Mr. Bullitt's report of the hidden Russian gold stock of $800 million to $900 million can be verified." 360 P, Box 5, Chrono-

Apparently the Soviet leadership faced a finance crisis in early September and decided that lend-lease participation was necessary to secure the needed goods. Ambassador Umanskii requested and was granted a meeting with President Roosevelt, the first time FDR met with the Soviet ambassador since 1939. Umanskii stated that the Soviet Union needed immediate help, since the RFC loan was too small and had not yet been received. He requested that the Soviet Union be admitted to the lend-lease program. Roosevelt responded that extension of lend-lease would face congressional scrutiny and that "we should have an official statement showing Russian assets, the amount of gold and also barter that could be carried on between the two countries both now and after the war." He continued that dollars could be advanced for the postwar delivery of manganese.[316]

Umanskii was apparently uninterested in financing based on gold or raw material delivery and suggested two alternatives. "The Ambassador urged that Russia be granted a credit out of the two billion dollar Treasury

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logical 26, OASIA. For efforts to determine Soviet dollar assets see White to Morgenthau, "Subject: Russian Financial Resources," August 5, 1941, and Southard to Gaston, August 28, 1941, both 360 P Box 5, Chronological 26, OASIA.

[316]"Department of State: Memorandum of Conversation," September 11, 1941, Box 49, Diplomatic Correspondence: Russia, 1941, Roosevelt PSF.

stabilization fund and said that its use in this way was permissible."[317] He also requested another, larger, RFC loan. No response was recorded as to the Soviet ambassador's request for a ruling on the legality of a loan from the ESF.[318] The Kremlin wanted lend-lease or loans, not the delivery of gold or raw materials, to finance its procurement program.

This meeting demonstrated the Kremlin's financial bind but did not change FDR's policy. The president did order Jones to expedite the RFC loan and asked both Harry Hopkins and Averell Harriman to try to find information on the Soviet gold reserve.[319] By October the Kremlin was less anxious over dollar resources and less interested in future gold transfers. Morgenthau told FDR that he offered to advance $50 million to be paid in gold over the next six months, but Soviet representatives responded that since there was only $11 million in desired goods available for purchase, why should they borrow more "if they could get it all for nothing in a few weeks through Lend-Lease."[320]

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[317] Ibid., 4.

[318] This use of the ESF was specifically rejected by Morgenthau in the September 1939 debates over amending the Neutrality Act. See Blum, Years of Urgency, 100.

[319] "September 24, 1941, (Dictated September 25, 1941 at 9 am), PDHMJr, 970.

[320] "October 7, 1941," PDHMJr, 975.

In late September Averell Harriman and British representative Lord Beaverbrook went to Moscow to negotiate an integrated supply and production program. Through three-way talks agreement could be reached on how to supply the most critical weapons and other material to the most vital front to insure the best and most efficient use of the limited production capacity of the United States and Great Britain. The items most in demand were aircraft of various types, armored vehicles, artillery, trucks, and ammunition. A supply program was hammered out in which the United States and Great Britain committed to supply over $1 billion in material to the Soviet Union before June 1942. No provision was made for financing this commitment, but the materials under this "Moscow Protocol" were acquired through lend-lease rather than conventional channels. Stalin apparently agreed to engage in further detailed talks on Soviet weapons and the needs of the various fronts.[321]

By October 1941, although the United States was technically not a belligerent, the government had agreed and Congress approved a policy in which Great Britain would be supplied with large amounts of

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[321] An account of the Moscow Conference can be found in Dawson, Decision to Aid Russia, 195-255. For the agreement see Department

material with an accounting to be made after the war. The Soviet Union had been promised quite large deliveries as well, but without any provision for financing or final settlement. There was a large gap between what the U.S. promised to deliver and what the Kremlin could pay for. Treasury had already advanced $42 million for gold deliveries, and the RFC had paid about $50 million for postwar deliveries of raw materials. As the Moscow Protocol called for the transfer of about $1 billion, only one-tenth of the program could be financed, and the commitment would exhaust the (estimated) Soviet gold reserve. In fact the upper estimate of the Soviet gold reserve was only $1 billion. Harriman told FDR in late October that "it is impossible for Russia to finance" the supply program and that lend-lease should be extended to the Kremlin. FDR was well aware of Moscow's financial straits and was simply marking time.[322]

On November 7, 1941, FDR announced that he found "the defense of the Union of Soviet Socialist Republics vital to the defense of the United States" and that the lend-lease program would be extended to the Kremlin. The president requested a $1 billion allocation to pay

of State, Soviet Supply Protocols (Washington, D.C.: Government Printing Office, 1947), 1-12.

for the orders already promised under the Moscow Protocol. Roosevelt was sure that this move would meet little opposition. The issue of aid to the Soviet Union had been considered by Congress during the debates and hearings over lend-lease renewal in October. The opponents of aid could muster no real support for an amendment to bar the Soviet Union, while influential administration figures such as Jesse Jones, Edward Stettinius, and General George C. Marshall argued that lend-lease was appropriate for the Soviet Union. The crisis in finance was successfully met with the extension of lend-lease to the Soviet Union.[323]

Lend-lease was two quite different wartime supply and financial arrangements concluded between the United States and two very different opponents of Hitler and Germany. The mechanism was designed and created to meet the specific needs of Great Britain in the winter of 1941 when the invasion threat had receded. London had already demonstrated its financial exhaustion before the administration offered an alternative means to deliver supplies to Great Britain. The allocation and production programs of the two nations were closely integrated and were based on the continuous exchange of

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[322]"Harriman Report," October 29, 1941, Box 49, Diplomatic Correspondence: Russia, 1941, Roosevelt PSF.

[323]Dawson, Decision to Aid Russia, 274-289.

detailed information with constant negotiations and reassessments. London was aware that lend-lease came with conditions, and that the postwar settlement would mean some sort of serious modification to Empire preference, exchange control, and the floating pound.

Lend-lease was very different for the Soviet Union. There was no comparable sharing of information or demonstration of complete financial commitment. In fact repeated requests for information on gold reserves and other financial resources were ignored or rejected. The Kremlin promised to transfer only $30 million in gold before pleading complete financial exhaustion and asking for inclusion in lend-lease. The sort of "horse-trading" and hard bargaining that the administration, particularly Treasury, considered perfectly appropriate to Anglo-American relations was apparently not appropriate to Soviet-American ones.[324]

The lend-lease policy to the Kremlin came to be called "unconditional aid." Rather than supply detailed military and production information, as London was required to do, the Kremlin simply furnished gross figures and left it up to lend-lease administrators to balance conflicting demands and supply the requested

[324]George Herring, "Lend-Lease to Russia and the Origins of the Cold War, 1944-1945," Journal of American History 56 (June 1969): 95-96.

goods in the promised time. Of course not all of the requested material was delivered, but the possibility of negotiating a mutually agreeable list was not taken seriously by the Kremlin. Even the types of material requested under lend-lease differed from London to Moscow. The Soviet Union ordered refineries, power plants, and other capital goods and equipment to rebuild its shattered industrial base and supply fuels and power necessary to fight the war.

Of course the situation in the Soviet Union in the fall of 1941 was very different from that of Great Britain in the spring. The German army now stood at the gates of Moscow and the former Baltic states, much of Belorussia, and almost half of the Ukraine was controlled by the Reich. Hitler had established clients in Hungary and Rumania and in the joint conquest of the Balkans with Italy now controlled the peninsula and threatened in the British in the Middle East, the lifeline canal as well as the oil supplies of Iraq In addition Nazi Germany was fully committed to operations in the Soviet Union and American aid could be of tremendous psychological and morale value, if not of decisive military importance. However the extension of lend-lease to the Soviet Union came only one month before the attack at Pearl Harbor and the entry of the

United States into the war. Before the supply program had a substantial impact on the Eastern Front, the United States was forced to reassess supply priorities now that it was a belligerent in a two front war.

CHAPTER 6

TREASURY AND POSTWAR MONETARY PLANNING

The day after Pearl Harbor Secretary Morgenthau called a meeting of his senior advisors. Although the Treasury had "gone to war" in late 1938, the department was by no means prepared for the myriad of responsibilities that direct participation in hostilities would bring. Treasury would continue to monitor the British financial position, supply technical and material support to Chinese efforts at monetary stabilization, finance Soviet purchases outside of lend-lease, and control and manage foreign funds and assets. In addition Morgenthau and Treasury now became responsible for financing the war. During the next four years the Secretary and his domestic advisors were preoccupied with raising the large sums needed to finance the "Victory Program" while simultaneously keeping a lid on inflation. Tax policy, voluntary public investment through the sale of bonds, and the management of government securities were used by Treasury to finance the war.[325] In foreign affairs the department was thrust into areas in which it had just begun to gain experience and knowledge, notably

[325]See Esther Taus, The Role of the U.S. Treasury in Stabilizing the Economy 1941-1946 (Washington, DC: University Press of

the economic, financial, and monetary affairs of Axis, allied, and neutral nations.

At the December 8 meeting Morgenthau announced that all aspects of Treasury's foreign dealings would be centralized and put under the control of Harry Dexter White, Director of the Division of Monetary Research and assistant to the Secretary. This consolidation was meant to lessen rivalry and duplication of effort in the department, as well as allow the department to present a united front to other departments and agencies, particularly State. One official would represent Treasury at interdepartmental meetings, at hearings, and give testimony before Congress.[326] White was to have the status of Assistant Secretary, although he was not officially given this position, a political appointment needing Congressional approval. At State Secretary Hull responded favorably to the news of White's promotion and new responsibilities.[327]

America, 1981), Blum, Years of War, 1-79, and Rees, White, 132-136.

[326]"In order to have the least friction, . . as far as I am concerned and to make life easier for me . . . I want to give Harry White the status of Assistant Secretary. . . I want to give him the status just as though he were, and he will be in charge of foreign affairs for me. . . I want it all in one brain, and I want it in Harry White's brain." Quoted in Rees, White, 131.

[327]Ibid., 132.

As Director of Monetary Research since 1938, when the department was created, White was second only to Merle Cochran in experience in and knowledge of international economic and financial affairs.[328] White had become a trusted advisor to Secretary Morgenthau and a personal friend as well. The two men shared values and experiences, both having served in World War I, working afterwards in settlement houses, and coming from assimilationist Jewish families, though clearly Morgenthau was one generation and a fortune ahead of White.[329] They shared the view that German and Japanese aggression had to be met with resistance and by force short of war. Morgenthau, with Harold Ickes at Interior, was the most "interventionist" of the FDR cabinet. White supplied Morgenthau with proposals to offer FDR as responses and warnings to German and Japanese aggression. Although most of these Treasury initiatives came to nothing, FDR continued to encourage Morgenthau to propose ways the country's economic might be translated into effective anti-aggressor action.

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[328]Cochran ran the ESF and monitored the currency exchanges. He had been lent to Treasury from State and returned there after White's appointment. See Blum, Years of War, 89, and Rees, White, 132.

[329]For Morgenthau's service during the war and volunteer work see Morgenthau, Mostly Morgenthaus, 217-233. For White's military service and settlement house experience see Bruce Craig, "Treasonable Doubt," 23-29.

Morgenthau relied on his advisors more than other cabinet officers or previous secretaries. The Secretary had no real experience in banking, finance, monetary matters, or the international exchanges. For policy positions, recommendations for the president, Congressional testimony, and speeches White proved invaluable. Morgenthau could be effective in his weekly press conferences, but was uneasy answering technical questions before either newsmen or congressmen. Some of this was due to temperament, since he easily became agitated or excitable, and had the reputation for explosive, if infrequent, attacks of temper.[330] White's appointment was due to his proven competence at Monetary Research and his extraordinarily close, if not intimate, relationship with Morgenthau.[331]

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[330]For Morgenthau's temper, difficulties in sustained concentration, medical problems, and possible dyslexia see Morgenthau, Mostly Morgenthaus, 213-219. For his reliance on White see Rees, White, 66-68 and Blum, Years of War, 89-90. For a hostile account of his skills as a Congressional witness see Eugene Kelly, "Morgenthau's Rise to Glory," The American Mercury, January 1935, 19-21.

[331]"By his own admission inexpert about international monetary questions, Morgenthau looked to Harry White to give technical substance and administrative structure to his general scheme. White served both as the architect of the Treasury's international economic planning and as and the Department's main advocate, at home and abroad, of the resulting blueprints. In both roles, he exercised a broad initiative and direction, but always with reference to his most immediate client, Morgenthau, who at moments of political crisis brought his own influence to bear on behalf of the evolving program." Blum, Years of War, 229-230. Henry Morgenthau III seems to be have been suspicious of White's friendship with his father and means he used to secure it, particularly the Whites' cultivation of Henrietta Klotz, HMJr's

On December 14, 1941, Morgenthau asked White to develop an "Inter-Allied Stabilization Fund" that would serve a threefold purpose: "during the war to give monetary aid to actual or potential allies and to hamper the enemy; to provide the basis for postwar international monetary stabilization arrangements; and to provide a post-war international currency."[332] White was the logical choice for this task as he was now in charge of the operations of the American Exchange Stabilization Fund (ESF) and his primary responsibility while at Treasury was international monetary and exchange issues.

By December 30 White produced a short draft, "Suggested Program for Inter-Allied Monetary and Bank Action," that was circulated in Treasury and was shown to Undersecretary of State Sumner Welles. The draft recommended two coordinate but independent institutions, a fund for exchange stabilization and a bank for short and long term reconstruction credit and guaranteeing private loans.[333]

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long-time personal secretary and close friend and confidante. See Morgenthau, Mostly Morgenthaus, 423-427.

[332]"Note for the Secretary's Record," December 15, 1941, MD 473:16.

[333]For this first draft see J. Keith Horsefield, ed., The International Monetary Fund 1945-1965, vol. 1, Chronicle, (Washington D. C.: The International Monetary Fund, 1969), 10-14, and Rees, White, 138-140.

Welles used the exchange stabilization ideas of this draft as the basis for deepening hemisphere economic and monetary cooperation. At the January 1942 Rio Conference the foreign ministers of the western hemisphere passed a resolution calling for a special conference to consider the establishment of an "international stabilization fund." A plan for an Inter-American Bank had already been adopted. White attended the Rio conference as an advisor to Welles on monetary matters.[334]

After White returned from South America he delivered to Secretary Morgenthau a comprehensive draft for a "United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations."[335] In the covering memorandum White suggested that an early meeting of the finance ministers of the allied nations be called on the basis of his draft. He also stated that "if the Treasury doesn't initiate a conference on the subject it almost

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[334]The Rio Conference, the Third Meeting of American Foreign Ministers, met from January 15-28, 1942. It was called by the United States in the wake of Pearl Harbor and U.S. entry into the war. State wanted to cement hemisphere alliances to foreclose German or Italian penetration. See Notter, <u>Postwar Foreign Policy</u>, 70.

[335]The text of this draft can be found in J. Keith Horsefield, <u>The International Monetary Fund 1945-1965</u>, vol. 3, <u>Documents</u>, (Washington, D. C.: International Monetary Fund, 1969), 37-82.

certainly will be initiated elsewhere, and it should be preeminently Treasury responsibility."[336]

The draft that White produced in March 1942 was the product of the practical exigencies and limitations White was familiar with in managing the Treasury's international monetary position.[337] Above all White had to devise a mechanism to protect the value and power of the huge gold stock the United States had acquired since 1934. By January 1942 the Treasury held over $22 billion in gold, just under 80 per cent of the world's gold reserves.[338] Any international monetary plan had to take into account gold as the final arbiter of valuation and payment to protect the position of the Treasury, the administration, and the United States.

Second, White, Treasury, and FDR were committed to the gold-purchase policy that linked, and fixed, the value of the dollar to the price of gold. Roosevelt had promised his radio audience in 1933 that he would "establish and maintain a dollar which will not change

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[336]White to Morgenthau, May 8, 1942, MD 526:111.

[337]Background to the White Plan can be found in Horsefield, Chronicle, 6-13, Van Dormael, Bretton Woods, 40-43 and Schild, Bretton Woods, 84-88.

[338]Treasury's "fairly accurate estimate" was 76.6 percent. See Haas, "Proportion of the world's monetary stock of gold held in the Treasury," February 12, 1941, 360 P. Box 4, Chronological 20, OASIA. Also see "Fort Knox Vaults Increase Holdings," New York Times, August 11, 1940. "This is about 80 per cent of the world's $27,000,000,000 recorded monetary gold reserve."

its purchasing and debt paying power during the succeeding generation."[339] Although White had earlier recommended that the gold purchase price be lessened or limited to domestic gold, by 1940 the gold price had become too important a mechanism to modify. The gold purchase policy allowed Britain and France to obtain needed material before lend-lease and remained as an important means to purchase goods not covered under lend-lease. The same reasoning held for the Soviet Union after June 1941. Treasury gold purchases allowed the Soviets to acquire armaments without credits before lend-lease was extended to them in November 1941, and it served thereafter as a means to buy items not covered under lend-lease or needed immediately.

By Pearl Harbor Ft. Knox and the gold reserve came to symbolize America's security, stability, and safety. Republicans and other critics of the gold purchase policy continued to make sport of digging gold up in South Africa in order to bury it in the Kentucky countryside. However, with American entry into the war, the gold reserve now seemed an anchor of stability in an unsteady and rapidly changing world. The value of gold was made clear by the actions of the Axis powers. While denouncing the role of gold they systematically looted the reserves of conquered central banks and seized private supplies as well. Gold became a highly prized strategic material and the object of a subterranean struggle between Allied and Axis powers.[340]

White's concern for the place of gold did not mean he or other competent administration officials wanted or would countenance a return to the deflationary pre-1914 golden "straitjacket." No state was willing to return even in part to the self-executing, automatic, and private gold standard. However a gold bullion standard in which governments through their treasuries would be able control transactions and manage the currency and balance of payments was attractive. Gold with adequate liquidity or gold with an inflationary bias would be a useful mechanism to secure higher levels of employment and general economic activity.

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[339]Rosenman, Public Papers: The Year of Crisis 1933, 426.

[340]A number of books have recently appeared on the issue of Nazi use of gold during the war. See Jean Ziegler, The Swiss, the Gold, and the Dead: How Swiss Bankers Helped Finance the Nazi War Machine, (New York: Harcourt Brace, 1998), Isabel Vincent, Hitler's Silent Partners: Swiss Banks, Nazi Gold, and the Pursuit of Justice, (New York: Morrow, 1997), Sidney Zabludoff, Movements of Nazi Gold: Uncovering the Trail (Jerusalem: World Jewish Congress 1997), and William Slany, U.S. and Allied Efforts to Recover and Restore Gold and Other Assets Stolen and Hidden by Germany During World War II: Preliminary Study (Washington, D.C.: Department of State, 1997) and idem, U.S. and Allied Wartime and Postwar Relations and Negotiations with Argentina, Portugal, Spain, Sweden, and Turkey on Looted Gold and German External Assets and U.S. Concerns About the Fate of the Wartime Ustasha Treasury: Supplement to Preliminary Study (Washington, D.C.: Department of State, 1998).

White wanted to maintain the place of Treasury and New Deal monetary policy in the postwar world. Treasury's influence and power derived directly from its position as custodian and manager of gold, as superintendent of the ESF, and as originator and administrator of international monetary cooperation under the Tripartite arrangement. Both Morgenthau and White were aware that Treasury had usurped monetary management from the Federal Reserve, New York, and "Wall Street." Both believed that it was fundamental to New Deal monetary policy to continue administration control over international monetary operations. Morgenthau was a strong believer that private financial interests would pursue narrow self interest over the interests of the nation. This made "Wall Street" or the Federal Reserve unfit agents for monetary management. White desired that Treasury maintain its control and keep the "money changers from the temple" of international finance.

White's monetary thinking was shaped by the international monetary experience of the 1930s as well, characterized by floating currencies, bilateral exchange, currency blocs, imperial preference, and tariff barriers for creditor nations. Since 1935 White had argued that some form of fixed exchange rates would prove valuable in inaugurating domestic recovery. There were a number of reasons to prefer fixed to floating exchanges: the elimination of predatory or competitive devaluation, the increase of trade due to the removal of exchange risk, the utilization of foreign exchange balances in place of gold holdings thereby adding liquidity, and the discouragement of "hot money" movements to take advantage of exchange fluctuations.[341]

White learned on his 1935 European trip that there was no consensus what the "proper" sterling-dollar rate was, much less agreement on wider fixing of exchange rates. Keynes expressed the belief that stabilization was not possible through legislatures, particularly Congress, but that cooperation between the British, American and French treasuries could accomplish this task. In the following year treasury cooperation was to furnish the basis of the Tripartite arrangement.[342]

An important insight was that exchange rate stabilization did not mean simply determining a rigid,

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[341]For White's early thinking along these lines see White to Haas, "Subject: The Recovery Program: The International Monetary Aspect," March 15, 1935, Box 2, Folder 6b, White Papers,_ Princeton.

[342]Besides Keynes, White met with Sir Frederick Leith-Ross, Professor R. G. Hawtrey, and E. D. Waley of the British Treasury, Lionel Robbins, Harold Laski, and Hugh Dalton of the London School of Economics, and William Layton editor of The Economist. See

inflexible rate, but that small exchange fluctuations around a fixed point could be just as effective. The fluctuations would have the added advantage of signaling creditor and debtor status to money managers and trading partners. Continued and persistent long term deviation from the fixed point would invite reconsideration of the exchange rate. This could mean any of a number of adjustments, such as revaluation of a stronger currency, devaluation of a weaker, or some other adjustment in either country's economic or fiscal policy. White concluded that moderate exchange fluctuations with an operating forward exchange market encouraged international economic activity and could prove more useful than a rigid fix.[343]

The immediate precursor to the White draft was the existing Tripartite mechanism, which achieved international exchange cooperation through the national stabilization funds. The U.S. Treasury "encouraged" nations that wanted to participate in Tripartite cooperation to establish and operate stabilization funds. Treasury had also concluded separate

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White To Haas, "Personal Report on London Trip April & May 1935," June 13, 1935, 360 P Box 1, Chronological 2, OASIA.

[343]"Although fluctuating exchange rates are a discouraging factor in international business, the volume of international trade is not sensitive to moderate exchange movements." "Stabilization Funds and International Trade," n.d., internal evidence suggests late 1939/1940, Box 2, Folder 6e, 7. White Papers, Princeton.

stabilization agreements with Brazil, Mexico, and China, and the ESF also was used to advance the Kremlin dollars for gold before lend lease was extended to the Soviet Union. It was only natural that White would use the operating mechanism as a basis for future, deeper, and wider monetary cooperation.[344]

The problem White had to solve was the theoretical and practical one of exchange rate determination. Experience with exchange rates had been under the gold standard price-specie-flow mechanism. Equilibrium was established through the movements of specie, normally gold, to conclude transactions. These movements would prove either inflationary or deflationary, increasing or decreasing the money supply, automatically causing a commensurate fall or rise of prices and interest rates in each country. Subsequent purchase and investment decisions would tend to restore equilibrium, the balancing of foreign purchases with foreign sales.[345]

With monetary authorities insulating domestic money supply from gold movements, managing the currency

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[344]For the influence of the Tripartite arrangement on the White Plan see Horsefield, Chronicle, 7-10, and Eckes, Search for Solvency, 46-47. White wrote that stabilization funds "constitute a reserve pool out of which and into which will flow the one item which can always be relied upon as the compensatory item in the inter-national balance of payments, namely, gold." "Stabilization Funds and International Trade," 20.

[345]For a description of the price-specie-flow mechanism see Eichengreen, Golden Fetters, 32-33.

for employment and growth, defending the undervalued currencies, and employing blocked balances, bilateral clearing, and other management tools, how could exchange rates be determined? How could mutually acceptable rates be fixed if no country was willing to accept deflation and unemployment as the price for a fixing or upward valuation of its currency?

As a student White had closely examined the assumptions of equilibrium under the gold standard and found that, at least for France in 1880-1913, the price-specie-flow equilibrating mechanism did not operate as assumed. He found that the bank discount rate did not follow gold movements, that the Bank of France discouraged equilibrating gold movements, and that overseas lending did not result in gold outflows.[346] White, like others examining the same phenomena, argued that it was not the balance of trade that was crucial, but the balance of payments. Equilibrating movements occurred not because of the inflationary or deflationary movements of gold, but through "shifts (changes) in demand schedules,"

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[346]Harry Dexter White, The French International Accounts 1880-1913, (Cambridge: Harvard University Press, 1933), 14-15, n. 2.

transfers of "purchasing power," what are now termed income effects.[347]

With this background by 1940 White developed a new approach to and definition of equilibrium that would shape his design for the International Stabilization Fund.

> Interpreted broadly in international monetary discussions "equilibrium" characterizes that relationship among exchange rates, national price levels, gold movements and balance of international payments; which will yield, or will be accompanied by, the highest and most widespread degree of prosperity among the various countries concerned.[348]

Arguably the most important endowment White brought to postwar monetary planning was his experience and knowledge of the temper, prejudices, and attitudes of Capitol Hill; the various competing interests in the administration, and domestic and international public and expert opinion. White was perfectly aware that any proposal he developed would face a number of hurdles.

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[347]A useful account of the change from the "classical" to the "modern" mechanism of adjustment theory can be found in Bloomfield, Capital Imports and the American Balance of Payments, 252-268. Eichengreen, Golden Fetters, 32-42 sketches the role of Taussig and White in this transition. Besides White's work on France other studies of the "Taussig school" are Jacob Viner, Canada's Balance of International Indebtedness, 1900-1913 (New York: Harper & Brothers, 1924), W. E. Beach, British International Gold Movements and Banking Policy, 1881-1913 (Cambridge, Mass: Harvard University Press, 1935), and Frank Taussig, International Trade (New York: Macmillan, 1928) on the United States. Also see Harry D. White, "Haberler's *Der Internationale Handel*, Ohlin's Interregional and International Trade," Journal of Economics 48 (August 1934): 727-741.

[348]"Subject: Recovery Program: The International Monetary Aspect," Ibid., 2.

While his International Stabilization Fund (ISF) plan was quite ambitious and in many respects without precedent, he knew its adoption would depend more on practical considerations than theoretical elegance.[349]

There were no real precedents in international monetary or economic affairs for the "International Stabilization Fund" draft proposal that White sent to Secretary Morgenthau in April 1942. The ISF was to be a permanent international multilateral agency. A Board of Directors composed of representatives of the participating nations would operate the Fund. The assets of the Fund were the member states' "subscriptions," national currencies, gold, and government securities. Member nations could, with certain restrictions, "buy," to a certain limit, needed currencies from the Fund with their subscription of national currency or gold. In this way nations could acquire needed foreign exchange easily and smoothly.[350]

At the heart of the Fund were stable exchange rates allowed to fluctuate only in a narrow band. These would be determined by the Fund and would be a

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[349]Horsefield, Chronicle, 12.

[350]The April draft can be found in Horsefield, Documents, 37-82, description in Chronicle, 21-25. Other useful considerations of the April draft are found in Blum, Years of War, 230-232, Schild, Bretton Woods and Dumbarton Oaks, 87-92, and Van Dormael, Bretton Woods, 48-53.

necessary precondition to Fund operations. The Fund was to have the authority to recommend measures to correct chronic balance of payment difficulties. To correct a "fundamental disequibium," left undefined, exchange rates could be adjusted, but only with members' approval.

In order to participate in the Fund members had to agree to a number of economic and financial principles, furnish economic and financial data, and operate through treasuries, central banks, or stabilization funds. Fund voting power was to be proportionate to the size of the subscription, which was based on a formula that considered gold reserves and production, national income, foreign trade, investment, and debt. By White's formula the United States would have the largest subscription and virtual veto power.[351]

On May 14, 1942 Morgenthau sent a memorandum and a copy of "Suggested Plan for a United and Associated Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations" to FDR. The Secretary argued that it was incumbent that planning and negotiations begin immediately for the two institutions that would prevent

[351]The principles included ending restrictions or controls on foreign exchange transactions, stopping bilateral clearing

disruption of foreign exchange and the collapse of monetary and credit systems and which would aid in the restoration of foreign trade and investment "essential for the attainment of world prosperity and higher standards of living."[352] Timely action would serve as a rebuke to the proposed "New Orders" in Europe and Asia and demonstrate the confidence of the Allied powers. Here appeared for the first, but by no means the last, time the two phrases that would be linked with the Bretton Woods, particularly the IMF; this was an opportunity to create "a New Deal in international economics," and "prosperity, like peace, is indivisible."[353]

FDR responded that full agreement should be reached in the administration before any invitations were issued for a general conference. A Cabinet Committee was formed to explore the White draft consisting of representatives of the White House,

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arrangements, reducing tariff barriers, and ending export subsidies. See Schild, Bretton Woods, 89.

[352]Morgenthau, "Memorandum for the President, May, 14, 1942, PDHMJr, 1101.

[353]"the preparation of specific instrumentalities for what really would be a New Deal in international economics." Morgenthau to Roosevelt, "Memorandum for the President, May, 15, 1942, MD 528:321 and "To help them, not primarily for altruistic motives, but from recognition of the truth that prosperity, like peace, is indivisible." "Memorandum for the President," May 14, 1942, PDHMr, 1102. The "prosperity" line is a paraphrase of Litinov's September 5, 1935 speech at the League of Nations protesting Italy's proposal to send troops into Abyssinia. See Arthur Upham Pope, Maxim Litvinoff (New York: L B Fischer, 1943), 361-363.

State, Commerce, the Federal Reserve, and the Board of Economic Warfare.[354]

The first meeting of the cabinet committee demonstrated a surprising degree of agreement over the general principles of the White Plan. Secretary Jesse Jones of Commerce, a conservative Texas Democrat thought the idea “excellent.” Also giving their approval were Chairman of the Federal Reserve Board Marriner Eccles and V. Frank Coe of the Board of Economic Warfare. Herbert Feis of State approved of the White Plan in principle but mentioned that there already were talks underway on postwar relief and Article VII of lend-lease. Leo Pasvolsky, in charge of postwar planning at State and close to Secretary Hull, stated that the White Plan was “admirably suited” to use as a basis for discussions in the administration and with the technical experts of other nations.[355]

A subordinate American Technical Committee (ATC) consisting of representatives from the White House, State, Treasury, the Board of Governors of the Federal Reserve, Commerce, and the Bureau of Economic Warfare (BEW) was established. In subsequent discussions two positions emerged. State preferred preparatory

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[354]Roosevelt to Morgenthau, May 16, 1942, MD 529:7.

bilateral technical talks with British financial and monetary experts to an international conference of finance ministers. White and other Treasury representatives argued for an international conference of finance ministers. Only Emmanuel Goldenweiser, chief economist for the Federal Reserve, and Alvin Hansen, also of the Fed, expressed some doubts about the usefulness of the particular mechanisms the White Plan offered. Walter Gardner of the Federal Reserve suggested that the leading governments reach a meeting of the minds before any conference was called. He noted that there was no precedent for the United States or other countries to relinquish some sovereign rights over international commercial and financial policy.[356]

White's response to the expressed need for preparatory bilateral talks was that "tacit agreement with respect to the desirability of a few simple economic principles had been assumed in preparing the memorandum."[357] As a compromise Frank Southard of

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[355]"International Stabilization Fund," May 25, 1942, MD 531:258-262.

[356]For the inaugural meeting of the ATC see "Minutes of Meeting Held in Mr. White's Office, Treasury Department, at 4 p.m., May 28, 1942," 360 T, Box 20, Memoranda of Conferences in Mr. White's Office, 1940-1945, OASIA. For Gardner's comment see page 2. Also see Willis to White, "Subject: First Inter-Departmental Meeting on Stabilization Fund and Bank of United Nations," May 30, 1942, 360 O, Records of the Bretton Woods Agreements, Box 56, File: UN Stabilization Fund, OASIA.

[357]Ibid., 3.

Treasury proposed issuing simultaneous invitations to the technical experts of the United and Associated Nations for talks in Washington.

By the end of July a compromise was reached. Dean Acheson of State agreed on multilateral talks.

> We ought to take up matters separately with each one of the major powers. We probably ought to start with the British because they have at the present time a larger stake in this matter, and either simultaneously or right after that with the Russians. That is primarily on account of the effect on both of these countries so far as the war is concerned, and the effect on their plans for after the war.[358]

The Cabinet Committee concluded that there was a need for an ISF and IBRD, that the institutions should be established before the end of the war, and that invitations should be issued immediately to the technical experts of various nations.[359] On July 21 White sent a memo to Secretary Morgenthau recommending that Treasury initiate informal exploratory discussion with the representatives of the "United Kingdom, USSR, China, Canada, Australia, Brazil, and Mexico." These

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[358]Meeting in Secretary Morgenthau's Office," July 2, 1942, MD 545:99.

[359]"Subject: Report of Interdepartmental Committee on a Stabilization Fund," June 15, 1942, 360 Q, Staff Memoranda of Harry Dexter White 1941-1946, Box 14, File: Staff Memoranda Jan.-Dec. 1942, OASIA. Also see "Suggested Procedure for International Consultation on a Stabilization Fund and a Bank for the United and Associated Nations," July 1, 1942, 360 O, Box 56, File "Bretton Woods Drafts. OASIA.

nations were to study the American proposal and offer some responses, memoranda, or counter proposals of their own.[360]

White and Treasury were successful in their effort to gain control of postwar planning for the international monetary system in the administration and in their effort to base intragovernmental negotiations along multilateral rather than bilateral lines. State, and tradition, dictated that an agreement be hammered out between the two dominant financial and economic powers before other nations would be presented with the compromise plan. White, Morgenthau, and FDR wanted to base all postwar arrangements on at least the formal recognition of a rough equivalency among the "United and Associated Nations." While Washington and London would of course dominate postwar planning, the Roosevelt administration wanted to distance itself from London and colonialism, and desired at least the intimation of full multilateralism and equality of nation-states. These assumptions, originated and promoted by FDR, granted both China and the Soviet Union a standing and status that did not approximate

[360] White to Morgenthau, July 21, 1942, MD 552:142-143.

their present political or economic power or influence, but rather was based on presumed future importance.[361]

"A few simple principles:" The International Monetary Consensus

What is remarkable about the disagreements and debates in the technical committee over the White Plan is that they were over means and methods, not ends or principles. State and Treasury disagreed about the timing of an international conference and whether a bi- or multilateral approach offered a better chance of success. The lack of disagreement over principles is an expression of what might be termed the "international monetary consensus" that grew out of the international monetary experience of the depression and wartime mobilization of production and economic resources. One aspect of this consensus was that most if not all of the self-defensive measures of economic nationalism resorted to in the depression were found to produce neither national prosperity nor international well-being.[362]

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[361]See White's comments, "Meeting in Secretary Morgenthau's Office," July 2, 1942, MD 545:109-113.

[362]For a concise account of this position see John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," International Organization 36 (Spring 1982): 393-396.

A second aspect of the consensus was that national prosperity and full employment would be possible only with "freer" multilateral trade, but that international payments would be managed by the state and not be the product of some automatic mechanism or controlled by private interests. These assumptions were endlessly repeated in newspapers, magazines, government statements, and academic journals.[363] Administration economists, like White, who wanted to extend and deepen the New Deal after the war came to the conclusion that national management of the currency demanded international management of the currency by the state. Prosperity was best reached through increased trade and decreased capital controls rather than in the decreased trade and increased capital controls that characterized the late 30s and early 40s. This was not a capitulation to Wall Street, but the final stage of the state's effort to gain control and direction in monetary management. There was, however, a struggle in the administration over the cause and cure of the

[363]"full employment isn't feasible without more international trade. . . a lot of people want new deals. . . the public pressure for long term programs of large scale public expenditures seems likely to be practically irresistible, as soon as any unemployment develops. . . barriers to international exchange should be lowered. . . monetary conditions and monetary policy are now recognized as too important and too close to the heart of fiscal sovereignty to be entrusted to any automatic or even semiautomatic system." Robert Bryce, "Basic Issues in Postwar

depression, however. Alvin Hansen and other "national planners" understood depressions in Keynesian terms, caused by fluctuations in rate of real investment and "underconsumption," and did not believe that free trade would end fluctuations in the business cycle.[364] White and Treasury, "idealist internationalists," while not explicitly rejecting Hansen, thought that an important component of recovery was increased international trade and capital flows, an international rather than national solution to the depression.[365]

Another aspect of the international monetary consensus has been variously characterized as the agreement of the "service intellectuals" or a "Keynesian consensus."[366] The consensus reached was "Keynesian" only in the sense that it recognized the role of the state in the management of the currency and

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International Economic Relations," American Economic Review 32 (March 1942): 165-181.

[364]Alvin Hansen and Arthur Upgren, "Some Aspects, Near-Term and Long-Term, of the International Position of the United States," American Economic Review 30 (February 1941): 366-372.

[365]For the distinction between "national planners" and "idealist internationalists" see Block, Origins of International Economic Disorder, 32-46.

[366]For the role of "service intellectuals" see Eckes, Search for Solvency), especially xi-xii and 81-106. For the "Keynesian consensus" see G. John Ikenberry, "A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement," International Organization 46 (Winter 1992): 291-305, and "The Political Origins of Bretton Woods," in A Retrospective on the Bretton Woods System, ed. Bordo and Eichengreen, 155-200.

as the final guarantor of employment.[367] For academic economists in and out of government service there was a general consensus by 1942. The features of the U.S. economy demanded multilateralism, which would help in establishing general prosperity. Stable exchange rates were the single most important element for the growth of multilateral trade. An international or supra-national authority was necessary to establish and administer the international currency system.

The U.S. economy was unique in that it produced large surpluses not only of agricultural and industrial goods but also raw materials. The western hemisphere as a whole exported a great deal of commodities and offered no sphere for autarchy or isolationism. As Alvin Hansen, no "idealist internationalist," put it,

> our economy has developed within a world market, and our trading area cannot shrivel to small dimensions without entailing drastic reorganization and readjustment. . . . Only by preserving a trade area that is even wider than the Western Hemisphere and Britain can our economy face the future with assurance.[368]

Others examined alternative postwar international monetary regimes. There were four general approaches;

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[367]The Keynes of The General Theory is "nationalist" in analysis and prescriptions, and does not have an international position. International trade and monetary relations are discounted and ignored throughout. This has been a flaw in the work, an attempt to describe the operations of a national economy without the various effects of international trade, investment, and exchange.

"multiangular" totalitarian exchange control, exchange blocs, a one-currency liberal trading system, and an international monetary system directed by a multi-national sovereign power. For a number of reasons the first two alternatives were rejected as impracticable.[369] The choice was between an American monetary "hegemony" very much on the model of sterling in the 19th century or an international multilateral institution. As "the first economic responsibility of national governments is undoubtedly the maintenance of employment or the conditions necessary to its maintenance," it was unlikely that other nations would be attracted to or participate in a dollar-exchange postwar system. Thus the only viable alternative was real international cooperation in monetary affairs.[370]

John Parke Young of State championed an "international sovereign authority with powers of enforcement" for the postwar monetary regime. Anticipating the White Plan, Young argued that in the absence of the price-specie-flow mechanism, stable and

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[368]Hansen and Upgren, "Some Aspects, Near-Term and Long-Term, of the International Position of the United States," 371.

[369]"Isolationism is a fiction, self-sufficiency is an impossibility, and autarchy means wars and world anarchy." Howard S. Ellis, "The Problem of Exchange Systems in the Postwar World," American Economic Review 32 (March 1942): 200.

[370]Ibid., 202-203.

secure exchange rates founded on coordinated currency and fiscal policies were necessary.[371]

Already in 1937 Leo Pasvolsky, then at the Brookings Institution but later head of postwar planning at State, had developed a position very much like the later White Plan. Flexible exchange discouraged confidence and reduced trade as governments and businessmen would not accept exchange risk. Fixed exchanges on a gold basis with bullion redemption would restore confidence and revive trade. The Tripartite Agreement set a significant precedent, providing that through international cooperation a necessary devaluation took place without setting off a round of retaliatory deprecations.[372]

This consensus was wider than American economists, including one prominent "Keynesian," J. E. Meade, professor at Oxford, who in 1939 argued along lines similar if not identical to White, Pasvolsky, and Young.[373] Some sort of international monetary organization with supranational authority was needed,

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[371]John Parke Young, "Problems of International Economic Policy for the United States," American Economic Review 32 (March 1942): 182-194.

[372]Leo Pasvolsky, "Some Aspects of Our Foreign Economic Policy," American Economic Review 30 (February 1941): 320-337.

[373]Meade was in the original "Keynes Circle" with Joan Robinson. See Roy Harrod, The Life of John Maynard Keynes (New York: W. W.

and some sovereignty over monetary affairs would have to be given up. The organization would have to accommodate both "liberal" and planned economies. Floating exchanges discouraged trade and encouraged "hot money" speculative capital movements in the expectation of profiting from a currency depreciation. Small fluctuations in exchange value in order to maintain equilibrium were positive; what was to be avoided was a currency devaluation not to correct a fundamental disequilbrium but to insure domestic employment. A simple means to distinguish a justified from an unjustified devaluation was to examine the balance of payments, "a country should depreciate the exchange value of its currency if it is persistently losing monetary reserves to other countries, and it should appreciate its currency if it is persistently receiving monetary reserves at the expense of other countries."[374] Meade also noted that national stabilization funds were open to misuse and that a "planned" economy did not necessitate blocked balances and exchange control.[375]

Norton & Company, 1982), 433, and Lionel Robbins, The Autobiography of an Economist (London: Macmillan, 1971), 501-503.

[374]J. B. Meade, The Economic Basis of a Durable Peace (New York: Oxford University Press, 1939), 63.

[375]Ibid.,. 70-71.

An additional influence on the development of the international monetary consensus was the work of the economists associated with the League of Nations Economic and Financial Organization (EFO), particularly the Economic Intelligence Service.[376] The League's economic efforts have been understood as retrograde or failures: the efforts to restore the gold standard in the 1920s; the Brussels, Genoa, and London conferences; and attempts at financial reconstruction in Central Europe.[377] However this interpretation ignores the remarkable shift in emphasis after 1935. In the annual World Economic Survey and Money and Banking, as well in commissioned publications, League economists argued for, and helped to shape, the consensus position. Like their Anglo-American counterparts, League economists argued for the removal of trade barriers, orderly exchange rate adjustment and stabilization, and increased international investment for general prosperity.[378]

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[376]See John I. Knudson, A History of the League of Nations (Atlanta: Turner E. Smith & Company, 1938), 206-224.

[377]Ruggie sees "British hegemony" in the EOC as the cause of this failure. "The League and successive international gatherings in the monetary sphere seek to undermine the legitimacy of domestic stabilization policies while offering only the unacceptable gold-exchange standard in their place." Ruggie, "International Regimes," 391-392.

[378]See Louis Pauly, The League of Nations and the Foreshadowing of the International Monetary Fund (Princeton: International Finance

In a 1942 work J. B. Condliffe, earlier a consultant to the League and editor of the World Economic Survey, argued for a postwar architecture remarkably similar to the developing White Plan. Exchange rate stabilization should come through an international economic institution with supranational authority, the United States as the great creditor should lead the effort of consultation, coordination, and common supranational action.[379]

In the late 1930s and early in the war the Economic and Financial Organization of the League helped to shape the emerging monetary consensus. Either as staff or commissioned experts, a remarkable group of American, Canadian, British, and Continental economists developed suggestions for the postwar world very much in harmony with the as yet unannounced White Plan. There was general agreement as to the problems of the interwar period and the goals of the postwar

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Section, Department of Economics, 1996), and Who Elected the Bankers? Surveillance and Control in the World Economy (Ithaca, N.Y.: Cornell University Press, 1997), 44-78. Pauly claims that the "main work" shaping the IMF came not at Bretton Woods, "but in the underresearched experience of the League of Nations" and understands its core principle as "systemic multilateral oversight." Pauly, Who Elected, 17-18.

[379]J. B. Condliffe, Agenda for a Postwar World (New York: W. W. Norton & Company, 1942), 218-222, also see his also The Reconstruction of World Trade (New York: W. W. Norton & Company, 1940).

period. Disagreement came over the best method to reach these goals.[380]

By 1942 there was a general consensus that world prosperity and high levels of employment were best served by an open trading system with multilateral exchange and, if not a fixed, stabilized exchange rates reached through some sort of multinational institution. There was, however, a position that agreed with the consensus position save for multilateral fixing and an supranational institution. Proponents of the "key currency" proposal argued that as over 60 per cent of the world's trade was concluded in dollars or pounds, only the dollar-pound cross rate needed to be fixed. There was no good reason, and some hazard, in linking currencies little used in world trade to the dominant currencies. Aside from this, the occupied countries and the Axis nations would need to undergo a thorough monetary reform or reconstruction before they could look to exchange stabilization. In the view of key currency proponents the White approach overreached where caution was counseled. The key currency concept appealed to more conservative, private banking

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[380]Among the staff or consultants of the EFO at various times were these extremely influential economists and government ministers; Jean Monnet, Per Jacobbsen, Alexander Loveday, J. M. Meade, Louis Rasminsky, Ragnar Nurkse, A. C. Pigou, Oskar Morgenstern, Bertil

interests and became identified with the New York Federal Reserve and Wall Street.[381]

The Clearing Union

The effort of Treasury to present a finished international monetary regime as a basis for multilateral negotiations was upset by the appearance of the British "Clearing Union" plan in Washington in the summer of 1942. Instead of beginning multilateral technical talks, Treasury began bilateral negotiations with British representatives over the relative merits of the White Plan and the Clearing Union plan drafted by John Maynard Keynes.

Keynes formulated a plan with the particular position and problems of Great Britain very much in mind. The Clearing Union was not so much concerned with a general fixing of exchange rates as with the ability of debtor nations to draw on the balances of creditor states. Keynes placed less emphasis on multinational administration of the institution and more on the technical balance of payments problem and automatic operations. The Clearing Union was more

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Ohlin, Gottfried Haberler, Alvin Hansen, Folke Hilgert, Jan Tinbergen, Jacques Polak, and Jacques Reuff.

[381]The best known proponent of the key currency approach was John H. Williams, economist, vice-president of the New York Federal

ambitious than the White Plan, with a much higher capitalization and more voting power for Great Britain.

One important, if often misunderstood, feature of the Clearing Union was creditor responsibility for restoring equilibrium. Instead of "buying" the desired exchange as in the White Plan, debtor nations could automatically invoke "overdraft" rights for the needed currency. Though to some American observers this smacked of debtor irresponsibility, to non-Americans the fundamental interwar problem was that the United States as a creditor nation had erected a tariff barrier and abdicated creditor responsibility for international investment. In a sense the "overdraft" provision was an effort to replicate the "automaticity" of price-specie-flow mechanism under the classical gold standard.[382]

Keynes did not foresee a prominent role for the Soviet Union in his plan, which focused more on technical issues and balance of payments difficulties than political considerations. As the voting power of participant nations was based in part on interwar trade, the Soviet Union would have only a modest voice

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Reserve, and professor of political economy at Harvard. See Eckes, Search for Solvency, 88-90.

[382]Harrod, Life of Keynes, 571. Useful accounts of the Clearing Union can be found in Horsefield, Chronicle, 14-21, Van Dormael,

in the proposed Clearing Union. Keynes was not in the least hostile to Soviet participation and even suggested the Kremlin as a "third founder" of the Clearing Union. Rather Keynes understood the fundamental problem was the relationship between the sterling and dollar areas and believed that the Soviet Union was at best a tertiary consideration in the technical aspect of international monetary cooperation.[383]

Keynes' skepticism on Soviet participation in international monetary arrangements may have had something to do with his experience of Russia and the Soviet Union. His first brush came in 1916 when he was to sail on the HMS *Hampshire* to Russia for a financial mission. The press of business kept him in London and the ship, with Lord Kitchner aboard, was sunk and lost.[384] On a happier note he met his future wife Lydia Lopokova when she performed in the Diaghilev ballet company in London in 1918. Keynes and his wife visited the Soviet Union three times before the outbreak of the

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Bretton Woods, 29-39, and Gardner, Sterling-Dollar Diplomacy, 77-100.

[383]For the Clearing Union and the Soviet Union see John Maynard Keynes, The Collected Writings of John Maynard Keynes, vol. 25, Activities 1940-1944: Shaping the Post-War World: The Clearing Union (London: The Macmillan Press, 1980), 142-146, 204-206.

[384]Harrod, The Life of Keynes, 216.

war. He was not terribly impressed with the Soviet "experiment."

> On the economic side I cannot perceive that Russian Communism has made any contribution to our economic problems of intellectual interest or scientific value. I do not think it contains, or is likely to contain, any piece of useful economic technique which we could not apply, if we chose, with equal or greater success in a society which retained all the marks, I will not say of nineteenth-century individualistic capitalism, but of British bourgeois ideals.[385]

Keynes made his opinion clear on the theoretical and scientific pretensions of Marxist economic thought in a 1934 letter to G. B. Shaw.

> My feelings about Das Kapital are the same as my feelings about the Koran. I know that it is historically important and I know that many people, not all of whom are idiots, find it a sort of Rock of Ages and containing inspiration. Yet when I look into it, it is to me inexplicable that it can have this effect. Its dreary, out-of-date, academic controversalizing seems so extraordinarily unsuitable as material for the purpose. . . . I am sure that its contemporary *economic* value (apart from occasional but inconstructive and discontinuous flashes of insight) is *nil.*[386]

British and American technicians exchanged questions and comments on each others' plans through the fall of 1942 and into 1943. The key addition to

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[385]John Maynard Keynes, A Short View of Russia (London: The Hogarth Press, 1925), 24.

[386]Emphasis in the original. John Maynard Keynes, The Collected Writings of John Maynard Keynes, vol. 28, Social. Political, and Literary Writings (London: The Macmillan Press, 1982), 38.

the White Plan in this period was the adoption of the "scarce currency" provision. This meant that when the balances of creditor countries reached a certain limit the Fund could declare their currencies "scarce." The Fund could then deal out the "scarce" currency, and debtor nations could invoke trade restrictions against the products of "scarce" currency states. Through this provision creditor responsibility for fundamental disequlibria was recognized and an "automatic" mechanism supplied to correct the imbalance.[387]

Information on the rival plans and the ongoing monetary negotiations began to leak in Washington and London in spring of 1943. It appeared that London selectively released parts of the White Plan and presented the Clearing Union in its best light. On April 6 the White Plan was released to the press, and Secretary Morgenthau explained to the Senate Committee on Finance the principles of Treasury's planning: no competitive devaluations, values of currencies fixed in terms of gold and adjusted only with the consent of other nations, and voting weight determined by the size of the contribution to the fund.[388]

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[387]Blum, Years of War., 237-238.

[388]Ibid., 238-239. Also see "Memorandum for the President," March 17, 1943 and "Suggested Press Release," March 18, 1943, 360 P, Box

In late April 1943 the long-planned invitation to technical experts of the United and Associated Nations to come to Washington to consider postwar monetary arrangements were sent. Rather than simply discuss the White Plan, the technicians now had two plans to consider, the American one and the Clearing Union of Keynes. Both plans had been fully and publicly presented and supported with explanatory material. The Americans were confident that in general the White Plan would gain the support of the western hemisphere, Canada as well as Latin America, and China. Great Britain could be confident in the endorsement of the Empire and Commonwealth as well as the other sterling-bloc nations, most of which were now occupied, of the Clearing Union.

What of the USSR? Treasury was eager to induce its participation in the proposed conference of finance ministers and in the international monetary organization if established. But what particular features of either the White or Keynes plans would appeal to the state that had earlier declared its complete independence from capitalism, the West, and foreign goods? What were the fundamental features of

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9, Chronological 45, OASIA. For White's view of his plan see Harry D. White, "Postwar Currency Stabilization," American the Soviet monetary and trade system? How did White and Treasury draw on their interwar experiences with the Soviet Union in shaping the International Stabilization Fund?

Economic Review 33 (March 1943): 382-387. “We must learn the fundamental truth that prosperity, like peace, is indivisible.”

CHAPTER 7

THE SOVIET UNION: MONETARY SYSTEM AND FOREIGN TRADE, 1918-1942

The state monopoly of foreign trade in the Soviet Union has been described as "the most inalienable and fundamental institution of the Soviet economic system."[389] This monopoly had been fixed by decree on April 22, 1918 and, though administratively reorganized, rationalized, and centralized, it remained in force for the life of the Soviet state. The "fundamental" principle was that only the state decided which imports were necessary, and then determined which exports were to be used to pay for the needed foreign inputs. The trade cycle began with input demands that could not be met by the domestic economy and was completed when these demands were fulfilled. Imports, both goods and services, could be paid for in two ways. One means was earning the needed foreign currency or a hard currency convertible to the needed currency. The second, and less desirable means, was using gold either to acquire the needed exchange or as a direct transfer to conclude the transaction.

The foreign trade monopoly, combined with the inconvertibility of Soviet currency, meant that the price of Soviet exports was not a function of cost, but the product of a special calculus. This "state trading" system was a new phenomenon in the modern world, unique to the Soviet Union, and certainly a "revolutionary" development. On one hand state control of foreign trade theoretically made negotiations and agreements easier to conclude successfully. On the other hand, divorcing the international sale price from the domestic production cost and "socialist reproduction"[390] seemed a repudiation of all of the basic assumptions concerning international trade and monetary cooperation. Calculating "equilibrium," a difficult enough task for market economies in a period of "international disequilibria," would seem almost impossible without a useful price mechanism, making balance of payments calculations exercises in futility.

Although both Marx and Lenin had a strong ideological commitment to state control of trade, the Soviet foreign trade monopoly was as much the product of wartime disruptions and the Allied embargo as of

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[389]Paul Haensel, The Economic Policy of Soviet Russia (London: P. S. King and Son, Limited, 1930), 146-147.

[390]"Socialist reproduction" refers to that increment of price not allocated to labor, material, and capital costs, or the "profit" that accrues to and is allocated by the state.

ideology.[391] Before August 1914 Imperial Germany and Tsarist Russia had a large and growing trade partnership. The great majority of prewar Russian exports were foodstuffs, raw, and semi-finished goods to Central Europe, particularly Germany. In turn Germany supplied machinery, chemicals, textile products, and ores to Russia. When World War I ended this commerce, Russia lost its greatest trading partner and the volume of foreign trade shrank dramatically. The war also destroyed the established commercial and mercantile connections and firms, as the Russian import-export trade had been dominated by a small group of foreign concerns, many German or staffed by Germans.[392]

In prosecuting the war, the Tsarist and then the Provisional government exerted increasing direction and control of foreign trade. Scarce resources had to be allocated for those imports vital to the war. Mobilization, transportation bottlenecks, and

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[391]See John Quigley, The Soviet Foreign Trade Monopoly: Institutions and Laws, (Columbus: Ohio State University Press, 1975), 3-13.

[392]About 91 per cent of Russia's exports in 1913 were foodstuffs and raw and semi-manufactured goods. About 50 per cent of Russian exports went to Central Europe in that year. See Mikhail Condoide, Russian-American Trade: A Study in the Foreign Trade Monopoly (Columbus Ohio: The Bureau of Business Research, College of Commerce and Administration, 1947), 3-4, Tables 1 and 2 and Chart 1. Also see Maurice Dobb, Soviet Economic Development Since 1917 (New York: International Publishers, 1948), 36-39, and

inefficiencies caused a precipitous drop in agricultural output, the key earner of foreign exchange. The drop in exports, new wartime financial demands, and insufficient domestic funds forced both the Tsarist and Provisional governments to finance foreign loans from both governmental and private sources. Russian foreign indebtedness, already high before the war, grew enormously in this period. By 1917 private foreign trade had almost disappeared, exports earnings plummeted, indebtedness soared, and imports predominately were war material purchased by and for the state.[393]

This trickle of foreign trade was cut off almost completely by the Allied embargo on exports to Russia after the Bolshevik government quit the war and concluded the treaty of Brest-Litovsk with Germany in March 1918. With Russia out of the war and under treaty obligations committed to a certain level of trade cooperation with Germany, the Allied powers

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E. H. Carr, A History of Soviet Russia, vol. 2, The Bolshevik Revolution 1917-1923 (London: Macmillan, 1952), 130-131.

[393]For finance in this period see Arthur Z. Arnold, Banks, Credit, and Money in Soviet Russia (New York: Columbia University Press, 1937), 27-52 and S. S. Katzenellenbaum, Russian Currency and Banking 1914-1924 (London: P. S. King & Son, 1925), 49-80.

concluded that imports to Russia would, indirectly or directly, aid the Central Powers.[394]

Thus factors outside of the control of Lenin and the Bolsheviks reinforced their ideological predisposition for full control of exports and imports. The monopoly would simultaneously close Russia off from foreign exploitation through investment, block the squandering of the national wealth on goods not deemed vital by the state, and stand as a tangible accomplishment of socialism. An April 1918 decree stated that the "organ having control over the nationalized foreign trade shall be the People's Commissariat of Foreign Trade and Industry."[395] The decree also established a subordinate Council of Foreign Trade composed of representatives of governmental agencies, producer cooperatives, and industry groups. The Council was to "purchase goods abroad, using as intermediaries state purchasing commissions and agents, cooperative organizations, and trading firms."[396] Through the Council the government could mobilize desperately needed knowledge and

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[394]"The supplementary economic agreement attached to the Brest-Litovsk treaty obliged Soviet Russia not to raise its tariffs against the Central Powers above the limits of the Russian tariff of 1903, and not to impose prohibitions or duties on the export of timber or ores." Carr, The Bolshevik Revolution, 133.

[395]The full text of the decree is given in Condoide, Russian-American, 23-24.

expertise while maintaining ultimate authority and control. The Council was divided into "divisions according to branches of production and most important groups of export and import goods."[397]

Although the decree envisioned a system whereby the various ministries and organizations would submit requests for purchase abroad, in reality purchases were limited by the ability of the Soviet government to pay for imports. At this point, however, questions of foreign trade were moot, as in the fall of 1918 the Allied embargo was transformed into an effective naval blockade.[398]

It was not until the Allied blockade was lifted in January 1920 that the Soviet government had the opportunity to put the trade monopoly into operation. This effort faced a number of obstacles. Due to the repudiation of public and private debt and expropriation of foreign property the Soviet government could not secure foreign loans or credits. Gold could be used in payment of imports, but the Tsarist gold

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[396] Ibid., 24.

[397] Ibid.

[398] Quigley, Soviet Foreign Trade, 19.

reserve had been seriously depleted during the war and civil war.[399]

The British and French government refused to meet with representatives of the Commissariat of Foreign Trade, but did deal with officials of the cooperatives established by the Tsarist government during the war. Leonid Krasin, the Commissar of Foreign Trade, went to England and Denmark in the spring of 1920 as a member of the Tsentrosoiuz delegation, the Soviet consumers' cooperative, not in his governmental capacity. Through this masquerade trade relations were established and some trade began. However, as an additional impediment to commerce, some European banks, and the American Treasury, either refused to accept Soviet gold or took it at a substantial discount on the grounds that it was Tsarist gold and should be used to satisfy existing claims rather than make new purchases.[400]

The failure of the Commissariat of Foreign Trade to open trade relations resulted in a critique of the monopoly and a serious effort to "liberalize" foreign trade. This effort was led by V. P. Miliutin, an

[399]The Bolsheviks probably controlled less than 40 per cent of the Tsarist reserve of 1914, or about $350 million. For background on the issue of the Tsarist gold reserve see Amtorg, Russian Gold, A Collection of Articles, Newspaper Editorials and Reports, and Statistical Data Regarding the Russian Gold Reserve and Shipment of Soviet Gold (New York: Amtorg, 1928).

economist and member of the Presidium, and other members of Vesenkha, the All Union Council of the National Economy. The Commissariat was attacked as ineffective, unable to bring in goods demanded by the agriculturists, who withheld their produce, or needed food and medicines. The "liberalizers" wanted to license state agencies, cooperatives, joint ventures, and individuals to engage in trade. For a time Lenin stood alone for the maintenance of the trade monopoly. But by the Twelfth Party Congress in 1923 prominent "liberalizers," Stalin, Zinoviev, and Kamenev, had shifted their position and now supported the Commissariat's complete monopoly of foreign trade.[401] However, in this period some purchasing agents and organs of producers' and consumers' cooperatives began operations in Europe and America and operated in parallel with the Commissariat.

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[400] On the Krasin mission see Quigley, Soviet Foreign Trade, 19-21. The gold blockade was ended by Britain in March 1921, but the Assay office of the U.S. Treasury retained the right to investigate and reject gold of Tsarist/Soviet origin. In spite of this by 1922 the U.S. government estimated that $300 million in Soviet gold made its way into the Federal Reserve through intermediaries. See Siegel, Loans and Legitimacy, 62-63.

[401]This and the "Georgian Question" were the final political activities of Lenin before his incapacitating stroke of March 1923. It was during the maneuvers over the trade monopoly that Stalin apparently insulted Krupskaya, Lenin's wife, during a phone conversation. This opened a breech between Lenin and Stalin and led to Lenin's warnings about Stalin in his "Testament." See Ronald Segal, Leon Trotsky (New York: Pantheon Books, 1979), 257-261. For the trade monopoly debate see Quigley, Soviet Foreign Trade, 24-36.

By 1924 the state trading system was in place and imports and exports grew at a rapid rate. Trade and purchasing missions were sent to European capitals and the United States. Receipts and payments of foreign currencies were channeled through the Bank for Foreign Trade (Vneshtorgbank) a subsidiary of the State Bank (Gosbank). No exchange could be held by Soviet agencies, all "valuta" (convertible foreign currency) was deposited in the Vneshtorgbank and ruble accounts credited. The State Planning Commission (Gosplan) formulated the total import requirements. The Commissariat of Foreign Trade was then charged with shaping an export program to meet the requirements. As an explanation of the Soviet trading system written for American businessmen put it:

> . . . [T]he leading part in foreign trade is assigned to imports, the export of goods serving only as a means of fulfillment of the import program. . . . It is to the extent only that the USSR requires imported goods that its internal resources are utilized for export.[402]

<u>The Soviet Monetary System</u>

In contrast to the continuity and stability of the trade monopoly, Soviet monetary policy varied widely. There was one inviolate principal, however. The internal and external value of the various rubles, chervontsy, sovsnaks, or kopecks was not to be decided by market forces, a bullion or exchange cover, demand, or quantity of money, but ultimately determined by the government for purposes of economic management. Eventually this forced the absolute prohibition of the circulation of the various Soviet currencies outside its borders and the prohibition of the possession or use of foreign currency in the Soviet Union. Money was of course a sensitive subject for Marxists and Bolsheviks. "Kapital" was the means to expropriate surplus labor, a mechanism to mask relationships and elude obligations, and the "nexus" that alienated labor and encouraged exploitation.[403] Throughout the existence of the Soviet Union the currency was essentially a bookkeeping and notational device exclusively for domestic use. Currency could neither be taken outside of the country by foreigners nor used in concluding international transactions. If either of these steps were allowed, the fundamental monetary

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[402]American-Russian Chamber of Commerce, Economic Handbook of the Soviet Union (New York: American-Russian Chamber of Commerce, 1931), 103.

[403]For Marx's views on money see Jerrold Seigel, Marx's Fate: The Shape of a Life (Princeton: Princeton University Press, 1978), 124-126, 300-330. For later developments see L. E. Hubbard, Soviet Money and Finance (London: Macmillan, 1936), 1-7.

management and control, "the commanding heights," would be lost by the state.[404]

As in foreign trade, the Bolsheviks inherited a monetary system that had grown rapidly before the war but proved incapable of adapting and adjusting to wartime conditions and demands. The Tsarist government was forced to suspend gold convertibility on July 27, 1914 and at the same time gave the State Bank the right to issue notes without a bullion cover. As the state could raise only a small amount of funds through taxation and the sale of bonds, the gold reserve was depleted to finance the war. As the budget deficit grew the State Bank covered the deficits by issuing notes, and precious metals disappeared from circulation. An inflation began in 1915 that ran essentially unchecked until 1924.[405]

In its short existence the Provisional government was unable to collect enough tax revenues or borrow sufficient funds at home or abroad to finance the war and cover the increasing state budget deficits. The emission of unbacked currency was accelerated and a

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[404]For a general account of the Soviet monetary and finance system see L. E. Hubbard, Soviet Money and Finance (London: Macmillan, 1936) and Mikhail Condoide, The Soviet Financial System (Columbus, Oh.: Bureau of Business Research, Ohio State University, 1951).

[405]For the Tsarist war finance and inflation see Katzenellenbaum, Russian Currency, 10-77, and Arnold, Banks, Credit, and Money, 26-52.

more serious round of inflation began. By the time of the Bolshevik seizure of power in the fall of 1917 the price level began to outstrip the increase in the money supply, igniting a hyper-inflation.[406]

Again consonant with the experience with foreign trade, monetary policy developed more as a response to practical considerations and immediate conditions than as the product of ideological demands. Banks and money of course have a central place in Marxist theory. In the Communist Manifesto part of the "program" was state centralized monopoly control of credit and money through a national bank. But rather than advance immediately to this goal, the Bolshevik program before November called only for the "immediate cessation of the further issue of paper money" and for revenue to be raised through taxes on property and luxury goods and a steeply progressive income tax.[407]

Once in power, and after the repudiation of the Tsarist and Provisional debts and the expropriation of

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[406]The "liberty" loan of 1917 was a failure, see Arnold, Ibid., 47-52.

[407]Quote from Carr, The Bolshevik Revolution, 136. Nationalization or expropriation of banks as necessary step toward socialism was a widespread belief in 19th century socialist thought. See Arnold, Banks, Credit, 53-62. For socialist precursors to bank nationalization as well as 19th century Russian thinking on the "Monobank" see George Garvy, Money, Financial Flows, and Credit in the Soviet Union (Cambridge, Mass.: Ballinger Publishing Company, 1977), 18-23.

foreign property, the Bolshevik government had no choice but to continue and increase the inflationary course of financing the state through the printing of money, using both the plates of the previous regimes as well as a new note, the "soviet token" or sovsnak.[408] The hyper-inflation ignited by the Provisional government and fueled by later Bolshevik actions produced resulted in a barter economy. Agriculturists refused to accept notes in payment for foodstuffs, and hoarding and requisitions inevitably followed. During the civil war which began in mid-1918 the value of domestic currencies disappeared, and valuta, or foreign currencies, became the circulating medium.[409]

Making a virtue of necessity, Evgenii Preobrazhenskii, economist and member of the Central

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[408]By 1922 in circulation were about 1.1 trillion Tsarist, Duma, and Provisional government ("Kerensky") notes as well a large number of settlement or reckoning tokens, *raschotnye znaki,* issued by the Soviet government. These and later settlement tokens came to be known as *sovsnaks*, or soviet tokens, as they were issued by the Soviet Treasury. About 71 per cent of the notes in circulation in 1922 were sovsnaks. In July 1914 there were about 1.5 billion gold rubles in circulation. A useful table of the types and quantities of currencies in circulation can be found in Arnold, Banks, Credit, and Money, 79-80.

[409]Adding to the inflationary pressure the Bolsheviks monetizied small denomination war bonds, coupons of unredeemed bonds, and, "finally, all treasury bonds and short-term treasury obligations." Carr, Bolshevik Revolution, 145. Prices rose about 16,800 times between 1914 and 1921, see R. W. Davies, Soviet Economic Development from Lenin to Khruschev, (Cambridge: Cambridge University Press, 1998), 19. Until 1922 the Tsarist, Duma, and "Kerensky" paper rubles retained more value than the sovsnaks.

Committee, stated in 1920 that the printing press which issued bank notes was

> that machine gun of the Commissariat of Finance which poured fire into the rear of the bourgeois system and used the currency laws of that regime in order to destroy it.[410]

This radical rhetoric did not mean, however, that the Bolshevik government was ready to advance to the moneyless world of communism. The March 1919 revised party program stated that "in the first period of transition from capitalism to communism . . . the abolition of money is an impossibility." This line was followed in the ABCs of Communism, written by Preobrazhenskii and Nikolai Bukharin, party theoretician and "left" communist.[411]

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[410]Quoted in Carr, Bolshevik Revolution, 261-262.

[411]Ibid., 262-263.

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Other "leftists" pushed in late 1920 for the replacement of the ruble with units of labor known as tred *(trudovye edinitsy).* Lenin rejected this course and instead decided to reestablish a limited market economy through what became known as the New Economic Policy (NEP). This demanded an operating banking and stable money system, neither of which were then in existence.[412]

The solution was to establish a new bank with the authority and responsibility for issuing bank notes that would hold their value. In November 1921 the State Bank of the Russian Socialist Federated Soviet Republic (Gosbank) was established by decree of the Executive Committee. The bank was charged with "measures for securing a sound monetary circulation."[413] The only assets of the bank at founding were 2 trillion paper rubles transferred from the Commissariat of Finance. The bank was given no gold reserve, probably to insulate its operations and acquired gold from the

[412]For Lenin and the NEP see Arnold, Banks, Credit, and Money, 111-145, and Carr, Bolshevik Revolution, 269-279.

[413]Arnold, Ibid., 119.

numerous claimants who held repudiated Tsarist and Provisional government debt.[414]

It was not until November 1922 that Gosbank issued the new bank note currency, the chervonets. The notes were to have a 25% "precious metal" and exchange cover, though which metals held in what proportion was not specified. The remainder of the value was to be secured by "easily marketable goods, short-term bills, and other short-term obligations."[415] Each chervonets was equal to ten Czarist gold rubles. The notes were not intended to furnish a circulating medium, but were issued in large denominations for the wholesale trade, large transactions, and for bank loans. The notes were not legal tender but were to be accepted by the state for all charges or levies. The notes were not convertible into gold, but there was the intimation that convertibility was a future option. Loans made in chervontsy had to be repaid in the same notes, not in paper rubles.[416]

The chervonets served as a store of value during the hyper-inflation and was used as the mechanism to supplant the terribly depreciated sovsna*k* currency.

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[414]The most comprehensive account is found in Arnold, Ibid., 111-126.

[415]Ibid., 148.

Between 1922 and 1924 a "bipaper" standard operated in the Soviet Union. Depreciated rubles, some "valuta," and chervontsy fulfilled different functions and varied in value. The ultimate goal was the replacement of the mass of depreciated rubles with a stable currency based on the chervonets.[417]

In 1924 the Central Committee approved a monetary and currency reform plan offered by Commissar of Finance Grigorii Sokol'nikov. New "state treasury notes," commonly known as gold rubles, were issued in small denominations. They could be issued up to one-half the amount of chervontsy in circulation, and an upper limit was placed on monthly issues. Ten new gold rubles would equal one chervonets. The value of the gold ruble was then to be the same as the Tsarist ruble. The new rubles were to be legal tender and exchangeable in both directions with chervontsy. But, like the chervonets, the gold ruble was not convertible to gold. At the same time a large amount of silver and copper coins were introduced into circulation and hoarders of silver and gold became liable for severe punishment. The coins were to be exchangeable at par to both the new rubles and chervontsy even though their

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[416]See Alfred Zauberman, "Gold in Soviet Economic Theory and Policies," American Economic Review 41 (December 1951): 879-881.

[417]Ibid., 175-199.

bullion value was a fraction of the stated gold value. The exchange rate between the sovsnaks and the new rubles was to be announced as the gold rubles came into general circulation.[418]

The state was still running a budget deficit but was able in some degree to finance it through foreign trade. Imports were severely restricted and exports promoted to earn foreign exchange. This income could then be used to back a chervonets issue or partially to cover the deficit.[419] With the appearance of the gold ruble the value of the sovsnaks plunged as holders flew to value. By the end of 1924 the tokens had completely disappeared, and gold rubles and the metallic rubles and kopeks were now in great demand.[420]

The final development in the Soviet monetary system came in two steps in the years following the currency reform. After 1924 Gosbank made efforts to "internationalize" the chervonets. The dilemma was that the official exchange rate was grossly overvalued.

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[418] Ibid., 200-207.

[419] Ibid., 209-210.

[420] Arnold judged the currency reform a great success and as "a turning point in the history of the Soviet Union." Arnold, Banks, Credit, and Money, 242-243. "The chervonets was welcome anywhere, even more welcome than the dollar. And people in the street used to sing this ditty:
Oh chervonets, my chervonets, you are like pure gold
So, of course, it is no wonder you're liked by young and old."

Chervontsy presented for exchange threatened to drain Soviet gold and foreign exchange holdings. Therefore in 1926 the export of chervontsy was made illegal.[421]

In 1928 the import of banknotes or any private transfer of funds was forbidden. Thus the Soviet currency system was insulated from the effects of relative prices and monetary values in international exchange. The "value" of the ruble could be managed by the simple expedient of allowing or denying import or export licenses and forbidding the circulation or exchange of the currency for foreign exchange. Although describing the banking and credit system under the NEP, Politburo member Lev Kamenev's quote serves as well to characterize the Soviet trade monopoly and monetary system:

> . . . [T]his commanding high we have created practically out of nothing . . the decisive factor in the regulation of the economy. the factor which . . . is capable both of causing and preventing crises.[422]

Valentin M. Berezkhov, At Stalin's Side: His Interpreter's Memoirs From the October Revolution to the Fall of the Dictator's Empire (New York: Birch Lane Press, 1994), 62._

[421]The exchange value was based on "the relative metallic contents of the statutory chervonets and of foreign currencies Ibid., 263-264.

[422]Quoted in Garvy, Money, Financial Flows, and Credit, 29.

The ruble was no longer "the vehicle for the transfer of purchasing power an became an index-unit for efficiency control."[423]

Soviet Trade 1924-1942

Given the limitations, restraints, and barriers characterizing the state trade monopoly, the lack of an acceptable currency, the unwillingness of public or private sources to extend credits or loans, and the general hostility of the capitalist world, it is surprising that Soviet trade became a factor in world commerce. The Soviet Union became, however, a trade power of some influence, particularly during the depression. The new socialist state demonstrated an almost insatiable appetite for advanced industrial equipment, techniques, and processes as well as more mundane products. This face of Soviet trade promised a large and continual market for western producers concerned with "market saturation" and "mature industrial economies." After the depression the Soviet market seemed the only one remaining in a world of collapsed industrial and agricultural demand. However, the exchange demands to finance this import program coupled with the impossibility of gauging the cost of

Soviet exports meant that certain sectors in the west faced Soviet exports for sale below "market price." The fear of "dumping," selling goods below production cost, coupled with the knowledge that purchasing decisions were often political as well as financial and the secrecy and mystery concerning transactions alarmed western businessmen and governments and made them wary and hesitant to engage in this promising yet vexing trade.

The German-Soviet agreement at Rapallo in 1922 broke the isolation of the socialist state and gave the Germans a large market for their goods and expertise. By the terms of the treaty the Soviets canceled their claims for reparations for war damages and in turn Germany abandoned its claims to the Tsarist debt. German negotiators insisted that if any other Tsarist debt claims were recognized Germany could revive her claims. Through the treaty Soviet-German diplomatic relations were resumed, and Germany appeared to have garnered the major benefit.[424]

After Rapallo diplomatic recognition was gradually extended to the Soviet Union and a number of commercial agreements concluded. Especially in France creditors

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[423]Zauberman, "Gold," 881.

and expropriated property owners continued to agitate for compensation and endeavored to hold trade hostage to debt settlement. Counteracting creditors were equally influential groups who saw trade with the Soviet Union as profitable and attractive. After Rapallo only Germany would profit by the strict adherence to creditor demands and a complete commercial boycott.[425]

Trade with Germany returned to the pre-war pattern with the notable exception of the secret military cooperation annex. German industrial equipment and manufactured goods were exchanged for foodstuffs. In addition a large number of German engineers staffed the upper levels of plant administration and management and helped to reorganize Soviet industrial, mining, and petroleum production disrupted by war, revolutions, and civil war.[426]

Because of the possibility that British courts would find the Soviet government legally liable for debts or seized property, trade in Britain was channeled through ARCOS (All-Russian Cooperative

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[424]Sutton understands Rapallo as saving the Bolshevik regime from imminent economic and industrial collapse, Sutton, Western Technology 1917-1930, 315-317.

[425]See Williams, Trading With the Bolsheviks, 104-110.

[426]For the military cooperation between Berlin and Moscow see Nekrich, Pariahs, Partners, Predators, 14-61. The contribution of

Society) a corporation formed under British law. Anglo-Soviet trade produced a sterling balance for the Kremlin as British demands for agricultural and wood products exceeded Soviet demand for British manufactures. Diplomatic recognition, extended in 1924, did little to encourage the growth of trade. Reluctance of the City to lend coupled with disagreements in the governments resulted in no coherent policy on the place or importance of Soviet trade.[427] One quite substantial arrangement concluded in this period was the thirty-year grant of mining rights to a large area of Siberia and the Altai to the British firm Lena Goldfields, Ltd.[428]

Soviet concessions policy was a means to gain access to foreign capital and managerial expertise without ceding ultimate control or complying with foreign dictation or terms. Concessions took a number of forms, but the principle remained the same. The concessionaire supplied the capital, machinery, equipment, and expertise. An agreement determined the division of production or profits. Through concessions modernization would be financed through the

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German individuals and firms can be found throughout Sutton, Western Technology, 1917-1930.

[427]Williams, Trading With the Bolsheviks, 55-76.

[428]Sutton, Western Technology, 1917-1930, 76-99.

concessionaire, and Gosplan would able to include these inputs in its planning projections. By 1927 there were 110 concessions in operation, including mining, manufacturing, technical assistance, and trade.[429]

Soviet foreign trade did not even approach Tsarist trade levels; in 1926-7 exports were but 33 per cent and imports 38 per cent of 1913 levels. The single most important factor in this decline was the fall in agricultural production with the resulting decrease in agricultural marketings. However in this period exports of crude petroleum, lumber, pulpwood, and wood products grew to form a significant part of Soviet exports. Trade relations between the Soviet trade monopoly and its western partners were not always smooth or harmonious. In the early 1920s westerners exploited their position to obtain premium prices, extract lucrative terms, or deliver substandard or defective goods and merchandise. Later Soviet trade agents became known for their exacting demands and ability to play one supplier against another in negotiations, and now they too learned how to drive a hard bargain.[430]

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[429] Ibid., 6-11, 341,350, 353-364. Also see Amtorg Trading Corporation, Economic Statistics of the Soviet Union, (New York: Amtorg, 1928), 64-68.

[430] Haensel, Economic Policy, 152.

The decision for a rapid and forced industrialization associated with the adoption of the First Five Year Plan in October 1928 had tremendous implications for foreign trade. State planning through Gosplan (the State Economic Planing Commission) had been a part of the Soviet government and economy since 1921. However the Five Year Plan was a new departure in the competence and command of the planning mechanism.

The plan was the product of two interconnected struggles that dominated the Soviet Union after 1923; who was to succeed Lenin as leader of the party and state, and how the conflict between the countryside, industry, and the NEP would be resolved. The conclusion of this perilous struggle found Stalin in charge of the state and party and the Soviet Union fully committed to the repression of the countryside and the creation of a modern industrial base.[431] The decision to industrialize in order to make the Soviet Union independent of foreign goods and free from capitalist influence had the paradoxical immediate effect of forcing the Soviet Union to acquire a tremendous amount of western equipment, machinery,

[431]For the economic debate and leadership struggle in this period see Alexander Erlich, The Soviet Industrialization Debate, 1924-1928 (Cambridge: Harvard University Press, 1967).

expertise, and technical information. The decision to free the Soviet Union from dependence on the capitalist states meant that for the short term an unprecedented level of capitalist inputs would be absolutely vital. This had two consequences, American equipment and expertise was in great demand, and large amounts of foreign exchange would have to be earned to finance American purchases. Soviet goods would have to be offered at attractive prices, prices so attractive that "dumping" selling goods below production cost, would become a common charge in this period.[432]

U. S.-Soviet Trade, Monetary, and Economic Relations, 1919-1941

American trade and economic relations with the Soviet Union were shaped more by the demands and limitations of the Soviet economy than by any actions or omissions on the part of the U.S. government, corporations, or individual businessmen. Even without diplomatic recognition or access to American capital or credits, Soviet demand for American products grew after 1924. This growth was accelerated by machinery and plant requirements associated with the massive industrialization ordained by the first Five Year Plan

[432]E. C. Ropes, "American-Soviet Trade Relations," Russian Review 3 (Autumn 1943), 91.

(1928-1932). U.S.-Soviet trade diminished thereafter, in spite of diplomatic recognition in 1933. The terms of trade were not the determinant factor, but rather the decisions of Gosplan as administered through the Commissariat of Foreign Trade.[433]

A second aspect was that while the United States represented a significant, and at times dominant trading partner of the Soviet Union, U.S. imports of Soviet goods remained negligible. American interests that faced increased competition and price pressure from Soviet imports felt the threat of trade. But as a component of annual American trade turnover, the Soviet Union was of tertiary importance. This is not to deny that, particularly after 1929, the promise, more than the reality, of a insatiable Soviet market produced a magnetic attraction. The reality, however, was that Soviet trade was no more important to the American economy the 20th century than Tsarist trade had been in the 19th.

A third aspect of Soviet-American trade was that the Kremlin was forced to finance American imports

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[433]Useful works on U.S.-Soviet trade are James K. Libbey, American-Russian Economic Relations, 1770s-1970s A Survey of Issues and References (Claremont CA: Regina Books, 1989), 23-69, Condoide, Russian-American Trade, 75-102, E. C. Ropes, "American-Soviet Trade Relations," 89-94, and idem, "The Shape of United States-Soviet Trade, Past and Future," The Slavonic and East European Review 22 (August 1944): 1-15.

through earnings from other trading partners and gold transfers. As the Soviet Union ran a continual deficit with the United States and had no access to dollar credits or loans, transfers of income from surplus countries was required. Trade with the U.S. would be limited by the Kremlin's ability to earn foreign exchange coupled with its willingness to part with gold.

The United States persisted in its non-recognition policy long after the major European powers opened diplomatic relations with the Soviet Union. The Republican administrations which followed Wilson and dominated the 1920s were at best indifferent and at worst hostile to trade and economic relations with the Kremlin. Undersecretary of State Charles Evans Hughes made no efforts to reopen diplomatic negotiations and issued periodic warnings to anyone wishing to conduct business in the Soviet Union. There were no governmental facilities in the Soviet Union to assist American businessmen and no commercial or trade treaty to provide legal protection. The U. S. Assay Office, an agency of the Treasury, continued the "gold blockade" against suspected Tsarist/Soviet gold after the European nations had abandoned it.[434]

The dominant figure in American-Soviet relations throughout the 1920s was Herbert Hoover, Secretary of Commerce and later president. Hoover had spent seven years in Tsarist Russia and controlled immense mining and processing properties. At Commerce Hoover directed the efforts to relieve the 1921 famine in the Soviet Union administered through the American Relief Administration (ARA). Both Hoover and the Kremlin assumed that the ARA effort would led to some more substantial relation between the nations. However nothing of substance, aside from the vital work of delivering food and seed to starving people, was accomplished. About $12 million in Soviet gold was accepted in payment for relief supplies, but this was a temporary suspension of the gold blockade, and at the termination of the relief effort the gold blockade was reimposed.[435]

In Hoover's view it was hardly worth any effort to encourage Soviet trade as their only means of payment

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[434]See Wilson, Ideology and Economics, 32-45, Siegel, Loans and Legitimacy, 62-89, and Williams, Trading With the Bolsheviks, 14-47.

[435]For Hoover's Tsarist experience see George H. Nash, The Life of Herbert Hoover, vol. 1, The Engineer 1874-1914 (New York: W. W. Norton, 1983), 426-446, 716-719 and vol. 2, The Humanitarian 1914-1917, 257-274, 457-458, and Herbert Hoover, The Memoirs of Herbert Hoover vol. 1, Years of Adventure 1874-1920 (New York: Macmillan, 1952), 102-108, 411-419. For his experience in the Soviet Union see Herbert Hoover "Trade With Soviet Russia," Mining and Scientific Press 122 (1921): 538, and Lewis Feuer "American Travelers to the Soviet Union 1917-1932: The Formation of a

was the fraction of the Tsarist gold reserve that the Bolsheviks controlled. This was a small and sinking resource, and as gold mining had essentially been abandoned, there was no promise of long-term trade intercourse.[436]

Outside the administration influential if not commanding interests worked against recognition or trade normalization. These were led by those banks and investors who had claims for repudiated debt or seized property. Numerous suits were filed in American courts over unresolved claims, and these would have to be settled before relations could be normalized. Other groups opposing recognition included "anti-Communists" who feared the revolutionary rhetoric and world revolutionary activities of the Comintern and many, but not all, Catholics who were repulsed by Soviet rhetoric and actions against organized religion.[437]

Component of New Deal Ideology," American Quarterly 14 (Summer 1962): 119-149.

[436]As in all things concerning Soviet gold there disagreement and mystery here. One the one hand State assumed that encouraging gold exports would hasten the end of the Bolshevik regime. See Williams, Trading, 31. In 1926 Hoover was informed that the Soviets were not out of gold "but exporting vast amounts of it. Ibid. According to Armand Hammer about $350 million of Soviet gold entered the U. S. between 1920 and 1922. See Wilson, Ideology and Economics, 43. This figure is in general agreement with the government figure given in note 11, above.

[437]For a lucid and recent account of the various strains of anti-communism see Richard Gid Powers, Not Without Honor A History of American Anticommunism (New York: The Free Press, 1995). Also see Peter Filene, Americans and the Soviet Experiment, 1917-1933 (Cambridge: Harvard University Press, 1967).

In spite of these obstacles trade between the greatest capitalist nation and the "first socialist state" grew after 1924. The product that furnished the bulk of Soviet imports was the rather pedestrian fiber, raw cotton. Under the Soviet government cotton production fell and demand increased dramatically. The United States was a mature producer, dominating the world market, and had increased capacity during the war. In the second half of 1920s American firms supplied over one-half of the annual cotton imports to the Soviet Union. Cotton supplied between 40 and 60 per cent of American exports to the USSR in this period.[438]

This commerce was organized through the All Russian Textile Syndicate (ARTS), a corporation headed by Alexander Gumberg, an American citizen who emigrated from Russia before the war. Like ARCOS in Great Britain, ARTS was incorporated under local law but was ultimately subordinate to the Kremlin. Viktor Nogin, head of the All Union Textile Syndicate (VTS), a Soviet state agency, retained control of ARTS through board appointments.[439]

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[438]See James K. Libbey, Alexander Gumberg and Soviet-American Relations 1917-1933 (University Press of Kentucky, 1977), 123.

[439]Ibid., 124-158 and James K. Libbey, "The American-Russian Chamber of Commerce," Diplomatic History 9 (Summer 1985): 238.

For a time ARTS overshadowed the enterprise that was eventually to monopolize Soviet-American trade, the Amtorg Trading Corporation. Amtorg was incorporated under New York law in March 1924 and combined already operating businesses and representatives. By the mid-1930s Amtorg had absorbed ARTS, Tsentrosoiuz, and Selskosoiuz.[440] Amtorg was the agent of the Commissariat of Foreign Trade in the United States, placing orders, encouraging Soviet exports, negotiating terms, and trying, without much success, to gain access to credit.[441]

A number of American firms and individuals were granted concessions in the 1920s. Among the most prominent was W. Averell Harriman, son of the railroad magnate and later ambassador to the USSR, who acquired a manganese concession. Harriman mechanized and rationalized the high-grade Chiaturi deposits of the ore needed for steel production. Only small amounts of low-grade manganese were mined in the United States. Other concessions included the huge open pit asbestos mine granted to Armand Hammer and the exploration and

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[440] For Amtorg's organization and relationship to other purchasing agents see Amtorg, Economic Statistics of the Soviet Union, 78-85 and Amtorg, Russian Gold, 71-72.

[441] There appears to be no account of Amtorg's history in either English or Russian. Useful information can on the establishment of Amtorg can be found in Libbey, Alexander Gumberg, and Siegel, Loans and Legitimacy, 80-104.

exploitation rights for petroleum and ores granted Washington Vanderlip and Hugh Sinclair. Americans were second only to Germans in the number of concessions granted by the Soviet Union.[442]

One influential group quietly working for normalization was the American-Russian Chamber of Commerce. Founded in the 1914 to encourage trade and economic ties between the two countries, it had disintegrated after the Bolshevik revolution. In 1926 the group was revived by industrialists and financiers interested in encouraging exports to the Soviet Union. Founders included Alexander Gumberg of ARTS, Reeve Schley of the Chase Manhattan Bank, William Woodin of the American Car Company, and William Westinghouse. The Chamber made little effort to secure diplomatic recognition but instead served as a clearinghouse for information and opportunities and supplied facilities in Moscow for American businessmen. The Chamber had a close relationship with both Amtorg and the Commissariat of Foreign Trade in Moscow.[443]

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[442]For a list of concessions see Amtorg, Economic Statistics of the Soviet Union, 64-69. For the Hammer interests see Edward Jay Epstein, Dossier: The Secret Life of Armand Hammer (New York: Random House, 1996).

[443]It should be noted that Woodin was Secretary of the Treasury from March 1933 until his replacement by Morgenthau in January 1934. Libbey "American-Russian Chamber of Commerce," 233-248.

Soviet imports of American goods peaked with the demands of the Five Year Plan 1929-1930. In spite of the gold embargo and the lack of credits, loans, or diplomatic recognition, the Kremlin acquired large amounts of American equipment, technology and expertise. Soviet purchases of American goods increased 36 per cent between 1928 and 1930, from $88.1 million to $138.8 million. Entire plants were acquired, the best known being the Ford plant in Gorkii. But other American firms played a prominent role as well; Colonel Hugh Cooper directed the construction of the Dnieper dam, Freyn designed and built the model steel plant at Magnitogorsk, and architect Alfred Kahn designed a large number of industrial buildings and factories.[444]

It was coincidental that the height of trade between the U.S. and the Soviet Union should come at the same time as the general contraction in world trade associated with the Great Depression. This imbued the Soviet market with a prominence and promise it probably would not have gained under normal conditions. Projecting the rate of trade growth into the future, cotton and machine export interests calculated ever-increasing turnover and the hope of limiting the price collapse of their respective products. This view was assiduously cultivated by Amtorg and the Soviet government.

In fact the large trade turnover between the nations 1929-1931 was a function of the foreign inputs needed to complete the Five Year Plan and create an industrial base that would make the Soviet Union independent of western technology, equipment, and expertise. By 1931 the import program had been substantially fulfilled, and the drive began to liquidate and expropriate all of the foreign concessions, many of which had just become fully operational. From the smallest manufacturing concern to the huge Lena Goldfields and Harriman enterprises, a variety of inducements and pressures were brought to bear resulting in either outright expropriation or some limited form of compensation.[445]

The promise of the Soviet market was replaced by the threat of Soviet goods competing with domestic products on the national and world markets. While world trade dropped 70 per cent in the depression, a

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[444]Ibid., 241-242.

[445]For the liquidation of foreign concessions see Sutton, Western Technology and Soviet Economic Development 1930 to 1945 (Stanford, Ca.: Hoover Institution Press, 1971), 16-31. There is great disagreement over the importance of western technology and material to the success of the Five Year Plan. For Sutton, Libbey, and Feuer it is understood as of critical and decisive importance, Davies believes it significant but not determinant.

large amount of competitively priced Soviet goods appeared, certainly to pay for the imports of the Five Year Plan. This immediately brought the charge of "dumping" from affected manufactures and producers and members of Congress. When the Smoot-Hawley tariff was passed in July 1930 it contained a provision banning the importation of goods produced with convict labor. As director of the Customs Service Treasury Secretary Andrew Mellon issued a departmental order banning the importation of Soviet pulpwood. In one of the few cases of the American-Russian Chamber of Commerce applying political pressure, Mellon was persuaded to rescind the ban, but Treasury retained the right to investigate each shipment of goods to determine if convict labor had been used in its production. A second order at this time found that Soviet matches had been "dumped."[446]

Given the inconvertibility of Soviet currency it was extremely difficult to substantiate a charge of "dumping," although it was attempted.[447] Amtorg mounted

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[446]In retaliation for the Treasury orders the Commissariat of Foreign Trade in 1930 announced that nations that discriminated against Soviet goods could themselves face discrimination by Soviet import agencies. See Libbey, American-Russian Economic Relations, 49-52.

[447]See H. R. Knickerbocker, The Red Trade Menace: Progress of the Five-Year Plan (New York: Dodd, Mead & Company, 1931) and Fighting the Red Trade Menace (New York: Dodd, Mead & Company 1931).

a defense of Soviet trade policy and practices in which it was noted that

> foreign trade is an integral part of the planning system . . . imports should play the predominant part in foreign trade . . . Exports, accordingly, are considered merely as a means for paying the desired imports. Therefore every effort is made to secure the highest possible returns for the available exports. Soviet domestic prices are of an entirely different nature than those in countries with capitalist economies. . . . In the Soviet Union domestic prices are more in the nature of bookkeeping arrangements . . . . The question of the fair value or normal price of Soviet exported goods can, therefore, be determined only on the basis of its relation to the normal world market price of the same or similar commodities.[448]

While no agreement would be reached on the definition of Soviet dumping, the issue receded as the Soviet Union completed payments to the various foreign concerns through the export earnings of 1929-1932. In March 1938 V. I. Ivanov, former Commissar of the Timber Trust, testified that on the instructions of former Commissar of Foreign Trade Arkadii Rozengolts he had sold "the most valuable timber" to England at reduced prices in order to gain the trust of the "British bourgeoisie" for Bukharin's plotting.[449] While this was probably coerced testimony for the most important

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[448]Quote from J. M. Budish and Samuel Shipman, Soviet Foreign Trade: Menace or Promise (New York: Horace Liverwright, 1931), 159, 171. Budish and Shipman were employed by Amtorg.

[449]Conquest, Great Terror; A Reassessment, 349-350.

Moscow "show trial," it points out the difficulty of calculating how the domestic price of Soviet goods could be translated into world market price.

In spite of charges of dumping, countries competed to extend credits and offer finance to gain access to the Soviet market. Even the Reconstruction Finance Corporation extended a $4 million line of credit to move American cotton, and New York banks floated $11 million in Soviet gold bonds. However by 1933 only $8.9 million worth of American goods were exported to the Soviet Union, down from the $138 million of 1930.

As noted earlier, diplomatic recognition, despite the optimistic predictions, did not increase trade or allow the Kremlin easier access to credits or loans. Roosevelt had established the Export-Import Bank specifically to finance the future orders of the Soviet Union, but as the debt question was never resolved, the Bank lapsed into inactivity and was eventually merged with a second bank.[450] It would appear that the economic expectations raised before recognition only to be dashed must have left a legacy of bitterness and

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[450] Frederick C. Adams, Economic Diplomacy: The Export-Import Bank and American Foreign Policy 1934-1939 (Columbia: University of Missouri Press, 1976).

distrust in the administration and with American businessmen and financiers.[451]

The only substantial accomplishment of this period was the 1935 Reciprocal Trade Agreement between the United States and the Soviet Union. In exchange for favored nation status the Kremlin agreed to buy $30 million, later raised to $40 million, annually in the Untied States. This was not an impressive figure and reflected the Kremlin's drive for self-reliance or autarky. By the late 1930s the foreign technicians, advisors, and engineers had been sent home, a large export surplus allowed the build-up of some foreign exchange reserves, and the credits and loans extended in the early 30s were redeemed.

After 1937 the Kremlin placed orders for aircraft, aircraft engines, specialized fuels, modern warships, and other armaments in the U.S. as part of its military preparedness program. The Johnson Act, Neutrality legislation, and failure to conclude successfully the Roosevelt-Litvinov debt settlement made it impossible for these orders to be financed by American credits or loans. The Kremlin was forced to deplete its foreign exchange holdings and ship gold to conclude these transactions.

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[451]Williams, Trading With the Bolsheviks, 170-178.

In the months between June and November 1941 the Treasury was at the center of the effort to finance Soviet purchases. Until the extension of lend-lease to the Soviet union only two suitable means had been found, gold shipments and the purchase of large stocks of "strategic and critical" raw materials. These were rather slender reeds on which to rest the postwar monetary relations between the nations. Gold was problematic in itself. Continued large and increasing inflows of the metal would almost certainly transform the severe imbalance into an American monopoly, with a number of potentially undesirable effects. On the other hand the Kremlin had not proved forthcoming on gold information or cooperative in gold transfer operations. Gold was the obvious nexus on which to base monetary relations between the nations, but the experience of the 1930s should have cautioned Treasury planners that estimates of the reserve were probably greatly exaggerated, production had been seriously disrupted by the purges and invasion, and information on gold was considered a "military secret" and was not furnished even with guarantees of complete confidentiality.

The problems and difficulties that the ISF was envisioned to solve had no immediate bearing on the position and policies of the Soviet Union. Stabilizing and fixing exchange rates had absolutely no meaning for the ruble, which was not allowed to circulate outside the country and had a nominal, and grossly overvalued, exchange valuation. An institution aimed at “freer” trade and full multilateralism appeared to repudiate the state monopoly and bilateral operations that defined the Kremlin’s foreign trade. A “consensus” that was predicated on competitive advantage reaching equilbria through the free international exchange of demand and goods apparently had no point of contact with an economy in which import demands created export earnings.

Of course the declarations of complete self-sufficiency and autonomy, if not autarky, were made after the Five Year Plan and before the German invasion. Although the scale of destruction suffered by the occupied areas had not yet become clear, Washington knew that the Soviet Union would urgently need help for its postwar reconstruction program. Treasury recognized the contribution the Soviet Union was making to the common cause in its fierce resistance to the invasion of the German and allied armies. A tangible demonstration of Treasury’s, and the nation’s, debt and gratitude to the Soviet Union would be a postwar economic regime that would be designed with the peculiar needs of the Soviet Union in mind.

CHAPTER 8

NEGOTIATIONS IN WASHINGTON

In response to Treasury's invitation to consider the White and Keynes plans monetary "technical" experts from over thirty nations came to Washington in the summer of 1943. No delegation of experts from the Soviet Union appeared at this time, however. On May 31, 1943 counselor Andrei Gromyko of the Soviet embassy in Washington telephoned Secretary Morgenthau to convey that the Kremlin had a "strong interest" in the negotiations concerning the International Stabilization Fund (ISF). Gromyko explained that his government assumed the April invitation would be followed by a later, more explicit one. The Kremlin now understood that Treasury was uncertain about Moscow's desire for postwar monetary cooperation and anticipated the arrival of Soviet technicians "as soon as it is convenient."[452]

Observers from the Soviet embassy did attend an informal three-day conference of nineteen nations held at Treasury in June. These observers were not authorized to negotiate, but presumably transmitted

[452]"Telephone Conversation with Mr. Gromyko of the Soviet Embassy," May 31, 1943, 360 Q, Box 14, Staff Memorandum of Harry Dexter White, 1941-1946, File: January-June 1943, OASIA.

what they learned to the Commissariats of Foreign Affairs, Trade, and Finance.[453] White's effort to insure that the international monetary talks would include the Soviet Union at the outset was frustrated by the seeming disinterest of the Kremlin. This lack of contact and interchange between Moscow and Washington was not limited to postwar monetary planning, but extended to military cooperation and lend-lease as well. This is in stark contrast to the intimate and ongoing military staff cooperation and Article VII talks between Washington and London.[454]

Soviet Ambassador Maksim Litvinov well understood the frustration felt by the administration over inadequate communications and mutual incomprehension between Washington and Moscow. In his reply to a request for information from Foreign Minister Molotov, Litvinov proposed that Moscow establish "permanent contact" in Washington on matters of military strategy

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[453]Mikesell, "Negotiating," 102.

[454]The Kremlin had yet to begin Article VII talks by the late fall of 1943. For repeated invitations to begin these talks see Hull to Standley, September 3, 1943, U.S. Department of State, Foreign Relations of the United States 1943 Volume I: General (Washington, D.C.: U.S. Government Printing Office, 1964), 1111. Also Harriman to Hull, November 24, 1943, Ibid., 1116-1117; Hull to Harriman, December 2, 1943, 1 p.m., Ibid., 1118-1119; and Hull to Harriman, December 2, 2 p.m., Ibid., 1119-1123.

and “current and postwar political problems.”[455] Roosevelt was “discontented” that his requests to Moscow went unfulfilled and over the unwillingness of Moscow to engage in discussions over current disagreements and postwar institutions. The Ambassador argued that two other considerations militated for permanent contact between FDR and a representative of the Kremlin.

> 4. The U.S. ruling circles are discontented with the USSR mainly because of a lack of contact with us and our restraint in discussing postwar problems. The discontent in American public opinion is determined by similar prejudices and by ignorance regarding our country.
>
> 5. Lack of Soviet-American contact consolidates Anglo-American relations and increase our isolationism.[456]

While Litvinov did not specifically mention the apparent misunderstanding over the ISF talks, clearly this was one, important, aspect of the larger problem. In addition one can assume that the close friendship between Harry White, Litvinov, and their spouses makes it quite likely that the ambassador must have faced numerous informal interrogations on the issue of a

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[455]Amos Perlmutter, <u>FDR & Stalin: A Not So Grand Alliance 1943-1945</u> (Columbia, Mo.: University of Missouri Press, 1993), Appendix 2, 230-246, “US Policies” June 2, 1943, 243.

[456]<u>Ibid</u>., 244-245.

Soviet technical delegation.[457] No response to Litvinov's recommendation is known, and there is nothing in the subsequent relations between the two nations to indicate that the Kremlin took seriously the need to establish a more permanent and cooperative presence in Washington.[458]

Although Secretary Morgenthau received numerous assurances from the new Soviet ambassador, Gromyko, that the Soviets were interested in the ongoing negotiations, no delegation appeared in Washington by the fall.[459] Technical discussions had rapidly moved forward by this time. Treasury had responded to particular objections by the British delegations and had studied proposals offered by the Canadians and French. The central struggle remained the one over the White and Keynes plans. The British argued that the White plan was a modified gold standard and that the dollar should not substitute for gold. White and Treasury countered with estimates of the quotas, and

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[457]Craig, "Treasonable Doubt," 520.

[458]It was about this time that Litvinov told Undersecretary of State Sumner Welles that had had lost any influence he once had in the Kremlin, that he was not sure if his messages reached Stalin and that "none of his recommendations have been adopted." Hugh Phillips, Between the Revolution and the West: A Political Biography of Maxim M. Litvinov (Boulder: Westview Press, 1992), 171. Gromyko replaced Litvinov as Soviet ambassador to Washington in August 1943. See Perlmutter, FDR & Stalin, 258.

[459]Blum, Years of War, 245, Van Dormael, Bretton Woods, 88.

drawing rights, of each nation and increased the size of the Fund to $10 billion to answer critics who said that the proposed ISF was too small to be effective.[460]

Raymond Mikesell, who worked under White in this period, has left a description of how the quotas were determined that confirms that the ISF was understood as much as a political as a technical or economic institution. White told Mikesell to develop a formula that would give the United States a $2.9 billion quota, Great Britain about half the U.S. figure, the Soviet Union just under the British quota, and China just behind the USSR. "White's major concern was that our military allies (President Roosevelt's Big Four) should have the largest quotas, with a ranking on which the president and secretary of state had agreed."[461]

Mikesell was presented with a dilemma as the political status of the Big Four did not match their economic situation. After much fiddling and fudging Mikesell delivered a schedule that gave the Soviet Union $750 million and China $350 million in quotas. The difficulty was that by no statistical measurement could China be given a larger quota than France or the

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[460]Van Dormael, Bretton Woods, 99-108.

[461]Raymond Mikesell, The Bretton Woods Debates: A Memoir (Princeton: International Finance Section, Department of Economics, 1994), 22.

Soviet Union be transformed into an economy three-quarters that of Great Britain and the Empire.[462]

In September Secretary of State Hull asked Foreign Minister Molotov if the Soviets were interested in post-war economic cooperation under the principles of the White draft sent to the Kremlin in April. Hull was aware that the Washington talks were nearing completion. Molotov replied that cooperation was desired, but he appeared to be more concerned with securing reconstruction loans from the west and reparations from Germany. The Soviet foreign minister placed more value on what could be of immediate help to his country reconstruction needs than on an international institution shaped to solve the interwar problems of capitalist nations. While not foreclosing the possibility of Soviet participation in the proposed ISF, Molotov clearly did not feel that preliminary technical negotiations required Soviet participation or his attention.[463]

In late September after a number of meetings between Keynes and White, a "Joint Statement by Experts of United and Associated Nations on the Establishment

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[462]Ibid., 23-24.

[463]Cordell Hull, The Memoirs of Cordell Hull (New York: The Macmillan Company, 1948), 1303-1307.

of an International Stabilization Fund" was agreed on to be presented to each government as a basis for the as yet unscheduled international monetary conference. White was anxious to call the conference as soon as possible in the spring of 1944 so an agreement could be reached and presented to Congress before the presidential election campaign. Keynes warned that the "Joint Statement" had to gain Parliamentary approval before his government could agree to a finance ministers' conference. By November Treasury believed that the outline of the ISF was complete and suggested to FDR that a draft of the "United Nations Bank for Reconstruction and Development" be circulated for comments and technical talks along the lines of the just completed ISF talks.[464]

In December copies of the "Joint Statement" and the Bank plan were sent to Moscow. By its non-participation in the 1943 Washington technical talks the Kremlin had lost any chance to shape fundamentally the ISF.[465] At this time the Kremlin was engaged in

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[464]"Memorandum for the President," September 27, 1943, 360 P, Box 10, Chronological 51, OASIA. "Memorandum for the Secretary's Files," November 19, 1943, Ibid., Chronological 54, OASIA. Also see Van Dormael, Bretton Woods, 109-126.

[465]In late October 1943 Morgenthau sent a cable to Harriman in Moscow explaining that negotiations were almost complete and that as yet no Soviet technicians had appeared, despite Gromyko's expressions of interest. Morgenthau continued, "I think you will agree that it will be unfortunate if we have to go forward with

general discussion with Ambassador Harriman in Moscow over postwar rehabilitation needs and the status of lend-lease. International monetary cooperation did not loom so large. It appears Stalin and Molotov thought lend-lease could be continued after the end of the war in spite of specific language which forbade this. Harriman and the FEA were trying to develop the Export-Import Bank or the RFC as a source for postwar reconstruction loans to the Soviet Union. The assumption was that credits or loans to Moscow would be mutually beneficial, as the U.S. would get orders for machinery and the Soviets access to needed capital.[466]

White apparently learned of the Moscow and Washington discussions and in December 1943 developed two alternatives to meet the request made by the Kremlin for a $10 billion reconstruction credit. The credit could be granted either under lend-lease or as a postwar reconstruction loan approved by Congress. In either case the repayment provisions would remain the same, "a large volume of strategic raw materials during

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any formal discussions of postwar monetary problems among the United Nations without having had an opportunity of discussing them with the experts from the U.S.S.R." Morgenthau to Harriman, October 23, 1943, FRUS 1943: 1, 1097-1098. In response Molotov stated that he "will in the very near future send experts to Washington." Harriman to Hull, October 31, 1943. Ibid., 1098.

[466]Paterson, Soviet-American Confrontation, 34-36.

the course of the next twenty or twenty-five years."[467] Petroleum, timber, manganese, chrome, nickel, tin, tungsten, platinum, quartz, and other materials depleted during the war or soon to be in short supply would provide the means of repayment. "Furthermore she [the Soviet Union] had adequate gold reserves and gold mining potential to make up any deficits."[468]

A memorandum outlining the White loan plan was prepared for the president in January 1944 with Morgenthau's suggestion that "going to Congress for specific authorization to enter into a loan arrangement is the better approach."[469] There is no evidence that this memo ever reached FDR, but the plan White developed resurfaced in mid-1944 when the issue of a postwar loan to the Soviet Union was revived.[470]

Two members of the Soviet technical delegation, Professors Smirnov and Bystrov of the Institute of Foreign Trade, finally arrived in Washington in early

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[467]"Russia has asked for an arrangement whereby she can acquire $10 billion of industrial and other non-military supplies," December 30, 1943, 2, 360, Box 79, Stabilization Records, Subject File: Russia, OASIA.

[468]Ibid., 4.

[469]"Memorandum for the President," January 5, 1944, 3. 360 P, Box 10, Chronological 55, OASIA.

[470]None of the authors who consider the abortive postwar loans to the Soviet Union have mentioned the December 1943 White proposal.

January 1944.[471] Meetings began with the U.S. technicians led by Harry White and, beside others from Treasury, representatives from State, the Federal Reserve, and the Foreign Economic Administration (FEA). White explained to the Soviets that "he desired to proceed as promptly as possible" as discussions on the ISF had already concluded with the technicians of thirty-five other nations. Treasury furnished the latest Fund draft as well as the draft Bank documents that had just been sent to Moscow. White explained that the ISF "would enable Russia to benefit from a higher level of international trade" and that it would help to maintain the level of export prices. "Furthermore, the Fund would help maintain the gold standard." He closed the meeting by noting that the Soviet Union might be interested in reconstruction loans from the Bank and that all countries shared a concern with international monetary cooperation and international investment.[472]

Within a few days the Soviet technicians returned with a number of questions on the language of the draft and changes from earlier versions. Professor Smirnov asked if the gold contribution of member nations would

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[471] "Proposed release to the press," January 5, 1944, Ibid., OASIA.

be kept in their central banks or be deposited with the Fund. Walter Gardner of the Federal Reserve thought that a decision on gold depositories should be left to the Fund management, but "wherever the gold contributions are kept they will be at the free disposal of the Fund."[473]

The rest of the Soviet delegation, headed by Assistant Chairman of Gosbank, Nikolai F. Chechulin, arrived in Washington at the end of January.[474] The American press, which was not aware of the "Joint Declaration," hailed the arrival of the Soviet delegation. Quoting "official quarters," the New York Times suggested that the Soviet Union could "break the deadlock" between the United States and Great Britain and would support the White Plan. This conclusion was based on the "apparently official Soviet utterance" that something resembling the old gold standard and a fixed price for gold was the desired object of the Kremlin. As the White Plan more closely resembled the

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[472]"Memorandum of a Conversation on the International Stabilization Fund." January 5, 1944, 360, Box 41, ISF Minutes Meetings, Miscellaneous Countries, OASIA.

[473]"Meeting on the International Stabilization Fund," January 11, 1944, 2, 360 Box 41, ISF Minutes Meetings, Miscellaneous Countries, OASIA.

[474]Also in the delegation were I. D. Zlobin of the Commissariat of Finance and A. P. Morozov of the Commissariat of Foreign Trade. "Russian Technical Experts," January 29, 1944, MD 698:59.

old gold standard than the Clearing Union, the Soviet delegation would naturally support the U.S. position. The "utterance" in question was a quote in The Economist of an article in Russian by Eugene Varga that compared the two monetary plans. The Economist thought Varga "not impressed" by either plan, but American economists interpreted Varga's comments as an endorsement of the White Plan.[475]

For the American technicians, however, gold appeared to impede rather than promote Soviet participation. The Soviet delegation presented arguments why the gold content of the Soviet quota should be reduced, occupied countries should have their gold contribution cut in half, and newly-mined gold should be exempt from the requirement that one-half of gold or dollars acquired go to repay any Fund debt. In addition the Soviet technicians wanted Moscow to be designated as a depository for Fund gold.[476]

A second objection raised by the Soviet technicians was over the requirement that member states agree to supply financial and economic information as

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[475]John H. Crider, "Hope for Support of Russia on Gold," New York Times, January 26, 1944. "Russian Delegation Here," NYT, January 30, 1944. Also see "Russia and Gold," The Economist, December 11, 1943, 785.

[476]See the various "Meeting in Mr. White's Office," January 29, February 3, 22, 24, and March 7, 1944, 360, Box 41, ISF Minutes Meetings, Miscellaneous Countries, OASIA.

requested by the Fund. How were gold holdings to be defined? How would the amount of gold held by a country be determined? Why not amend the information requirement so that member countries could "furnish only such types of information as are mutually agreed upon by the Fund and the member country concerned?"[477]

A third set of proposed modifications to the "Joint Statement" were based on the "state trade monopoly" of the Soviet Union; it was unnecessary to determine a par value for the ruble as it was not used in international exchange, changes in the value of the ruble need not be cleared with the Fund for the same reason, Gosbank had to maintain a monopoly on the import and export of currency, and "state-trading" nations should be exempt from Fund recommendations concerning balance of payments adjustments.[478]

The Soviet delegation was interested in maximizing access to credits through the Fund while minimizing any exposure or risk to its gold. The delegation also wanted a guarantee that 10 per cent of the total Fund quota would be given to the Soviet Union, as this would increase borrowing ability, voting power, and influence on the Fund board.

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[477]Ibid., March 7, 1944, 2.

[478]Ibid., 2-4.

American technicians agreed to a number of proposals but rejected others. White allowed that Moscow should be one of the depositories for the Fund's gold but left the issue of other depositories and amounts to the board.[479] The Fund would be "specifically given the right to obtain" information on "gold holdings, gold production and gold movements, data on foreign exchange holdings, data on foreign trade, data on capital movements and other items which enter into the usual balance of payments, and data on foreign exchange rates."[480]

The American technicians agreed that the USSR would get at least 10 per cent of the aggregate quota and therefore would have nearly 10 per cent of the aggregate vote, but rejected naming the members of the executive board in the agreements.[481] White also agreed to insert the statement that "the Fund shall make no recommendations requiring changes in the fundamental nature of the economic organization of the member countries" to protect the Soviet Union from

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[479]"Meeting in Mr. White's Office," March 13, 1944, Ibid.

[480]Ibid., March 14, 1944.

[481]Ibid., March 13, 1944, 1.

recommendations of the Fund on balance of payment issues.[482]

White agreed to support a one-third increase in the quota of the Soviet Union and the 25 per cent decrease in the initial gold subscription of occupied countries, but did not support the reduction in the amount of newly-mined gold needed to redress a Fund deficit.[483] The concessions granted the Soviet delegation were approved by the American technicians, but it is clear that White was anxious to conclude an agreement quickly. Morgenthau and White wanted the long-proposed international monetary conference to meet and successfully conclude before the Republican convention scheduled for June 26. Before the conference could be called, the approval of London, Moscow, and Chungking to the "Joint Statement" and subsequent drafts was necessary. London had been studying the proposals for some time, but the Kremlin had just begun to negotiate as the deadline for scheduling the conference neared. White thought that if agreement could not be reached by April 1 on the publication of a joint statement, "we have no choice

[482] Ibid., March 14, 1944, 1.

[483] Ibid., 2-3.

but to drop the negotiations until next year."[484] Agreement with London was close, but neither White nor the American technicians knew the views of the Commissariats of Finance and Foreign Trade or Stalin.

However there was some evidence that the Kremlin favored the White Plan over the Clearing Union. The same source cast some doubt on the enthusiasm with which the Kremlin would pursue postwar monetary cooperation. On March 2, 1944 the Commercial and Financial Chronicle, a Wall Street daily, carried the translation of an article by Varga called "Plans for Post-War Currency Stabilization."[485] The original Russian version appeared in the December 1943 issue of War and the Working Class, characterized by the Chronicle as a "Russian Government official organ."

In the article Varga displayed his close knowledge of the features, commonalties, and divergences of the two plans. The article opens with the observation that the object of both plans was to check any postwar "general depreciation of currencies similar to that which took place at the end of the First World War."

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[484]White to Morgenthau, "Delay in Progress on International Monetary Conference," March 21, 1944, 360 P, Box 11, Chronological 57, OASIA. Also see White to Morgenthau, "Fund Conferences, March 11, 1944, MD 709:14.

[485]Academician E. Varga, "Plans for Post-War Currency Stabilization," Commercial and Financial Chronicle No. 4230, March 2, 1944, 913, 918-919.

Varga then turned to an analysis of the Clearing Union. Keynes wanted Britain to regain its traditional role as international banker. But the Clearing Union alone could not insure currency stability as it clashed too much with private capital and had no strong link to gold. The Clearing Union, because it was based on the average value of foreign trade, did not have a sufficiently large subscription for USSR, only $400 million in comparison to Great Britain's $7 and the United States' $4.2 billion.

The White Plan could furnish currency and exchange stability and for that reason was to be preferred to the Union. Varga identified the central idea of the proposal as "the mobilization for international payments of the huge gold reserve of the United States which is not serving any other purpose at present."[486] The Soviet Union approved of stable currencies fixed to gold for the encouragement of foreign and world trade, but Varga here noted that the ruble's stability was insured by means "entirely different from those in other countries."

> [T]he possibility of any sort of proposals affecting the economic policy of the Soviet Union coming from any future outside organization, whether an international bank

[486]Ibid., 918.

> or stabilization fund, is out of the question.[487]

After this intemperate rebuff to both plans, Varga left the door slightly ajar. The Soviet Union was "unquestionably" interested in

> undertakings and measures capable of accelerating the reconstruction of its economy along with the economies of other war ravaged countries. This is a question of the greatest significance to the Soviet Union in its evaluation of the various financial plans.[488]

The authorship of this article is significant and in some sense authoritative. Eugene Varga was probably the most original, knowledgeable, and penetrating Soviet observer of capitalist economies, institutions, and mechanisms. He founded and directed the Moscow "Institute of World Economy and World Politics" and became a full member of the Soviet Academy of Sciences in 1939.[489] While his writings and comments did not

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[487]Ibid., 919.

[488]Ibid.

[489]Varga, whose first name is also commonly given in its German (Eugen), Russian (Evgenii), and Hungarian (Jenö), form besides the English Eugene, was born in Hungary in 1879. He received his doctorate in 1906, joined the Hungarian Social Democratic party, and taught in college. He became professor of political economy at Budapest in 1918, and joined the Hungarian Communist party in 1919. He served in the Béla Kún soviet government as commissar of finance and fled at the collapse of the regime. Eventually settling in Moscow, Varga went to work for the Comintern as an economist and founded the "Varga Institute." He spent time in Germany serving in the Soviet Trade Mission and collaborated with Franz Borkenau on economic studies of capitalism before Borkenau broke with the party. See Laszlo Tikos, *E. Varga's Tätigkeit als Wirtschaftsanalytiker und Publizist in der ungarischen Sozialdemokratie, in der Komintern, in der Akademie der*

issue from a Commissariat, party, or governmental agency, there was no question that his views were in full accord with the general line and that he had great influence in shaping theoretical responses to the various economic and financial developments in the capitalist world that did not conform to the predictions and verdicts of Marx, Engels, and Lenin. In the middle 1930s Varga served as an "adviser" on international affairs to Stalin.[490]

In an analytical piece following the translation of the Varga article, Herbert Bratter observed that it was simply the expression of a gold mining country interested in maintaining the value of the metal. This same observation had been made the previous December by the British journal The Economist in its commentary on the Varga article.[491] Bratter continued that Soviet gold reserves "may be estimated" at between $1.5 and 2

Wissenschaften der UdSSR, Ein Bericht (Cologne: Bohlau, 1965) and *Eugen Varga: Bibliograpische Mitteilung* (Berlin: Free University of Berlin, 1961).

[490]Varga's, The Great Crisis and its Political Consequences. Economics and Politics, 1928-1934 (London: Modern Books, 1935) is an absorbing and non-reductive effort to develop a Marxist analysis of the depression. For Varga as adviser to Stalin see Zinovy Sheinis, Maxsim Litvinov (Moscow: Progress Publishers, 1990), 286-287.

[491]"Russia and Gold," The Economist, December 11, 1943, 785.

billion with an annual production of $150 million.[492] He added that the Soviet, and British, attitude mixed hope and wonder, "hope that the US government will continue willing to give dollars for gold and wonder as to why it should do so."[493]

A redacted version of the Varga article appeared in the March issue of The Communist, the monthly theoretical journal of the CPUSA.[494] The article was presented without any information on the author, where it had previously appeared, or comment. The article covered the most important points for an American audience of the original publication. As edited and translated the Communist version reads as marginally more supportive of the White Plan and postwar cooperation than the full version given in the Chronicle.[495]

This apparent approval of the White Plan did not translate into quick consent from the Kremlin for the new joint statement or the work done by its technicians in Washington. In early April Morgenthau attempted to

492 Herbert M. Bratter, "USSR and Monetary Stabilization," Commercial and Financial Chronicle March 2, 1944, 913.

493 Ibid., 920.

494 Eugene Varga, "Plans for Currency Stabilization," The Communist 23 (March 1944): 282-283. The journal is subtitled "A Magazine of the Theory and Practice of Marxism-Leninism Editor: Earl Browder."

apply pressure to both London and Moscow to prompt approval of the new joint statement and to coordinate the simultaneous announcements of the international monetary conference. The Secretary faced an absolute final date of April 21 as he was to testify before the Senate Committee on Currency and Banking that day and timed the release of the American statement with his appearance. As he told Acheson "we're moving heaven and earth to get the English and Russians lined up."[496]

No response from the Kremlin had reached Treasury by April 20. White took "an awful chance" and asked Harriman in Moscow to tell Molotov that the British had agreed to the joint announcement even though London had yet to approve this action officially. He also appealed the Soviet embassy in Washington and Harriman in Moscow that approval from the Kremlin would allow a show of unanimity to be made at the announcement of the conference.[497]

While Stalin had agreed in principle to postwar economic collaboration, some specific provisions of the

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[495]This point refers both to selection of material presented as well as word choice in translation; "obviates the possibility" rather than "out of the question."

[496]Blum, Years of War, 248.

[497]Ibid., 248-249. Hull to Harriman, April 10, 1944, FRUS 1944, II, 109-110; Hull to Harriman, April 17, 1944, Ibid., 114-116.

new joint statement apparently were unacceptable.[498] Molotov told Harriman that “there exists among our financial experts a major discord with respect to the basic conditions of the organization of the International Monetary Fund. The majority of our experts object to a series of points.” The Kremlin wanted to maintain control over the par value of the ruble and wanted to eliminate the gold subscription to the Fund. New instructions would be forwarded to their technical representatives, but Moscow would “instruct their experts to associate themselves with Mr. Morgenthau's project" to secure the desired effect on world opinion.[499]

Word of Kremlin approval did not reach Morgenthau until the day of his deadline. He later wrote FDR

> I never got an answer from the Russians until I was in the middle of my testimony before the . . . committees this morning. . . . I thought that you would be most pleased that the Soviet government decided to go along with us “to secure due effect on the rest of the world.” In other words, they want to be associated with us in the eyes of the world. State and Treasury both think this is highly significant. as I am sure you will also.[500]

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[498]Stalin to Roosevelt, March 10, 1944, FRUS, 1944, II, 22-23.

[499]Harriman to Hull, April 20, 1944, Ibid., 126, and Blum Years of War, 248-249.

[500]Ibid., 250.

While Morgenthau could be proud of his accomplishment, it should be obvious that at best the Kremlin must have felt somewhat coerced into granting its approval for the new Joint Statement and future international monetary conference. The Kremlin can be faulted for not sending a technical delegation to Washington until after the first Joint Statement was concluded. But Treasury bears some responsibility for putting the Kremlin into a position of publicly committing to some form of postwar international monetary cooperation without having adequate time to consider and examine the work of its technical delegation. Surprisingly little time was allotted for serious consideration for as consequential a decision as entering a binding agreement to participate in an international economic and monetary organization might prove. The most fundamental assumptions and arrangements of the Soviet Union would be profoundly affected and the economic and political order could be transformed by this course.

Soviet technicians in Washington turned to discussions of the International Bank for Reconstruction and Development (IBRD). As White explained, the fundamental hurdle was agreement on the provisions of the Fund, while the Bank was a simpler and subsidiary institution. The Soviets brought up precisely the same objections as had arisen in discussions on the Fund. The gold subscription of occupied countries should be reduced, and they should receive preferential consideration and interest rates on loans. "State-trading" nations should be exempt from the information and auditing requirements for loan approval. They desired to reduce their subscription, as it did not increase borrowing power in the Bank, but wanted to maintain control of at least 10 per cent of the voting power.[501]

White displayed more firmness on the Bank discussions. Bank subscriptions would not be reduced, but perhaps a few years grace period would be given to fulfill the quota. Loan information was necessary not just for the Bank's administrators, but to insure that the Bank would be able to raise capital from the market through issuing securities. Only reasonable and necessary information would be requested. The Soviet

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[501]See "Meeting in Mr. White's Office," March 28, 30, 1944, 360, Box 41, ISF Minutes Meetings, Miscellaneous Countries, OASIA. Also see Sundelson to White, "Suggested Changes," April 22, 1944, and "Meeting in Mr. White's Office," April 28, 1944, Box 10, Binder "UN Bank," White Papers, Princeton. For background on the Bank see Robert W. Oliver, Early Plans for a World Bank (Princeton: International Finance Section, Department of Economics, Princeton University, 1971) and idem, International Economic Cooperation and the World Bank, 1-162. For a view from inside Treasury see Henry Bitterman, "Negotiating the Articles of Agreement of the International Bank for Reconstruction and Development," International Lawyer 5 (January 1971): 59-88.

gold contribution to the Bank was relatively small and therefore should not be reduced, and it was not necessary to specify that the USSR will have a seat on the board.[502]

The Soviet technicians demonstrated the same dogged persistence over a few demands in the Bank discussions as they had demonstrated in those over the Fund. The Kremlin knew that the capitalist states controlled capital, and that this was much needed for the reconstruction effort that was already underway in its country. The principle pursued by the technical delegation, surely on the instructions of the Kremlin, was to offer as little gold or information as possible while securing the maximum access to loans and credits and influence on the governing boards.

On May 25, 1944 Franklin Roosevelt announced that a "United Nations Monetary and Financial Conference" would be held at Bretton Woods, New Hampshire at the beginning of July. Forty-three other nations announced they would attend the conference as well. Over two years after White originally recommended a monetary conference, finance ministers and other high-ranking representatives would convene to consider the April 21

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[502]"Meeting in Mr. White's Office," April 26, 1944, 360 O, Box 31, Records of Bretton Woods Agreement, OASIA. Loucheim to White, "By

Joint Statement as the basis for postwar monetary cooperation and an international lending institution. White and Morgenthau realized the hope that the conference would be fully multilateral and consonant with FDR's "Big Four" concept of wartime alliance leading to postwar cooperation to secure a lasting peace. White, Morgenthau, and the American technicians were also able to have the essential features and arrangements of the White Plan adopted as the basis for the conference negotiations.

For Secretary Morgenthau Soviet approval of the Joint Statement and willingness to participate in the monetary conference boded well for closer and more constructive postwar cooperation. Would the Kremlin "play ball with the rest of the world on external matters, which they have never done before?"[503] Morgenthau believed that Soviet participation would set the tone for later and political forms of postwar cooperation, "a terrifically important thing, not the monetary conference as such, but what is their position going to be? And once they have come in they have crossed that bridge."[504] However it is apparent that

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Hand," April 27, 1944, Box 10, Binder, "UN Bank," White Papers, Princeton. Oliver, International Economic, 163-166.

[503]Blum, Years of War, 250.

[504]Ibid.

the Secretary did not secure the "clean cut answer" he had hoped for, but rather the reluctant and hesitant approval of the Kremlin. An additional disappointment was the news that Commissar of Finance Sverev would not be able to attend the conference but instead a delegation would be chosen soon.[505]

Morgenthau's optimism in part might have been based on the growing impression that fundamental changes were taking place in the Soviet Union and the Kremlin under the impact of the German invasion and the alliance with the west. Stalin's public pronouncements and such interviews he granted during the war marked a break from his "revolutionary" prewar statements, particularly his appeals to Russian nationalism and the Orthodox faith. A lessening of "revolutionary" fervor and implacable hostility to "capitalism" was indicated by the identification of the Soviet Union with the western "democracies" fighting fascism and the dissolution of the Comintern. One belief that contributed significantly to the opinion that

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[505]On April 25 Hull invited Commissar of Finance Sverev to lead the Soviet delegation to the conference. See Hull to Harriman, April 25, 1944, FRUS 1944, II, 128-129. Two days later he asked for a "definite response." Hull to Hamilton, April 27, 1944, Ibid., 129. On May 2 the Kremlin informed the American chargé that Sverev was "too busy" to attend and a "delegation

substantial cooperation on monetary and economic issues was possible between the capitalist world and the "socialist" Soviet Union could be subsumed under the loose rubric "convergence."

Convergence notions were composed of two distinct assumptions combined in varying ratios; under the depression capitalism was moving to "state socialism," and that as revolutionary ardor cooled the Soviet Union was becoming less ideological and more pragmatic. Any number of "progressive" Americans and Europeans subscribed in various degrees to "convergence." The most prominent American official to promote one aspect of this view was Joseph E. Davies, ambassador to the Soviet Union 1937-1938 and advisor to FDR. Davies told the president that the dominant forces in the Soviet Union were "nationalism and capitalism" and that Marxist ideology was passé.[506] FDR apparently shared this view. During the war he told Sumner Welles that in a peaceful world the Soviet Union and the United States would continue the process of moving toward one another, a process that had begun in 1917. Moscow was moving toward "a modified form of state socialism" and

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would be selected subsequently." Hamilton to Hull, May 2, 1944, Ibid., 129-130.

[506]See Keith Eagles, Ambassador Joseph E. Davies and American-Soviet Relations, 1937-1941 (New York: Garland Publishing, 1971), 210-212 and Dunn, Between Roosevelt and Stalin, 77-81.

the United States toward "true political and social justice."[507]

Convergence appeared to be validated by developments in both countries during the depression and war. Under the new conditions and demands capitalist nations had adopted elements of state planning, direction, and control of prices and production. Oscar Lange, a Polish Marxist economist working in the United States during the war stated that

> . . . the mechanism by which the Soviet government carries out its investment program is exactly the same as the mechanism by which the government of the United States carries out its war program. . . . The conversion of production from civilian to war purposes was effected in the United States not in response to a shift in market demand, but largely by political decisions implemented through administrative acts. Our war production is directed by governmental decision rather than by the market and our guidance of production shifts increasingly from guidance through the market and through the incentive of profit to guidance by decision of the government. Under war circumstances the sovereignty of the consumer loses ground. The reasons for this development are the same as those which prevent the Soviet economy from operating as an economy guided by the individual wishes of the consumers, namely the subjection of all economic life to a paramount political objective. [508]

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[507]Quoted in Warren Kimball, The Juggler: Franklin Roosevelt as Wartime Statesman (Princeton, Princeton University Press, 1991), 198-199.

[508]Oscar Lange, "The Working Principles of the Soviet Economy," in U.S.S.R. Economy and the War, ed. Robert J. Kerner (New York: Russian Economic Institute, 1943.

Lange also argued that some movement in the direction of "consumer sovereignty" had been underway in the Soviet Union.

> On the whole, after the abolition of rationing in 1935, the Soviet economy was moving in the direction of unrestricted freedom of consumers' choice supplemented (just as in our own economy) by communal consumption [public facilities, parks, etc.]. The eagerness with which Soviet authorities began to study the demand of the consumers in recent years makes it quite likely that the next step might have been the development in the Soviet economy of elements of consumers' sovereignty.[509]

An economist of Russian birth suggested to his American audience that the Soviet economic system was not so much the product of German idealist philosophy, but rather represented the logical development of themes and values long found in "Russian" intellectual and economic history, the rejection of Manchester school individualism for the "collectivist" notions of *sobornost'*, the *mir*, and the *soviet*.[510]

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[509]Ibid., 38.

[510]J. F. Normano, The Spirit of Russian Economics (New York: John Day Company 1945). The book was "issued in cooperation with the Russian Economics Institute." Joao Frederico Normano was born in Kiev in 1888 and received degrees in economics from St. Petersburg, 1910, Freiburg, 1912, and Moscow, 1913. He taught at the University of Petrograd and published on Russian economics and banking. There is a ten-year gap in his employment. From 1931 he worked at a number of academic and research positions in the United States. The same ideas were presented in a shortened form as J. F. Normano, "The Economic Ideas," in U.S.S.R. Economy and the War.

> A retrospective analysis of Bolshevism after a quarter of a century of its existence plainly discloses its traditionalism. It in its loves and hatreds, longings and recollections, hopes and disappointments, in its words and deeds, Bolshevism is a natural continuation of the Russian intellectual and moral climate; it is the culmination of the economic ideas of germinating in Russian soil in the hundred years preceding the Russian Revolution.[511]

Convergence speculations reached new heights with the April 2, 1944 New York Times article headlined "Communist Dogmas Basically Revised." The story reported that a "revolutionary change in the official economic policy of the Soviet Union" was in the offing.[512] Citing an article from a Soviet journal that had recently appeared in translation, "Political Economy in the Soviet Union," the reporter stated that Soviet economists would abandon some Marxist doctrines, particularly notions concerning "primitive communism" and "surplus value."[513] "Socialist accumulation" was to be used in place of "surplus value" to describe the state's role in redistribution and investment. This

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[511]Normano, Spirit, xi.

[512]Will Lissner, "Communist Dogmas Basically Revised," New York Times, April 2, 1944.

[513]L. A. Leontiev and others, "Political Economy in the Soviet Union," Science and Society (Spring 1944): 115-125. This was an abridged translation of an article that had appeared in *Pod Znamenem Marksisma* (Under the Banner of Marxism) 7-8 (1943): 56-78. Science and Society was a journal published in New York by the CPUSA. Subsequent references to this article will be to "Banner."

reform was aimed at harmonizing Marxist economic theory with Stalinist economic practices. The report indicated that this would "make legitimate the status of capital accumulation, profitable operation, wage differentials, market prices and taxes." These revisions

> . . . will remove ideological obstacles to collaboration between Russia's socialist economy and the capitalist economies of the United States and the British Commonwealth.[514]

An editorial the next day, entitled "Russia's New Capitalism," noted the "paradox" that the American economy was moving in the direction of socialism while the Russian moved toward "state capitalism." "In some essential productive practices and techniques, Russia is today even more "capitalistic" than the United States."[515]

The following day the "Topics of the Times" writer commented that while the foreign policy goals and objectives of the Allies were often a "puzzle," a "flood of light" has recently illuminated Soviet thinking.

> It is not misrepresenting the situation to say that Marxian thinking in the Soviet Russia is out. The capitalist system, better described as the competitive system, is back.[516]

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[514]Lissner, "Communist Dogmas."

[515]"Russia's New Capitalism," New York Times, April 3, 1944.

This interpretation of the "Banner" article was rejected by its translator as well as by commentators in The New Leader and The New Republic.[517] Henry F. Mins, translator and redactor of the Science and Society article, characterized the New York Times story as "incorrect" and "misleading." Mins stated that there was no revision of Marxism indicated by the article and no intimation there of a move toward capitalism.[518] In an editorial comment on the Mins letter the writer suggested that it was not just the "Banner" article but also other recent developments that "repudiates the basic idea of Marx." The editorial comment closed with the observation that the confusion was caused by contradictions inherent in the article and the effort "to reconcile new Soviet practices with old dogmas."[519]

The debate over the meaning and significance of the "Banner" article moved from the newspapers and periodicals to the pages of The American Economic Review. Although professional economists brought an

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[516]"Light on Soviet Policy," New York Times, April 4, 1944. This judgment was in response to other recent articles in the Soviet press as well as the "Political Economy in the Soviet Union."

[517]Algernon Lee, The New Leader, April 8, 1944, "Marxism in Russia," The New Republic, April 17, 1944, 520-521.

[518]"Russian Economic Teaching," letter of Henry F. Mins to the New York Times, April 13, 1944.

[519]"New Wine, Old Bottle," New York Times, April 13, 1944.

understanding of the workings of the Soviet economy, familiarity with Marxist ideology, and knowledge of the Russian language, they were no more able to agree on the purpose or aim of the article than the earlier commentators. Most were in agreement that the article signaled no move toward capitalism, but beyond this widely divergent meanings were imputed to the work.

Carl Landauer, a Berkeley economist, identified the significance of the article as "breaking new ground in the Marxian theory" of the "law of value." The revisions of "primitive communism" and the early phases of capitalism were of strictly antiquarian interest.[520] Landauer argued that the practical considerations of operating a planned economy made allocation through "use value" necessary. "Use value" was simply "utility value" by another name, "the road on which the authors of the statement have started leads from the Marxian camp into that of Jevons, Walras, and Menger."[521] While certain that the article

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[520]Carl Landauer, "From Marx to Menger: Recent Developments in Soviet Economics," American Economic Review 34 (June 1944): 340-344.

[521]Ibid., 342. William Stanley Jevons, Leon Walras, and Karl Menger simultaneously developed the "marginal utility" theory of value between 1871-73. In short, consumer decision furnishes value, which can be reflected in market price. This of course overturns classical theories of value based on some combination of land, labor, or capital inputs. As value is a function of market-choice, marginal utility rejects "value" or "price" assumptions of labor value theory. To embrace marginal utility would be to reject

was not an indication that "capitalism" will be adopted in the Soviet Union, Landauer believed it did signal an important reform of Marxist economics. A revised "value theory" would "facilitate a fruitful discussion between Western and Russian economists," as well as "free price analysis in Soviet planning from a severe handicap."[522] This would serve both to make planning more efficient and "profitable" in the Soviet Union as well create a basis for mutual cooperation between the capitalist and socialist worlds.

This reading of the "Banner" article was rejected by Raya Dunayevskaya, a Russian-born Marxist anti-Stalinist economist.[523] In the September 1944 issue of the American Economic Review Dunayevskaya published the full article in a new translation and provided her own commentary.[524] In her commentary Dunayevskaya argued

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Marxism-Leninism. For a useful consideration of marginal utility see Eric Roll, A History of Economic Thought, (London: Faber and Faber, 1992), 336-361.

[522]Ibid., 344.

[523]Raya Dunayevskaya was born in Russia in 1910. She moved to the United States in 1922 and became an activist in the American Communist Party. She was expelled from the party in 1928 and turned to Trotskyism. As "Freddy Forest" she joined with C.L.R. James "J.R. Johnson," to make up the "Johnson-Forest Tendency" in the American Trotskyist movement. She was highly critical of Stalinist "distortions" and departures from what she understood as classic Hegelian Marxism. For a time in the 1930s she served as Trotsky's secretary in Mexico. She later went on to found "Marxist humanism" and lead a small group of Trotskyists. See entry "Dunayeskaya, Raya," in Mari Jo Buhle, Paul Buhle, and Dan Georgakas, eds., Encyclopedia of the American Left, 2d ed. (New York: Oxford University Press, 1998), 202.

that the article was meant to justify wage differentials, piece rates, and higher pay for the managerial elite.[525] She believed that the article was meant for internal consumption and indicated that Soviet labor should be prepared for great new feats and sacrifices to furnish "socialist reproduction" that would finance post-war reconstruction. Dunayevskaya questioned the inherent contradiction of value/utility labor theory in a non-exploitative society and criticized the article for abandoning classical Marxist beliefs. The replacement of "to each according to his need" with "to each according to his labor" and the adoption of value theory indicated that the Soviet state continued social relations "which had no place in the conceptions of the founders of communism or the founders of the Soviet State."[526]

Dunsayevskaya's judgment that the "Banner" article was meant for internal consumption was seconded by Calvin Hoover writing in Foreign Affairs, who stated there is "no possibility that their article is a

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[524]"Teaching Economics in the Soviet Union" American Economic Review 34 (September 1944): 501-530. "Some Questions of Teaching Political Economy" *Pod Znamenem Marxizma* No. 7-8, 1943.

[525]Raya Dunayevskaya "A New Revision of Marxian Economics," American Economic Review (September 1944): 531-37.

statement of policy issued for its effect upon officials or public opinion in foreign countries.[527] If this were the case, what was the purpose of the redacted translation presented in Science and Society?

Will Lissner of the Times, the originator of the debate, challenged the view of Dunayevskaya and Hoover. He wrote that the "American Communists operated in a curious manner" in printing only certain portions of the "Banner" article. He charged that translator Mins "omitted every reference that might explain the background or the significance of the article" and wondered why the article was so severely shortened. In particular Lissner charged Mins with "toning down" and "omitting" references that could be assumed to offend the presumed audience. While not directly charging the editors of Science and Society and Mins with deception and presenting a distorted or idealized view of current Soviet economic thinking, this conclusion is all but inescapable.[528]

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[526] Ibid., 534.

[527] Calvin B. Hoover, "Capitalism and Socialism, A New Soviet Appraisal," Foreign Affairs 22 (July 1944): 540.

[528] Will Lissner, "Soviets Revision of Marx Verified," July 2, 1944 and "Russia's Economy to Remain Closed" July 3, 1944, New York Times.

The debate over the "Banner" did not die down, but rather gathered strength after the Dunayevskaya article. Most of the subsequent comments in The American Economic Review took Dunayevskaya to task for her criticism of the operations of the Soviet economy under Stalin. Paul A. Baran, an American Marxist economist of Russian birth working for the Office of Strategic Services, held that the article was meant as a warning to the Soviet "ultra left" and that it called for reimposition of orthodoxy rather than cooperation with the west, compromise with capitalism, or rejection of Marxism.[529] He strongly repudiated the contention that wage differentiation in the wartime Soviet Union could be understood as a sign of "class differentiation."[530] Baran believed that the exigencies of the historical situation prompted the conciliatory tone of the work, and that no abandonment or modification of Marxism as established by Lenin and Stalin should be inferred from the article.[531]

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[529]Paul A. Baran, "New Trends in Russian Economic Thinking?" The American Economic Review 35 (December 1944): 862-871. Baran contends that Soviet graduate students of political economy before the war read Bukharin and Preobrazhenskii!

[530]Ibid., 868-8, note 24.

[531]Ibid., 865.

Other economists sharply criticized Dunayevskaya for her "revisionist" reading of the Soviet economy and defended the position that "Marxist orthodoxy" was respected and enshrined under Stalin.[532] The debate was finally reduced to jejune formulaic recriminations and selective quotations from the "classics" of Marxist thought.[533] This episode is significant not for the influence that the "Banner" article had on Morgenthau, White, or Treasury, but as an illustration of confusion, misunderstanding, and misinterpretation that characterized Soviet-American relations in this period. One feature of these relations was the almost oracular consequence imputed to certain publications or utterances of the official organs. When normal channels of communication and information exchange are not used, the "party line" grows in importance.

Morgenthau, White, and the administration did not base their hopes for monetary cooperation on ambiguous articles in the Soviet press. But as progressive New Dealers they certainly, to some extent, were convinced that some form of "convergence" was underway. Stalin's

[532]See Oscar Lange, "Marxian Economics in the Soviet Union," American Economic Review 35 (March 1945): 127-133, Leo Rogin, "Marx and Engels on Distribution in a Socialist Society," American Economic Review 35 (March 1945): 137-143, and Brooks Otis, "The Communists and the Labor Theory of Value," American Economic Review 35 (March 1945): 134-137.

wartime “revisionism” clearly contributed to this attitude. As demonstrated by the technical talks, and seemingly confirmed by the Varga article, White thought that gold could provide the connecting link between the Soviet Union and the world economy. Both White and Morgenthau expressed the belief that Soviet self-interest coupled with demonstrations of American good will and fair treatment would provide sufficient inducement for Soviet participation in the ISF.

[533] Raya Dunayevskaya, “Revision or Reaffirmation of Marxism? A Rejoinder,” American Economic Review 35 (September 1945): 660-664.

CHAPTER 9

BRETTON WOODS AND AFTER

The Soviet delegation to Bretton Woods was led by Deputy Commissar of Foreign Trade M. S. Stepanov and, in addition, consisted of one other representative from Foreign Trade, two from the Commissariat of Finance, and one from Foreign Affairs. N. F. Chechulin of Gosbank and the head of the Soviet technicians at the Washington talks was also a delegate. He had returned to Moscow in May to report to the Commissar of Finance and had presumably been given additional instructions.[534]

The Kremlin leadership must have decided that the negotiations were more a matter of trade than finance, although much remains speculative as we do not know to whom Stepanov reported. He was nominally subordinate to Anastas Mikoyan, Commissar of Foreign Trade. The Bretton Woods negotiations would have been of great interest to the Commissariat of Finance and its subordinate institutions, Gosbank and the Bank for Foreign Trade, as they presumably would be responsible

[534] P. A. Maletin, Deputy Commissar of Finance; I. D. Zlobin, Chief, Foreign Exchange Division, Commissariat of Finance; A. A. Arutinunian, consultant to the Commissariat of Foreign Affairs; A. N. Morozov, Chief, Foreign Exchange Administration, Commissariat

for Fund ruble and gold deposits and financial information. The presence of Chechulin at both the technical talks and Bretton Woods indicated Gosbank's stake in these negotiations.

The American delegation was by far the largest and most diverse. Morgenthau and White were convinced that the success of the conference hinged on gaining the full support inside the administration as well as key members of Congress and sympathetic businessmen and academics. The delegation was led by Secretary Morgenthau and included high-ranking State officials as well as representatives from the Federal Reserve, Commerce, the FEA, and other executive agencies. Members of key congressional committees of both parties also served as delegates, who it was hoped would later support congressional action. The only woman delegate was the American Mabel Newcomer, an economics professor at Vassar.[535]

The American delegates were aided by numerous advisors and assistants and the organizational expertise of State. The close cooperation between Treasury and State and detailed planning preceding the conference was to refute the contention that American

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for Foreign Trade. MD 743:71-72. For Chechulin's return see MD 728:47.

[535]Van Dormael, Bretton Woods, 168-169.

conferences “always fail” due to lack of proper preparation.[536] For Morgenthau a successful conference would crown his achievements as Secretary, permanently put monetary and international economic control in the hands of the New Deal, and set the precedent for all other forms of postwar international cooperation.[537]

The work of the conference was split into three parts. Commission I, chaired by Harry Dexter White, would draft the International Monetary Fund (IMF) agreement. Commission II, chaired by John Maynard Keynes, would draft the agreement for the International Bank for Reconstruction and Development (IBRD). Commission III, chaired by Eduardo Suárez of Mexico, was to consider other international monetary issues, particularly the place of silver and the future of the Bank for International Settlements (BIS). The American delegates were well briefed and furnished with memoranda on the preparatory negotiations. The documents presented the specific objections and counter-proposals made by the Soviet technicians and the American position on those issues.[538]

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[536]Leo Pasvolsky of State at meeting of the Cabinet Committee, “International Stabilization Fund,” May 25, 1942, MD 531:262.

[537]For a complete list of American delegates and advisers see U.S. Department of State, Proceedings and Documents of the United Nations Monetary and Financial Conference (Washington, D.C.: Government Printing Office, 1945), 1130-1132.

The conference was barely underway when the "Soviets provoked the first crisis of the conference." Stepanov informed Morgenthau that he had understood that the Soviet quota for the Fund was to be $1 billion, while conference documents gave the quota at only $800 million. Stepanov wanted to know why the quota was lowered and why the "Joint Statement" published in the United States "omitted extremely important provisions" and "distorted the meaning and contents" of the agreed-upon text.[539]

In a meeting with American delegates Stepanov said his government "had the impression that the Soviet quota would be a billion dollars or more," slightly less than that of the United Kingdom.[540] Considerations other than economic should be taken into account determining quota size, and "as soon as a figure had been set for the British quota it should be possible for the Soviet delegation to indicate what quota they felt their country was entitled to."[541] Morgenthau promised that the U.S. would support increasing the

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[538]"Questions at Issue on the Fund" MD 746:139 II-JJ, "Questions on the Bank" Ibid., KK-LL. Also see MD 747: 232-238.

[539]Quote is from Blum, Years of War, 259. Stepanov's objections, MD 749: 240-242,289-293.

[540]Ibid., 290.

[541]Ibid., 291.

Soviet quota and turned to consider ways in which this might be accomplished.

The work of Commission I came to a standstill as the American delegation carefully examined the new Soviet demands. Quota size had three important implications: it determined how much could be borrowed from the Fund, it decided the voting weight of each state, and it had to be accommodated within a maximum of $8.5 billion which had been settled and apportioned before the conference. There was some disagreement whether this "misunderstanding" was legitimate or the product of some Kremlin negotiating tactic. In the technical talks the U.S. had agreed arbitrarily to raise the Soviet quota by one-third and guaranteed the USSR a 10 per cent share of the total quota. However a $1.2 billion quota would represent almost 15 per cent of a $8.5 billion Fund.[542]

White observed that any increase in the Soviet quota would reduce the quota of some other country or countries, thereby decreasing their drawing and voting power. That might set off a wholesale recalculation of quotas and scuttle the conference. Dean Acheson thought that for political reasons the Soviet subscription could be raised to $900 million. The

American delegates eventually decided to offer Stepanov two options: the U.S. would support a $1.2 billion quota if the Kremlin would drop all other proposals, or Stepanov would be free to seek his other requests and the U.S. would support a $900 million quota.[543]

During the discussions in the American delegation, Edmund O. Brown, of the First National Bank of Chicago, expressed his view that the success of the conference hinged on cooperation between the U.S., the USSR, and Great Britain. But he also noted that "Russia doesn't need the Fund. It has a complete system of state trading-state industry. It doesn't make any difference to them whether the ruble is five cents or five dollars," and they are only interested in a market for their newly-mined gold. White responded that "the Fund needs Russia. I mean you can't have a cannon on board ship that isn't tied down because that can do a lot of harm if they are not in." Representative Tobey of New Hampshire suggested that "world cooperation must have Russia" and that Congressional approval might be predicated on Soviet participation.[544]

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[542]See the comments of Elbridge Durbrow of State. MD 749:292-293.

[543]MD 750:254-256.

[544]MD 749:10-11. White made an interesting comment later in the meeting. "The gold that is in Fort Knox can be used only for one purpose outside of domestic monetary reserves, and that is to buy foreign exchange. That is why the United States is in an enviable position; that is why we are in a powerful position in this

White told the delegation, "we guess that her gold holdings are in the neighborhood of a billion and a half dollars. Now we may be half a billion off either way."[545] In 1939 the estimate was between $450 and $750 million and in 1940 $750 million to $1 billion. It is difficult to understand why Treasury would believe that the Soviet reserve had increased at the rate of its greatest growth in the early 1930s with the disruptions and manpower shortages caused by the war. The presumed gold contribution to the Soviet quota subscription would be $150 million based on 10 per cent of a $1.5 billion gold reserve, its estimated annual output of the 1930s. The administration was so ill-informed on this issue that FDR asked Mrs. Morgenthau at a dinner party if her husband could tell him how much gold the Soviets had, because Stalin had refused to supply the information to him.[546] An explanation apparently not considered and that would have helped to clarify the Soviet position was that its gold reserve was much <u>smaller</u> than estimated, that the gold subscriptions of the Fund and Bank would seriously deplete it, and that

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Conference; that is why we dominate practically the financial world, because we have the where-with-all to buy any currency we want, you see. . . . They can't buy with sterling. . . But with our gold we can buy any currency, and that is the important thing about our gold." <u>Ibid</u>., 30.

[545]MD 750:257.

[546]July 6, 1944, PDHMJr, 1384.

the newly-mined gold reduction provision was necessary to allow the planned postwar accumulation of bullion.

The decision to raise the Soviet Fund quota came in for some criticism. Elbridge Durbrow of State thought the original $800 million Soviet quota was "pretty well blown up."[547] Mikesell, who calculated the original quotas, later wrote that the "quota for the USSR which was finally agreed upon bore little relation to its importance in world trade as it was set almost entirely in recognition of its political and potential economic importance."[548] Brown pointed out that increasing the quota would make more likely the use of the "scarce currency" provision in which other nations could discriminate against American trade. "Trading nations" would more quickly meet their dollar deficits or adjust while the Kremlin could well draw the maximum amount of dollars, treating the Fund more as a lending than a clearing institution.[549]

Morgenthau was more than a little taken aback by Stepanov's response to the options offered by the Americans. The Kremlin wanted the $1.2 billion quota <u>and</u> the twenty-five per reduction in gold subscription.

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[547]MD 750:273.

[548]Mikesell, <u>Negotiating</u>, 109.

[549]MD 751:5-6.

Morgenthau recounted his long experience and fruitful relationship with the Soviet Union from the recognition negotiations to his most recent exchanges with Foreign Minister Molotov and Finance Minister Sverev. He appealed to Stepanov not as a diplomat or lawyer, but "as just a farmer."[550] Stepanov replied that "he is no diplomat, himself--no lawyer, no financier, just a businessman."[551] He argued that Soviet financial data supported the larger quota and would be supplied the American delegation. Stepanov went on to say that "we don't regard the Fund as the only source for our economy," that "other forms and sources" of finance would be needed for reconstruction, and suggested that their participation was partly based on the desire of the administration and Secretary Morgenthau that they do so. "We simply would like the place which we regard we are entitled to, according to the calculations which we have."[552]

Morgenthau tried to "smoke out" Stepanov on gold; "some of the delegates here think that you have four billion dollars in gold . . . that you have seven hundred thousand men mining gold and producing between

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[550]MD 752:209.

[551]Ibid.

[552]Ibid., 208-212.

three and four hundred million dollars' worth of gold a year."[553] The Secretary also suggested that once the quota issue was concluded talks could begin on "how Russia will get manufactured goods in this country," hoping for a quick trade-off. Stepanov replied that he and others knew Morgenthau was a friend of the Soviet Union, but that the decision could come only from Moscow.[554]

A few days later instructions must have been received as Stepanov now contacted Morgenthau and resumed negotiations. A Russian-born American commented on the Soviet delegation that "they were struggling between the firing squad on the one hand and English language on the other. They seemed very much afraid of the reactions in their own country and didn't dare make a step without consultation by 'phone or cable with their Government."[555]

Stepanov withdrew his proposal that the newly-mined gold contribution to a Fund deficit be reduced by half: "we have been insisting on this point in order to accumulate more gold for our obligations and

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[553]Ibid., 213. Another estimate of the reserve was between $3 and $6 billion, see Mikesell, Negotiating, 107.

[554]Ibid., 216.

[555]This comment was made by Emmanuel Goldenweiser of the Federal Reserve. Quoted in Van Dormael, Bretton Woods, 174.

payments."[556] But Stepanov also withdrew the earlier offer of information that would support the higher quota and agreed to accept the financial figures supplied by Treasury.[557] Finally the earlier requests were revived, that language should be included to allow the ruble to be revalued without Fund consent if it had no international implications, that Moscow should be designated a gold depository, and that as the most devastated country the Soviet Union should be granted a 25 per cent reduction in initial gold subscription, with other less damaged countries granted a reduction on a pro-rata basis.[558]

Feeling the pressure to conclude the conference quickly and successfully, Morgenthau and the American delegation finally acceded to most of the Soviet requests. Reporters had picked up the quota impasse and suggested that some sort of compromise was necessary to "prevent the collapse of the conference and the whole idea of post-war international collaboration and collective security against another world war."[559] Both Representative Tobey and New York

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[556] MD 754:117.

[557] Ibid., 118.

[558] MD 754:14-20, 119-139.

[559] John H. Crider, "Russia Tries to Limit Gold Share Poses New Issue in Fund Talks," New York Times, July 7, 1944. Russell Porter, "Five Snags Delay Monetary Accord," NYT, July 14, 1944.

Senator Robert Wagner thought it was not worth losing the chance for substantial postwar cooperation and perhaps permanent peace over a few hundred million dollars. However both White and Morgenthau were clearly reaching the limits of their patience with the obstinacy and inflexibility of the Soviet delegation.[560]

The $1.2 billion quota, the "ruble opt out" allowing for the unilateral revaluation of a currency of a "state-trading" nation, and the reduction of the initial gold subscription were all granted. Agreeing that Moscow should hold some gold, Morgenthau supported the view that the amount and distribution should be left to the Fund's board.[561]

Treasury and White did not place as much importance on the Bank as on the Fund. Fund membership was a prerequisite for Bank membership, and thereby for loan eligibility. The larger countries were to provide an amount equal to their Fund quota as Bank subscription. The Soviet delegation adamantly refused to raise its Bank subscription above $900 million to match their newly-won $1.2 billion Fund quota. Morgenthau, in a meeting with Stepanov, argued that

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[560]Ibid. Also see Van Dormael, Bretton Woods, 194-197.

[561]Brown pointed out that politically it would be impossible to support Moscow holding double or more of its own gold

since he agreed to raise the Soviet Fund quota in recognition of its prestige and importance in the postwar world, the same argument held for the Bank subscription. Stepanov simply stated he could go no higher than $900 million and there was no precedent for Soviet participation in international conferences or monetary cooperation.[562]

The American delegation tried to calculate a new Bank subscription schedule with the $900 million figure, but thought "many of the nations will reduce their quota if Russia goes in at nine hundred million dollars. Of course that reduces the size and effectiveness of the Bank."[563] Both White and Morgenthau thought the Soviets were bluffing, so White suggested assigning them a $1 billion Bank subscription and Morgenthau $1.2 billion.[564] The majority of the American delegates, Fred Vinson, Acheson, Brown, Mabel Newcomer, and Senator Tobey, thought if Stepanov would only agree to $900 million, then that should be the assigned subscription. Brown, drawing on his experience negotiating with Soviet representatives,

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subscription. MD 751:11. White suggested the deposit be a "two dollar gold piece." Ibid.

[562]MD 756:40-43.

[563]Ibid., 237.

[564]Ibid., 239-245.

thought that forcing them to accept a higher subscription might cause them to stay out of the Bank, which would put them out of the Fund. "If they stay out of the Fund, I think it would seriously endanger the possibility of getting the Fund accepted."[565]

Keynes as chairman of the Bank Commission, perhaps hoping to shame Stepanov into action, in an open committee meeting announced that Poland and China were prepared to increase their Bank subscriptions "to meet something that Russia cannot afford."[566] He also pointed out that India had a $450 million Bank subscription, fully half that of the Soviets. Keynes closed with an appeal for the increased subscription: "it is scarcely consistent with the honor and dignity of a great country to remain so uncompromising at this stage."[567]

Stepanov replied to Keynes that his instructions were clear and he had no authority to exceed them. In a reversal of his earlier attitude he argued that there was no relation between the contributions of various countries and pointed out the obvious fact that the

[565] Ibid., 249.

[566] Ibid., 254.

[567] Ibid.

Soviet Union had been a battleground while India "hasn't suffered so much in the course of the war."[568]

The American delegation decided to make up the $300 million shortfall by increasing its subscription from $2.75 to $3.1 billion.[569] This was done at the very last moment to keep other nations from demanding a reduction in their Bank subscriptions and delaying, if not ending, the conference without an agreement. An hour before the final session was held Stepanov informed Morgenthau that Molotov had authorized a Soviet Bank subscription of $1.2 billion. Morgenthau sent effusive thanks to Molotov through Stepanov and in his closing speech announced the Soviet action. This "bombshell" message caused a general celebration and the delegates left Bretton Woods confident that they had accomplished a most difficult task. Newspapers lauded the conference as "a success" and "a good omen for future international cooperation for collective security, peace and prosperity."[570]

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[568] Ibid., 255.

[569] Oliver, International Economic, 188.

[570] Russell Porter, "Diplomatic Gains Credited to Soviets in Monetary Move," New York Times, July 24, 1944. No reason was given at the time or has since emerged from the Soviet archives explaining why Molotov decided to compromise on the Bank subscription. One possible factor, that has only been confirmed recently, is that information supplied by Americans influenced Molotov's negotiating strategy.

The Soviet delegation won almost every concession it had sought since the Washington technical talks: an increased Fund quota, an "opt-out" clause for the ruble, a decreased Bank subscription with an extended payment schedule, preferential treatment on loan applications, and acknowledgment of the legitimacy of "state trading." However it was unable to reduce its combined gold contribution below $300 million or gain an exemption from supplying a minimum of financial information to both the Fund and Bank. For Morgenthau the entire conference, and particularly the integration of the Soviet Union into the postwar monetary system, was a great triumph. He wrote to FDR that Molotov's last minute telegram demonstrated the Kremlin's "desire to collaborate fully with the United States. Dean Acheson has just said that this was almost unbelievable, and that he regarded it as a great diplomatic victory . . . and as a matter of great political significance."[571]

The effort to gain public acceptance and legislative approval for the Bretton Woods agreements moved to the capitals, newspapers, magazines, and lecterns of the participating nations. Bitter battles

[571]Blum, Years of War, 277.

were expected in Congress and Parliament with opponents who were simply biding their time until the agreements were presented for a hearing. It was not foreseen that the Soviet Union would prove recalcitrant in approving the accords. Treasury thought that the Soviets had secured most of their demands and recognized that the system was designed with the peculiar needs of a "state-trading" economy in mind. The Kremlin, which was negotiating for a postwar reconstruction loan, was aware that ratification of the agreements would ease loan negotiations.[572]

This view was apparently sustained by the September news of an article by Professor Z. B. Atlas that had appeared in the Soviet periodical Bolshevist. The New York Times reported that Atlas "supports the principles proposed at Bretton Woods." He was quoted as writing that "a world currency is essential. And

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[572]For administration efforts to publicize Bretton Woods see John Parke Young, Conference at Bretton Woods Prepares Plans for International Finance (Washington, D.C.: Department of State, 1944), Henry Morgenthau, Jr., "Bretton Woods and International Cooperation," Foreign Affairs 23 (January 1945): 182-194, and Harry Dexter White, "The Monetary Fund: Some Criticism Examined," Foreign Affairs 23 (January 1945): 195-210. For "expert" opinion see Howard Ellis, "Can National and International Monetary Policies Be Reconciled?," American Economic Review 34 (March 1944):385-395 and Louis Rasminsky, "International Credit and Currency Plans," Foreign Affairs, July 1944, 589-603. For "key currency" criticism see John H. Williams, "Currency Stabilization: American and British Attitudes," Foreign Affairs, 22 (January 1944): 233-247. In November 1944 the Review of Economic Statistics held a "Symposium on the International Monetary Fund." For ratification and loan eligibility see FRUS 1945, IV, 844, 948-49, 942-44.

the valuta of any country must have a fixed basis in gold so that it may be turned into world currency and be exchanged for a determined quantity of one or another national valuta."[573] Atlas criticized the lack of a gold basis for the Clearing Union and also mentioned interwar "currency dumping" and the use of stabilization funds to protect undervalued currencies. The Atlas article ended with an appeal that long-term credits be extended to those nations that had suffered during the war.

The CPUSA also strongly supported the Bretton Woods institutions and suggested that the Soviet Union was prepared to ratify the agreements. James S. Allen, the foreign affairs editor of The Worker, argued that Bretton Woods was significant, progressive, and vital for postwar prosperity, full employment and world peace. Allen's views were expressed in the December issue of The Communist and expanded for a January 1945 pamphlet.[574] He wrote that ratification of the agreement would furnish the foundation for postwar economic prosperity as well as for far-reaching

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[573]"Russian Endorses Gold Standard, Calls it Best to Help World Trade," New York Times, September 13, 1944.

[574]James S. Allen, "Bretton Woods and World Security," The Communist 23 (December 1944), 1078-1086, and World Cooperation and Postwar Prosperity (New York: New Century Publishers, January 1945). Allen also contributed to Political Affairs and was the party's expert on the "Negro" question.

cooperation among the United States, Great Britain, and the Soviet Union.

Allen understood Bretton Woods as an expression of FDR's "progressive internationalism," whose opponents were anti-New Deal "isolationists" and "economic nationalists." "Objectively" the opponents of Bretton Woods were "economic imperialists and hegemonists" who supported the "Taft Aldrich dollar-pound" (key currency) approach to monetary stabilization.

Allen argued that the agreements should be ratified as the necessary monetary and economic supplement to international political cooperation reached at Dumbarton Oaks. While plans for postwar political cooperation had general support, powerful newspaper and business interests opposed economic multilateralism. The most significant aspect of Bretton Woods was that it was truly multilateral and was formulated for smaller nations, colonial possessions, and the Soviet Union. The Soviet delegation demonstrated the Kremlin's commitment to international cooperation by "over-subscribing" its Bank subscription.

No less an authority than Earl Browder supported the increase in world trade that the Bretton Woods agreements would bring.

> The perspective of a vast expansion of America's foreign trade has become, of necessity, Item No. 1 in any program of reconversion to full production and full employment for peacetime. Without a vastly expanded foreign market, the American economy cannot even begin to think in realistic terms about the over-all problem of reconversion.[575]

Allen argued that increased capital exports were mutually beneficial and that it was preferable to lend through a multilateral governmental institution than private banks.[576] Allen closed with the opinion that the Soviet Union would ratify the agreements.

There can be some doubt over how close Allen and other American Communists were to the "party line" in this period and how frequent and intimate communications were with Moscow. In the spring of 1944 Browder dissolved the CPUSA and replaced it with the Communist Political Association of America. As far as is known this was done with the approval of Georgi Dimitrov, late of the Comintern, and reflected Stalin's "revision" of socialist-capitalist relations brought on by the invasion of the Soviet Union and the alliance with the west.[577] What is noteworthy is that the Atlas

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[575]Earl Browder, Economic Problems of the War and Peace (New York: Workers Library Publishers, 1945), 11. Cited in Allen, World Cooperation, 13. Browder was the General Secretary of the CPUSA at this time.

[576]"It is in our national interest that the United States should provide capital abroad to the limit of its resources." Allen, World Cooperation, 44.

and Allen articles were remarkably similar in substance and tone to the postwar policy recommendations made by Maxsim Litvinov and Ivan Maiskii.

In the summer of 1943 Litvinov was recalled from Washington and Maiskii from London. Once in Moscow the two men were named by Stalin to head a committee on reparations and a committee on the peace treaties. The recommendations were based on their intimate knowledge of Great Britain and the United States as well as their theoretical departures from the Leninist orthodoxy. The Soviet Union would need about ten years to recover from the war and would then be completely self-sufficient and invulnerable to foreign attack. It would take a long time for the Continent to become socialist, and during this period its politics would be dominated by an "anti-fascist" and progressive coalition. The coming struggle would be between the rising U.S. and declining Great Britain. The Soviet Union had the opportunity to exploit this rivalry, but eventually Great Britain would be forced into a Soviet alliance. Reconstruction would be accomplished through loans and credits from Washington and London, domestic resources, and reparations. There would be no immediate crisis of capitalism due to the special circumstances

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[577]See Joseph Starobin, American Communism in Crisis 1943-1957

of the war.[578] The Allen articles were very much in this vein and demonstrated either a remarkable “dialectical” ability or the communication of principles, themes, and issues from Moscow to New York.

The Litvinov-Maiskii program serves as a useful reminder that from the Kremlin’s perspective the postwar loans and credits loomed much larger than the Bretton Woods institutions. Ambassador Gromyko sent a long cable to Foreign Minister Molotov in July 1944 analyzing Soviet-American relations and the prospects for continued cooperation in the postwar period. Gromyko thoroughly examined the American political scene, Roosevelt’s pursuit of a fourth term, pro- and anti-Soviet individuals and groups, and political and territorial questions in eastern and western Europe, the Baltics, and the Balkans.[579]

Gromyko informed Molotov that recently both administration figures and private businessmen had expressed increased interest in the growth of trade

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(Cambridge: Harvard University Press, 1972), 51-77 and McCagg, Stalin Embattled, 176.

[578]See Vladimir O. Pechatnov, The Big Three After World War II: New Documents on Soviet Thinking About Post War Relations With the United States and Great Britain, Working Paper 13,(Washington, D.C.: The Cold War International History Project, 1995) and Vladislav Zubok and Constantine Pleshakov, Inside the Kremlin’s Cold War (Cambridge: Harvard University Press, 1996), 28-31.

[579] Perlmutter, FDR & Stalin, 92-4, 270-273. The translated cable is reproduced in Appendix 4, 259-278. “Document 569/USA Gromyko, Ambassador to the United States to Foreign Minister V. Molotov,

between the nations after the war. American equipment manufacturers desired access to the Soviet market, and others stated that "US industry will need to import some types of raw materials from the USSR" including manganese, chromium and platinum.[580] Gromyko thought this could provide the basis for cooperation but noted that without financing or access to credits this trade could not grow very large. As private banks were unlikely to offer loans or credits, the administration would have to develop a mechanism to finance exports to the USSR. State, Treasury, and the FEA were all working on finance plans to begin after the termination of lend-lease, using either the Export-Import Bank or the RFC.

Gromyko wrote that in conversation with administration officials he learned the terms were to be "several billion dollars. . . five or six or even more" to be repaid in 20 to 25 years at 2 or 2.5 per cent interest. "The above mentioned solution to the credit problem which the administration of Roosevelt plans to implement, is very likely to be the most appropriate for us."[581]

July 14, 1944, Peoples Commissariat of Foreign Affairs, Declassified December 12, 1989, note 96, 285.

[580] Ibid., 271.

[581] Ibid., 272.

Gromyko suggested that one reason that capital equipment deliveries under lend-lease were held up was that certain business interests would profit by selling the needed plant after the war rather than delivering it during the war.[582] The ambassador cautioned that aid to Great Britain "is used and surely will continue to be used by America as a lever of political pressure in the future."[583] The implication was that American wartime aid or postwar credits were to be feared as well as sought, and that aid might furnish an opening through which the U.S. could extract concessions or coerce collaboration from the Kremlin.

Developments in the Soviet Union

During the war there were quite profound transformations in the Soviet economy that, contrary to the expectations of convergence proponents, encouraged the complete adoption of the planning mechanism and the command economy. In the minds of these "voluntarists," the Soviet Union, through the planning mechanism, could

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[582]"We know from reliable sources that such a tendency exists within official circles." Ibid., 278. It would seem clear that the decisions to withhold shipments of capital equipment came from the administration, not the manufacturers, who produced on order and profited thereby. The administration had imposed a "eighteen month" rule in 1942 by which plant that would take that long to produce, ship, and assemble would not be ordered. See Martel, Lend-Lease, 57-71.

[583]Perlmutter, Ibid., 269.

successfully and quickly rebuild the devastated areas of the country without outside aid or support. This position was based on the "miracle of 1941," the wholesale transfer of productive capacity, plant, and machine tools to the Urals, the heroic feats of wartime production, and the conviction that this was made possible through the "economic laws of socialism" that when properly employed through the planning mechanism were capable of "miracles." This triumphalist and "voluntarist" position was associated with and encouraged by Nikolai Voznesenskii, economist and director of Gosplan.[584]

Voznesenskii rose to great prominence and influence after the German invasion. The administration of the state, economy, and army was centralized under GOKO (State Committee for Defense). Stalin chaired the committee and was joined by Lavrentii Beria; chief of internal security, Kliment Voroshilov, Commissar of Defense; Georgii Malenkov representing the industrial Commissariats and the party; and Foreign Commissar Molotov. Voznesenskii was

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[584]Central to McCagg's argument is the ascendancy of "voluntarism" in all fields and a reassertion of party control. This forced a weak Stalin to give in for a time, until he gathered enough strength to purge the "voluntarists." For Voznesenskii see McCagg, Stalin Embattled, 136-141. A similar argument with some interpretive modifications is given in Werner Hahn, Postwar Soviet Politics: The Fall of Zhdanov and the Defeat of Moderation (Ithaca: Cornell University Press, 1982).

sent to Kuibyshev to direct the transfer of industrial plants to the Urals, as Gosplan chairman headed the committee in charge of planning and production, and was eventually appointed to GOKO.[585]

Voznesenskii's wartime experience convinced him that the planning system was the most efficient and powerful tool for economic management and should serve as the primary means to effect postwar reconstruction. Even before the war had ended special plans for agriculture in liberated areas were started and the "interrupted" Five Year Plan for 1943-1947 was revived. In August 1945 Stalin ordered Voznesenskii to formulate a plan for 1946-1950. Voznesenskii and the planning mechanism were central to a Soviet "triumphalism" that mirrored that of the United States. In both nations victory was celebrated not simply as a military feat, but as a confirmation of the political, economic, and social arrangements and values. For Voznesenskii the triumph of the war demonstrated the preeminence of the party and the planning system.[586]

By late 1945 Voznesenskii was aligned with

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[585]See Eugene Zaleski, Stalinist Planing for Economic Growth 1933-1952 (Chapel Hill: University of North Carolina Press, 1980), 285-288 and McCagg, Stalin Embattled, 88-90, 133-142.

[586]Zaleski, Stalinist Planing, 289-308, 345-357.

Andrei Zhdanov, the Leningrad party chief, Commissar of Foreign Trade Mikoyan, and Molotov. These men and their allies are usually referred to as the "Party" group. In general they stood for the revival of the party organs and revolutionary enthusiasm, the reimposition of party control ministries weakened during the war, a return to ideological rigor and orthodoxy, the rejection of "revisionism," and a reliance on domestic sources and reparations for postwar reconstruction. The Soviet Union should maintain its hard won victory and not treat with the capitalist world destined to be swept away in the final crisis of capitalism. This was a "conservative" course, as it posed no risks or new departures.[587]

In opposition were Malenkov, Beria, and their allies, the "State" group. In general this group supported the course laid out by Litvinov and Maiskii and championed by Varga. This was also the policy articulated by Stalin's wartime speeches and can be characterized as "revisionism." Less emphasis was placed on the crisis of capitalism and the

[587]The characterization of the "Party" group and Zhdanov is taken from Hahn, and accurately reflects a Soviet sense of conservatism. There is not space here to examine the differences between Hahn, McCagg and Timothy Dunmore, The Stalinist Command Economy (London: Macmillan, 1980). There is agreement on the members of the "Party" and "State" groups but disagreement over motivations and meaning. See McCagg, Stalin Embattled, 108-141, 249-296, Hahn, Postwar Soviet Politics, and Dunmore, Command Economy.

inevitability of conflict with socialism, and more on the wartime alliance and the "popular front" of "democratic, anti-fascist powers." Less emphasis was placed on party control and more reliance placed on the industrial ministries, technicians, and the professional, non-party, military. This group believed that in addition to reparations and internal resources, the West could provide vital help and aid in the reconstruction effort. The "State" group was in the ascendant during the war, and most observers believe that Stalin initially favored this approach.[588]

The struggle between these groups centered on how to finance reconstruction, and more specifically what sort of reparations should be taken from Germany and Austria and how and through what mechanisms they should be allocated to the Soviet economy. Malenkov was in charge of the Committee for the Rehabilitation of the Economy of Liberated Areas and backed the plan to transfer plant stripped from Germany and Austria directly to the economic ministries, leaving Germany "pastoralized." This was opposed by Zhdanov and

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[588]For the "Party" group see McCagg, Stalin Embattled, Hahn, Postwar Soviet Politics, and Amy Knight, Beria: Stalin's First Lieutenant (Princeton: Princeton University Press, 1993), 143-146. For Stalin's wartime attitudes see William Taubman, Stalin's American Policy: From Entente to Détente to Cold War (New York: W. W. Norton, 1982) and Vojtech Mastny, Russia's Road to the Cold War (New York: Columbia University Press, 1979).

Mikoyan who wanted to leave the plant in place in order to provide reparations which would be allocated through their ally Voznesenskii's Gosplan. This struggle and the "groups" which provoked it combined high principle, naked self-interest, bureaucratic maneuver, and personal rivalries and animosities.[589]

The victory of the Soviet armies, the "miracles" of the planning mechanism, reparation transfers from Germany and Austria, and reparations agreements with Hungary sharpened the conflict between the "groups" in the Kremlin. In the summer and fall a struggle took place between the groups over policy toward Germany, and over culture, ideology, economics, and "foreign policy" in the Soviet Union. Stalin allowed the debate to develop, probably because he was unsure himself which course to follow. The outcome of this struggle would certainly have profound consequences for postwar cooperation. This is not to claim that the "Party" group was implacably hostile to the West, but a

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[589]On reparations see Norman Naimark, The Russians in Germany (Cambridge, Mass., 1995), 318-21 and Bruce Kuklick, The Clash With Russia Over Reparations (Ithaca: Cornell University Press, 1972). "The most important disagreement regarding German economic issues was not one which separated Russia from the West, but rather one which divided officials within each Allied government. The crucial question was whether Allied economic policy should emphasize reparations or industrial disarmament." Philip Baggaley, "Reparations, Security, and the Industrial Disarmament of Germany: Origins of the Potsdam Decision" (Ph.D diss., Yale University, 1980), i.

recognition that the "State" group was predisposed to cooperation and collaboration.

It is not difficult to imagine the positions taken by each "group" on the Bretton Woods agreements. The "State" group would welcome the guaranteed price and place of gold, observe that key concessions granted by the U.S. demonstrated fair and honest dealing, argue that participation was a necessary precondition to secure a large American postwar loan or credit, and point out that the IBRD was specifically formulated for the Soviet Union's special situation.

The criticisms of the "Party" group and Voznesenskii are just as easy to imagine. Capitalism needed to gain access to the Soviet market to stave off the inevitable postwar economic crisis and unemployment. There were no equitable capitalist institutions, only exploitative ones. Soviet gold was too precious to be entrusted to a capitalist institution; rubles had not and should not be subject to any foreign control or oversight. There was no ideological precedent or justification for ratification, while the planning mechanism offered the true socialist path to reconstruction. While this debate continued in the Soviet Union, ratification moved forward in the West.

It is only with this background and the peculiar perspective of Moscow that we can understand the impression made by American businessmen who met with Stalin during the war. In October 1943 Donald Nelson, earlier of Sears Roebuck and recently "retired" from the War Production Board, met with Stalin. Nelson expressed the belief that after the war the United States would have large surpluses of capital goods and machinery that the Soviet Union could use. Nelson's proposition was understood in ideological terms as an admission that another crisis of capitalism was looming and that the controlling position was held by the Kremlin. It was not a matter of the United States helping the war-damaged Soviet Union rebuild, but the Soviet Union saving the United States from massive unemployment, underproduction, and depression if not revolution. In June 1944 when Eric Johnson, president of the Chamber of Commerce, met with Stalin to discuss postwar trade, Stalin assumed that Johnson came as supplicant and believed Soviet orders for postwar delivery would be granted extremely generous credit terms.[590]

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[590]For the Nelson and Johnson talks see Herbert Feis, Churchill, Roosevelt, and Stalin: The War They Waged and the Peace They Sought (Princeton: Princeton University Press, 1957), 641-645.

The Bretton Woods Agreements Ratified

It is difficult to characterize accurately the events and maneuvers surrounding the ratification of the Bretton Woods agreements by Congress in the summer of 1945. Taking the final votes as an indicator, it would appear that approval was easily gained and uncontested, the House voting 345 to 18 in favor, the Senate 61 to 16. However this would not reflect the enormous effort made by Treasury, the administration, and Democrats in Congress to secure public support and legislative approval.[591]

Truman, who was sworn in as president on April 12, 1945, at the death of Roosevelt, agreed with Morgenthau that the ratification effort should be bipartisan and understood as part of FDR's legacy and the necessary economic complement to the United Nations. Morgenthau used techniques Treasury had employed in its successful wartime bond drives and hired a public relations agency to galvanize public opinion. The effort was presented

[591]Accounts of this process can be found in Blum, Years of War, 427-436 and Van Dormael, Bretton Woods, 251-265. For an account of Democratic party management in the House see Richard Hedlund, "Brent Spence and the Bretton Woods Legislation," The Register of the Kentucky Historical Society 79 (Winter 1991): 40-56. 138 Republicans voted for approval in the House. There was an enormous effort made by Treasury to shape public and expert opinion before Congress considered the Bretton Woods agreements. Much of this can be found in the Morgenthau Papers at the Franklin Roosevelt Presidential Library at Hyde Park, New York. For an insiders view of Treasury's public relations effort see Roman L.

as nonpartisan, technical, and good for American business. The Treasury connection was kept to a minimum; "the Treasury is suspect. The Treasury is New Deal looney."[592]

House and Senate committees heard testimony supporting and opposing ratification. White ably defended the agreements in the face of partisan and hectoring questioning. But even White could not fully and clearly explain the provisions or contradictions in the agreement documents. Opposition testimony dwelled on the fact that the great demand for gold-backed dollars and the large supply of "bad paper" money would result in America "throwing money down a rathole." Only one witness addressed the possible impact of Soviet participation in the Bank and Fund. John H. Williams, a "key currency" proponent, testified that the real problem was blocked sterling balances and the transition from a war to a peacetime economy. When prodded by Senator Robert Taft, an Ohio Republican, Williams stated that the Soviet Union did not belong in the agreement as there was no free exchange or real

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Horne Oral History, Harry S Truman Presidential Library, Independance Missouri.

[592]Van Dormael, Bretton Woods, 240-250. Quote is from a public relations specialist hired by Morgenthau to "sell" the agreements. Ibid., 246. There is a tremendous amount of untapped material on this topic in the Morgenthau Papers at the Roosevelt Presidential Library.

valuation for the ruble, and that the Soviet balance of payments was not subject to free action. The Fund could be used to secure a no-interest loan up to the amount of the Soviet quota. Senator Eugene Millikin, a Republican from Colorado, interjected that a state-trading nation should not be allowed in the Fund, and Williams agreed.[593] Little concern was expressed on Soviet participation, due, no doubt, to its small contribution to world trade or monetary instability. While in July 1945 Morgenthau could look with justifiable pride on "the single most important act that Treasury had sponsored during his tenure," without ratification from Parliament and the Kremlin, Bretton Woods would arrive stillborn and some other solution to international monetary problems would have to be found.[594]

The story of British ratification has much in common with the American story, but a key difference was that London was put on notice that ratification was a prerequisite for the much-sought postwar loan. Parliament and British financial planners had to weigh the advantages and disadvantages of participation. The

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[593]United States Senate. Committee on Banking and Currency. Bretton Woods Agreement Act: Hearing on H.R. 3314. 79th Cong., 1st. sess., (Washington, D.C.: GPO, 1945), 252-253.

[594]Quote from Blum, Years of War, 436.

Churchill government waited to hold debates on the issue until Congress had acted. There was a large and vociferous group opposed to the plans, including the conservative Empire bloc, the financial press, and those in Labour Party who feared deflationary pressure from the Fund. The Churchill wartime coalition government was replaced by a Labour government in July 1945 without ever having presented the agreements to Commons.[595]

In this period Keynes made a number of trips to Washington to negotiate “Phase II” agreements to cover lend-lease deliveries to Great Britain after the defeat of Germany and until the defeat of Japan.[596] Although the British knew that lend-lease legislation stipulated that at the end of hostilities with Japan all shipments would immediately cease, they were not prepared for this step to be carried out. The British government was faced by a serious financial crisis, even bankruptcy, when this was done in August.

New Prime Minister Clement Attlee hoped Keynes could secure a $5 billion line of credit from Washington to bridge the immediate postwar crisis. Keynes now faced Secretary of Treasury Fred Vinson, who

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[595]Van Dormael, Bretton Woods, 268-271.

[596]Blum, Years of War, 316-326.

had replaced Morgenthau after his July resignation.[597] After a somewhat acrimonious beginning, an "Anglo-American Financial Agreement" was reached on December 6. In return for a $3.75 billion loan Britain had to agree to ratify Bretton Woods and allow sterling to be fully convertible within a year.[598]

For Keynes the choice was fairly simple, "a Fund for a Loan." The Labour Party and Attlee had great misgivings, but the alternative was a closed sterling bloc-Empire-Commonwealth area that guaranteed neither adequate resources nor the participation of its putative members. Keynes counseled that while ratification was risky, the Americans had proved reasonable in negotiations and were unlikely to want a financially crippled Britain.[599]

Attlee combined the Bretton Woods agreements, the Anglo-American Financial arrangement, lend-lease settlement, and an employment measure, and presented it as a package to Commons. Little time was allowed for

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[597]Morgenthau's resignation was the product in part of his fatigue and his wife's illness. However the primary reason was that Truman wanted his own supporters in the administration, and Morgenthau was too closely identified with FDR. The proximate cause was who was to accompany Truman to the meeting with Churchill and Stalin at Potsdam. A contributing factor was that as there was no vice-president Morgenthau was second in line to succeed Truman to the presidency after Secretary of State Byrnes, and both Byrnes and Truman were to fly to Potsdam. See Ibid., 464-475.

[598]Van Dormael, Bretton Woods, 271-275.

debate, contrary to earlier promises, and the opponents of the agreements were unable to present their case effectively. The large Labour majority coupled with the insistence that party discipline be maintained resulted in the approval of the combined package by a 314 to 50 majority. Keynes himself supported ratification in Lords, and after some debate the motion was easily carried. Less than two weeks before the deadline for ratification Great Britain agreed to enter the IMF and IBRD.[600]

On December 27, 1945, representatives of 29 nations deposited their ratification agreements in Washington. In November only the U.S., the Union of South Africa, and Venezuela had been prepared to enter the agreements. The other nations were waiting for Britain's decision, and when it accepted they quickly followed. No word was heard from the Soviet Union, but State and Treasury officials "were inclined to believe that the Soviet Union would act before the Tuesday deadline."[601] A report from Moscow stated that Molotov,

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[599] Ibid., 275.

[600] Ibid., 281-285.

[601] "Expect USSR Action on Bretton Pacts," New York Times, December 29, 1945.

“suddenly cooled” to the subject of ratification.[602] Inquiries by State to Moscow on the status of ratification were answered by the observation that the Kremlin had not yet sufficient time to study the proposals.[603]

Only quite recently have documents become available that cast some light on the Kremlin’s decision not to ratify the Bretton Woods agreements. Just before the ratification deadline in December 1945, the Commissariats of Foreign Trade and Foreign Affairs recommended ratification and had drafted the necessary legislation. Among the reasons given for ratification were to monitor the activities of other nations; to defend the Kremlin’s interests; to gain access to reconstruction loans, credits, and the gold market; and to preempt the impediment to loans of the Johnson Act. Among reasons given not to participate were that it might be construed as a sign of weakness, the liability inherent in the Bank quota, the possibility of gold being alienated through “technical operations,” and

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[602] Ibid. Molotov was encouraged by some of the American delegates attending the Moscow Foreign Ministers Conference to act quickly on ratification.

[603] See Mikesell, “Negotiating,” 114, Oliver, International Monetary, 222-224, and Horsefield, Chronicle, 116-118.

that better terms might be offered to induce participation at a later date.[604]

Harold and Marzenna James suggest that the primary reason for withholding ratification was to strengthen the bargaining position of the Soviet Union in the ongoing loan negotiations. They also note that Stalin was considering a currency reform at this time and the issue of ruble valuation was in flux. A draft memorandum dated December 26, 1945, and sent to Molotov supports this view. Two alternative ruble valuations are suggested, either 5.3 rubles or 12 rubles to the dollar.[605] The James' also note that as "the secrecy of economic information" increasingly became a mania of Stalin's, the "minimum information" requirements of the agreements appeared intolerable.[606]

Clearly no decision on ratification of the Bretton Woods agreements had been made by late December 1945, when Stalin considered the policy recommendations

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[604]Harold James and Marzenna James, "The Origins of the Cold War: Some New Documents," The Historical Journal 37 (1994), 618-622.

[605]"Materials from the collection of the Economic Section of the Ministry of International Affairs," Ibid., 620-622. The memorandum was signed by both V. Gereshenko of the Commissariat of Finance, under Sverev, and A. Arutunian of the Commissariat of Foreign Trade, under Mikoyan. It should be noted that A. Arutunian, "consultant to Foreign Affairs," was a member of the Soviet delegation to Bretton Woods.

[606]Ibid., 615-618. For Gaddis these documents demonstrate the commitment of the United States to real multilateralism and Stalin's suspicion and mistrust. Gaddis, We Now Know, 191-194.

forwarded to him. We do not have a document in which Stalin expresses his opinion, but by the December 31 deadline Molotov informed American chargé George Kennan that the Kremlin was not ready to ratify the agreements "at this time."[607]

The decision came just before Stalin's "election" speech of February 9, 1946. While there is much disagreement over the intended audience and calculated purpose, the speech was less "revisionist" in tone than Stalin's wartime pronouncements.

> The war broke out as an inevitable result of the development of the world's economic and political forces on the basis of contemporary monopoly capitalism. Marxists have more than once pointed out that the capitalist world economic system contains in itself the seeds of a general crisis and of warlike clashes.[608]

However the dominant theme was that military victory demonstrated the strength of the Soviet system and vindicated Stalinist industrialization efforts and the planning mechanism. His comment that "miracles" did not occur in economic development could be understood as a rebuke to the "voluntarist" position. From a contemporary perspective this speech could be read as an effort to balance the competing approaches of the "State" and "Party" groups. However for some

[607]James and James, "The Origin of the Cold War," 617.

[608]Quoted in McCagg, Stalin Embattled, 217.

Western observers the speech appeared to signal a return to the militant anti-capitalist rhetoric of the 1930s, or even the "Declaration of World War III."[609]

Both State and Treasury shot off requests to the American embassy to provide more information and background on the recent developments in Moscow. In an effort to answer these inquiries, chargé Kennan drafted his famous "long telegram" examining the sources of Soviet behavior and the failings of American policy.[610] He argued that the Soviet Union would return to "autarchy" and was not interested in "general economic collaboration among nations."[611] In his memoirs Kennan recounted that

> . . . nowhere in Washington had the hopes entertained for postwar collaboration with Russia been more elaborate, more naive, or more tenaciously (one might almost say ferociously) pursued than in the Treasury Department.[612]

[609]This speech has received a tremendous amount of attention, and quite divergent interpretations. See Yergin, Shattered Peace, 166-168, Feis, From Trust to Terror: The Onset of the Cold War, 1945-1950 (New York: W.W. Norton, 1970), 75-76, Taubman, Stalin's American, 133-135, and McCagg, Stalin Embattled, 217-218. The quote is from Yergin, Shattered Peace, 167.

[610]Every historian of Soviet-American relations has considered the "long telegram." For example see Yergin, Shattered Peace, 168-171, and Pollard, Economic Security, 53-54.

[611]Gaddis, We Now Know, 193-194.

Varga and Allen

Although Stalin's "election" speech seemed to indicate that "revisionism" had been cast aside, other signs suggested that there still was a basis for mutually beneficial economic cooperation. The Litvinov-Maiskii-Varga "revisionism" could still find a hearing. In 1946 Eugen Varga published a book in which he fully and systematically developed ideas he had presented in journal articles during the war. He suggested that the Leninist interpretation of the inevitability of the "general crisis of capitalism" and conflict with socialism should be modified or abandoned.[613] Varga argued that capitalism had been transformed by the war and some capitalist states were no longer controlled by "monopolists," but rather the state now controlled them. Wartime state intervention in the economy was understood as a progressive and positive step that could lead to the transformation to socialism. Less emphasis was placed on the inevitable conflict between "imperialist" nations. A new theory of decolonization was advanced that left room for peaceful attainment of

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[612]George Kennan, Memoirs, 1925-1950 (Boston, Little, Brown and Company, 1967), 292-3.

[613]Eugen Varga, *Izmeneniia v ekonomike kapitalizma v itoge vtoroi mirovoi voiny* (Moscow: n.p., 1946). The translation appeared as

independence, though Varga noted that economic independence was unlikely to be won.

Of particular interest is Varga's suggestion that the eastern European states would be "democracies of a new type." Rather than an immediate transformation to socialism or communism, a mixed economy in which nationalized industry exists alongside private property was foreseen, though Varga took pains to indicate that Labour's Britain was not a democracy of a "new type."

Varga, in common with orthodox Marxists and many westerners, believed that a crisis of overproduction loomed for the United States and other industrialized nations. He also noted there would be a crisis of underproduction in war-ravaged Europe. But rather than read this as a sign of "the crisis of late capitalism," Varga thought that the United States could stave off this "depression of a special type" through credits, loans, and industrial exports. The Soviet Union stood ready to help the U.S. stave off the crisis of overproduction by accepting industrial exports. A fruitful and mutually beneficial trade could be established between the nations.

Surely this book would not been released had Stalin already completely rejected all forms of

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Eugen Varga, Marxism and the General Crisis of Capitalism (Bombay:

cooperation with the West. While there can be disagreement whether Varga originated or simply transmitted these ideas, Varga's book offered ideological justification and a set of phrases, slogans, and clichés useful for those who supported continued cooperation with the West.

It is unclear if the work was aimed primarily at foreigners or was directed to the domestic audience, as it was not immediately translated. Perhaps it was unnecessary to translate Varga's "revisionism" as virtually identical arguments appeared in a 1946 book under the authorship of James Allen. As previously noted, Allen was the foreign affairs editor of the Daily Worker and contributor to other CPUSA publications. In World Monopoly and Peace Allen presented the Varga position. The "trend towards greater government intervention in the economy accumulates the elements for the complete negation of monopoly capitalism. Production has become largely social" Production was directed by technicians and managerial specialists and not entrepreneurs. Monopoly capitalists recognized their inadequacy confronted by the new, larger, and more complex production units. Through state direction and management "control" and

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People's Publishing House, 1948).

eventual "elimination" of monopoly capitalism could be achieved. A coalition of anti-fascist and democratic forces could eliminate "the effective centers of private monopoly" in a state. Quoting Lenin at length, Allen concluded that "state monopoly capitalism can become progressive" under the proper circumstances.[614]

Varga's concept of "new democracies" was also presented at some length by Allen. Coalitions of peasants, democrats, and workers had established new regimes in eastern and central Europe, "not capitalist governments of the old type" or socialism. These regimes were working to establish democracy and end fascism and feudalism. Expropriation and nationalization were used to eliminate fascist-collaborationist centers, not as a means of socialization of the economy. "As a whole, capitalist relations of production continued, within a mixed economy in which state enterprise and state regulation play a central role."[615]

Allen recognized that there were still many groups and individuals who opposed and resisted "the forward movement of nations to socialism," but he implied that

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[614]James S. Allen, World Monopoly and Peace (New York: International Publishers, 1946), 254-258.

[615]Ibid., 258-267.

a peaceful transition to a “higher” form of society was possible given the transformations to capitalism caused by the war. The remarkable parallels in subject matter, treatment, and tone leads one to the conclusion that either Allen read extracts of Varga in some form, or Varga’s ideas were transmitted through some mechanism to Allen.[616] In either case in the spring of 1946 the ideological justifications for cooperation with the West and “capitalism” were still allowed to be advanced.

A second indication that Soviet policy was still in flux is the request by the Czechoslovak delegation for a resolution to extend ratification for founding member status to December 1946. This was done at the inaugural meetings of IMF and IBRD board of directors held in Savannah, Georgia, in April 1946. The U.S. invited the Kremlin to send an observer delegation to the meeting. Moscow detailed two low-level Soviet officials already in the United States, Professor F. P. Bystrov, of the Soviet Purchasing Mission who participated in 1944 Washington technical talks and

[616]There are no index entries for “Varga” in the Allen book. Throughout most of 1945 and into early 1946 a struggle took place over Browder’s “revisionism.” Browder was replaced by William Z. Foster as party leader and the “Communist Political Association” dissolved. For this episode see Starobin, American Communism, 107-120. For the influence of Moscow in the replacement of Browder see Harvey Klehr, John Earl Haynes, and Kyrill M. Anderson, The Soviet World of American Communism (New Haven: Yale University Press, 1998).

Bretton Woods, and Dr. D. L. Dolotov, an economist in the Purchasing Mission. The status of the observers may suggest that the Kremlin did not attach great importance to the meeting, but on the other hand the extension proposed by the Czechs indicates some level of interest in eventual participation. The Czechoslovak proposal was easily passed, and the administration hoped the Kremlin would enter the IMF and IBRD before the extended deadline.[617]

However the Kremlin did not send even an observer delegation to the first meeting of the Fund's board of governors held in Washington in September 1946, and by 1947 the Kremlin began to denounce Bretton Woods as one of the tools of capitalist exploitation.[618]

By this time Morgenthau was two years away from Treasury, and White was employed as the American executive director of the International Monetary Fund. Both men were proud of their great accomplishment in establishing the Bretton Woods institutions and creating the basis for international economic and monetary cooperation. But both must have felt that their accomplishment was not complete as they were not able, or the Kremlin was not willing, to establish

[617]See Mikesell, "Negotiating," 114, and Oliver, International 224.

[618]Oliver, International, 224.

close and cooperative economic relations that could serve as a basis for peaceful and cooperative postwar relations between the nations.

CHAPTER 10

TREASURY POLICY ASSESSED:

HARRY DEXTER WHITE AS HISTORY

White, Morgenthau, and Treasury had the unenviable task of translating the rhetorical generalities of "Rooseveltian internationalism" into a plan that could prove acceptable to London, Chungking, Moscow, and other capitals and also find approval and support in the American Congress. White had to produce institutions capable of providing benefits and utility for political economies as divergent as the colonial empires of Europe; the world's first, and sole, socialist-communist state; China wracked by revolution, war, and civil war; and his own nation which argued free trade but legislated protection.

FDR's pronouncements and assumptions on the postwar order were shaped by his youthful Wilsonianism, the propaganda demands of warfare in a modern democratic-industrial state, and an American "idealist universalism" that presumed a unique leadership role for the United States in international affairs.[619]

[619]For a recent and engaging reexamination of American foreign policy see Walter McDougall, Promised Land, Crusader State: The American Encounter With the World Since 1776 (Boston: Houghton Mifflin, 1997).

The framework sketched by Roosevelt included international cooperation and collaboration, collective security, multilateralism, and mutually beneficial economic and trade relations based on equal access to markets and raw materials. In contrast to Woodrow Wilson and his Republican predecessors FDR believed that the Soviet Union would play an important part and prove a willing partner in the international order. Through continual demonstrations of American friendship and good will the suspicion and hostility that clouded relations between the nations could be dispersed.[620]

It was up to Harry White to translate these generalities and rhetorical turns into a practical set of proposals and mechanisms. White fully shared the assumptions of "Rooseveltian internationalism" as did Morgenthau and the Treasury. Surely White must have recognized that the American goals of "freer" trade, equal access to markets and materials, and fixed exchange rates and convertible currencies were

[620]Dallek and other sympathetic to FDR's foreign policy see him as a pragmatist and realist hobbled by public opinion. For another view in this vein see Kimball, The Juggler, especially 21-42, 159-184. For a slightly more critical view see Bennett, Search for Security, especially xiii-xvii, 189-195 and Edward Bennett, Franklin D. Roosevelt and the Search for Victory (Wilmington, Del.: Scholarly Resources, 1990), especially xxi-xxvii, 183-188. For a more critical view see Perlmutter, FDR and Stalin, especially 211-218, "President Roosevelt as a Diplomatic Failure." For an extremely critical view see Robert Nisbet, Roosevelt and Stalin: the Failed Courtship (Washington, D.C.: Regnery Gateway, 1988), especially 91-110 in which Nisbet examines FDR's new

completely incompatible with the Soviet economy as recast by Stalin and the Five Year Plan. The Kremlin's trade policy, as was well known and advertised, was a function of import requirements, and "free" trade simply irrelevant. The same can be said of fixed exchange rates and currency convertibility. The ruble played no part in the monetary difficulties of the interwar period and was not a trading currency. It was illegal to import or export rubles and the exchange rate was arbitrarily assigned and did not reflect its "market" value as demonstrated by the existence of a black market exchange rate.[621]

White's hopes of economic, trade, and monetary collaboration were based on two assumptions, that the tremendous postwar reconstruction needs would force the Kremlin to modify or end the pretensions of autarky and that the IMF and IBRD could be formulated in such a way that the Kremlin would detect no threat, and much advantage, in the new international monetary regime. The former assumption contributed to the linking of eligibility for postwar loans or credits to

departure in "Wilsonianism." For a scathing critique of the entirety of FDR's foreign policy see Marks, Wind Over Sand.

[621]Chamberlin, Confessions of an Individualist, 140. For efforts to determine the exchange rate see Hawkey to Cochran, "Russian Ruble Exchange Rate," May 17, 1941, 360, Stabilization Records 1936-1942, Box 73 File: FBI, OASIA. Also see "Memorandum for the Secretary," April 6, 1942, MD 513:371-372.

ratification of the Bretton Woods agreements. This strategy worked with Great Britain. Attlee's government and Keynes were not convinced that ratification was in the national interest, but they recognized that ratification was the price to be paid for access to badly-needed capital and the settlement of financial obligations connected with lend-lease. This strategy did not work with the Kremlin; instead, Stalin saw linkage as an unacceptable condition and turned to reparations, domestic resources, and forced labor through the Gulag to accomplish reconstruction without American loans or credits.[622]

White chose to deal with directed trade and notational currency under the rubric "state-trading nation." This proved valuable in two ways, it papered over the incompatibility of the Soviet trade and monetary system with the principles of the IMF and "internationalism" and suggested a possible point of contact between the very different, if not antipathetic, economic systems. During the war it was assumed that the extensive control of some commodities that the American and British governments exerted would

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[622]For reparations see Naimark, Russians in Germany. For forced labor see Edwin Bacon, The Gulag at War: Stalin's Forced Labor System in the Light of the Archives (New York: New York University Press, 1994) and William Nimmo, Behind a Curtain of Silence:

be extended and perhaps widened. This then would be a species of "convergence," the operating Soviet "state-trade monopoly" being joined by the state commodity monopolies of Labour Britain or Fair Deal America.[623]

White was successful in his effort to use "state-trading" as the justification for the many concessions granted the Kremlin and as the means of explaining how an autarkic economy would in engage with open economies. Keynes clearly and promptly pointed out the paradox of the U.S. position, that is, how state trade could be non-discriminatory.[624] One can easily see how had the Soviet Union ratified the agreements this would have engendered constant conflicts, disagreements, and disputes. What sort of calculus would the IMF, or the U.S. Treasury, employ to determine if the prices of Soviet exports were fair and non-discriminatory? Would producers and interests facing price competition from Soviet exports accept the judgments of either body? Would the Kremlin offer requested financial information? How could any calculations take place in the light of the Kremlin's right to unilaterally adjust

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Japanese in Soviet Custody, 1945-1956 (New York: Greenwood Press, 1988).

[623]"I believe the future lies with (i) State trading for commodities." Keynes quoted in Harrod, Life of Keynes, 568. Alvin Hansen was a tireless promoter of state commodity corporations.

[624]Keynes, The Transition to Peace, 422.

the exchange value of the ruble?[625] White probably would have better served his purpose had he chosen a less ambiguous locution to describe the Soviet system and link to the Soviet economy. But of course this points to difficulties that could not be papered over, the mutual incompatibilities of fundamentally different economic systems. This observation does not assume the inevitability of conflict, but does presume a certain amount of friction and difficulties forging close and intimate cooperation. Only in the Unites States under the influence of "idealist internationalism" would the presumption be made that linking the two economic systems was a matter of finding a few points of contact and a suitable incantation.

White placed his best hopes for Kremlin approval on the gold nexus. This was not a new departure but simply reflected the operations of the interwar period and the generally held assumption that the Soviets possessed a large gold reserve and the potential for

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[625]Article IV Section 5 (e) states that a "member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund." Horsefield, Documents, 190. In June 1953 Czechoslovakia invoked this article and announced a change in the value of the koruna from 50 to a dollar to 7.2. The Board objected on procedural grounds and requested additional information. After a series of maneuvers and negotiations Czechoslovakia withdrew its Fund membership in May 1955. See Horsefield, Chronicle, 359-364, idem, Documents, 63-65, and Frank A. Southard Oral History, 37-38. Truman Library.

increased gold production. White told Soviet representatives that it was in the Kremlin's interest to secure the value of its gold through participation in the IMF.

Surely White was aware that while gold had been the link between the Kremlin and the capitalist world, Treasury's experience had demonstrated the difficulty of establishing gold as a permanent link between the nations. Gold reserves were "a military secret," the size of the reserve had been exaggerated for political purposes, and efforts to forge cooperation on gold movements and sales were rebuffed. Was it ingenious to predicate Soviet participation in the IMF and IBRD on gold, and in particular in a large gold reserve, in the light of the dislocations caused by the purges and war? Did the reserve grow in the late 1930s to the neighborhood of $2 billion from the $300 million that backed the currency in 1932? How much gold had the Soviets exchanged in the 1930s for their military program or to pay trade deficits?[626]

There are some indications that White, after negotiating with Soviet technicians, placed less emphasis on gold after the spring of 1944. In January

[626]It is particularly puzzling that <u>during the war</u> Treasury estimated that Soviet gold reserve almost doubled, "less than $1 billion, and probably closer to 500 million," (Feb. 1940) to White's figure at Bretton Woods of "between $1.5 and $2 billion."

1944 White suggested terms for a $10 billion postwar Soviet loan. Repayment was to be effected by the delivery of certain "strategic raw materials." As an added guarantee White suggested that gold could be sold for dollars or transferred to make up any shortfall. In a March 7, 1944, memo on the proposed Soviet loan White dropped the gold safeguard, probably due to the reticence of the Soviet technicians to supply any information on gold and perhaps also to the dawning realization that the Soviet gold reserve was much smaller than estimated.[627]

White and Treasury could be criticized if they alone argued that the large Kremlin gold reserves would serve as a link to the capitalist economies. But Ambassador Harriman and John Maynard Keynes also believed that the Kremlin controlled a large gold reserve.[628] Keynes dismissed talk of Soviet postwar financial difficulties with the observation that the Kremlin had much larger financial reserves than Great

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[627]White to Morgenthau, "Proposed Loan to the USSR," March 7, 1944, Box 7, File 23a, White Papers, Princeton.

[628]"As far as the Russians were concerned, I felt the reverse; they had adequate gold, if they wanted to buy, and they weren't dependent on international trade. I felt they were more self-sufficient . . . we went to the Golena [Lena?] gold fields, Wallace discovered a dredge which was supposed to have been given to the Russians to deepen on of the harbors in the Pacific. But we found the Russians using it to dredge for gold." Harriman Oral History, p. 4, Harry S Truman Presidential Library, Independence, Mo.

Britain.[629] White and Treasury placed perhaps too much emphasis on the efficacy of gold as a link given the secrecy and uncooperative attitude demonstrated by the Kremlin in the 1930s. The same can be said of the information provisions of both the IMF and the IBRD. Nothing in the previous experience with the Kremlin suggested that information would be willingly shared or that if furnished could be considered trustworthy.

White might have considered that the Kremlin could benefit by the Bretton Woods system without formally entering into the agreements. As White emphasized to Soviet representatives and Varga also recognized, Bretton Woods would establish a gold bullion standard with the dollar price of gold guaranteed at $35.00 an ounce. Without ratification the Kremlin could still sell its gold at the world price and in addition maintain its freedom of action and independence that surely would have been limited had the Kremlin entered the IMF.

Something must be said of the attitude of Secretary Morgenthau on negotiations with Soviet representatives. He had an antipathy to “horse-trading” or “bargaining” with the Soviets that he did

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[629]Keynes, The Transition to Peace, 9, 37, 57ff., 366-367. Keynes estimated the Soviet gold reserve between £1 billion to £500

not demonstrate with the representatives of other nations. In fact one can argue that the economic, financial, trade and monetary negotiations between London and Washington from 1939 on were defined by hard bargaining, haggling, disputes, ill-feeling, and “horse-trading.” By the end of the war each understood the other’s position and were able to fashion mutually beneficial and acceptable economic, trade, and monetary cooperation both in and outside of Bretton Woods.

The same cannot be said of the administration and the Soviet Union. Without examining in detail FDR’s Soviet policy, it is clear that very little pressure of any sort was placed on the Kremlin during the war to conclude agreements, to fulfill agreements already made, to provide needed military technical, financial, even meteorological, information or cooperation. The whole FDR’s Soviet policy might be characterized as “unconditional aid,” the term used to describe American lend-lease policy and the Soviet Union.[630]

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million, or between approximately $4.8 and $2.4 billion! Ibid., 57.

[630]For lack of cooperation during the war see John Deane, The Strange Alliance (New York: The Viking Press, 1946). For Soviet abuse of American hospitality see George Racey Jordan, From Major Jordan’s Diaries (New York: Harcourt Brace, 1952). For “unconditional” lend-lease aid see Herring, Aid to Russia, 25-79, Hubert van Tuyll, Feeding the Bear: American Aid to the Soviet Union, 1941-1945 (New York: Greenwood Press, 1989), and Robert Huhn Jones, The Roads to Russia: United States Lend-Lease to the Soviet Union (Norman: The University of Oklahoma Press, 1969).

Morgenthau apparently believed that through continued demonstrations of American good intentions, affability, accommodation, and benevolence the Kremlin could be slowly coaxed out of its cocoon of suspicion and distrust. The Secretary appears to have been out of his depth in negotiations with Soviet representatives and was by turns frustrated and bewildered by Soviet actions and statements. White was more ready to engage in "haggling," but as instructions from the Kremlin left little room for maneuver, this approach did not promise much success either. White, Morgenthau, and FDR hoped that Stalin would ultimately recognize that cooperation on the terms offered by Washington was in the national interest of the Soviet Union and choose long-term cooperation with the promise of future benefits over immediate gains. While Treasury's relations with the Kremlin was very much consonant with "New Deal" assumptions on the Soviet Union, it also reflected a peculiarly American approach to international relations and diplomacy, a liberal universalist idealism, the antipode of "realpolitik."

Finally the issue of White and espionage must be reexamined in the light of material that has recently come to light. The charge that the Bretton Woods institutions were part of the "subversive web" woven by the "interlocking Communist conspiracy" is difficult to sustain and was clearly partisan.[631] Too many people for too long a period of time scrutinized, debated, redrafted, and modified the original White Plan for this to have been a potential vehicle for subversion. The IBRD was a more useful institution for the Soviets, but its charter was the work of the State Department, and contemporaries agreed that White thought the Bank a subsidiary and secondary institution. White had little influence on the Bank draft of the final act.[632]

Bretton Woods was designed to aid the Soviet Union, but as a component of the very public "Rooseveltian internationalism" and not a clandestine scheme. There is no information from Venona or the Soviet archives that supports the contention that White "took orders" from Moscow in formulating the IMF and IBRD. The inspiration for the Fund and Bank are clear from the American archival record and contemporary economic debates.

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[631]The "interlocking conspiracy" charges were a Republican effort to expand on the testimony of Chambers, Bentley, and other ex-communists to demonstrate Communist subversion in the administration of FDR. See U.S. Congress. House. Communist Espionage in the United States Government and Interlocking Subversion in Government Departments. Also see Craig, "Treasonable Doubt," 267-300. However in a sense there was an "interlocking" conspiracy as all information supplied by government employees ended up in the Kremlin.

[632]Oliver, Early Plans, 15-27.

While this sort of “espionage” may be ruled out, another “species” of espionage clearly took place. White knowingly supplied oral reports for transmission to the Kremlin, and employees of the Division of Monetary Research in Treasury delivered documents and information to the Soviet Union during 1941-1945. At the very least the entire Bretton Woods process and American-Soviet monetary and financial relations were “corrupted” or “compromised.” From the Washington technical negotiations through the United Nations Monetary and Financial Conference to the ratification maneuvers Stalin played not only his own cards, but as Morgenthau would have put it, he knew his opponent’s hand as well. If “espionage” is the unauthorized transmission of information, then White and others are guilty of it.

In the “Venona” material nine people, besides White, employed at the Division of Monetary Research between 1938 and 1945 are identified as supplying documents or information to the Soviet Union: Solomon Adler, V. Frank Coe, Sonya Gold, Harold Glasser, Victor Perlo, Abraham G. Silverman, Nathan Gregory Silvermaster, William H. Taylor, and William Ludwig Ullmann. In 1947 the Justice Department forwarded to

Treasury the names of six additional individuals to be investigated.[633]

The Venona materials show that in 1944-1945 White furnished oral reports on American financial, monetary, diplomatic, and political policy and planning, and that other individuals supplied the Kremlin with a wide range of government documents and information related to international monetary and financial affairs and political and diplomatic intelligence. Among materials furnished to the Kremlin were policy planning on reparations, the terms of the proposed loan to the Soviet Union, and occupation currency proposals and policies.[634] Just after the conference at Bretton Woods White gave a wide-ranging oral report based on

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[633]See Craig, "Treasonable Doubt," 154-215, Haynes and Klehr, Venona, 116-163, Weinstein and Vassiliev, Haunted Wood, 153-171. Also see January 13, 1947, File: Justice to Treasury, Box 7, Spingarn Papers, Harry S Truman Presidential Library, Independence, Missouri. They were Joseph Friedman, J. Randolph Feltus, John Dierkes, Irving S. Friedman, Henrietta Klotz (Morgenthau's personal secretary), and Leonard Nierenberg. Stephen J. Spingarn was a lawyer who served a variety of government and military posts. He was employed by the Treasury 1934-1941 and between 1946 and 1949 he served as "Special Assistant to the General Counsel of the Treasury." He was the Treasury liaison with Justice for the internal investigation carried on the late 1940s and also served on Truman's Temporary Compassion on Employee Loyalty. His four volume oral history at the Truman Library is a useful source for the atmosphere of the time and portraits of various characters, but offers little of substance on the issue of espionage.

[634]See New York-Moscow, #1119-1121, August 4-5, 1944, National Security Agency, Third Venona Release: Volume 2, (Fort Meade, Maryland: National Security Agency, March 1996), 13-16. New York-Moscow, #1271-1274, September 7, 1944, Ibid., 112-115. New York-Moscow, #83 January 18, 1945, National Security Agency, Third Venona Release: Volume 3, (Fort Meade, Maryland: National Security Agency, March 1996), 45-47.

information gleaned from the highest levels of the administration, the cabinet, and the White House.[635] White also reported a number of times from the San Francisco Conference organizing the United Nations on American negotiating strategy and general political matters.[636]

It must be noted that the Venona cables represent the administrative and communication apparatus of Soviet intelligence gathering in the United States and not the means of intelligence transmission. Documents were microfilmed and then the film transported to the Soviet Union. Only in certain cases can Venona show <u>what</u> was delivered, but it can show <u>who</u> delivered intelligence material and sometimes offers an assessment by the NKVD controllers or headquarters on the value of the information or agent.[637]

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[635]New York-Moscow 1119-1121, 18 August 4-5, 1944, National Security Agency, <u>Third Venona Release: Volume 2</u>, 17-18.

[636]Moscow-New York, #328 April 6, 1945, <u>Third Venona Release: Volume 3</u> and New York-Moscow #781-787, May 25-26, 1945, <u>Third Venona Release: Volume 3</u>, 69-73. There is also the curious incident during the San Francisco Conference in which a letter addressed to White, "containing highly sensitive top secret information entirely out of White's field," was opened by another Treasury Department employee. The letter was passed on to government security agents. See John Parke Young Oral History, Truman Library, p. 58.

[637]As White did not at this time supply documents but only oral reports, Venona does show what he supplied. For the value of intelligence to the Kremlin see the exchange between New York and Moscow, National Security Agency, <u>Third Venona Release: Volume 2</u>, 168-170.

One assessment of the material obtained from Treasury has emerged from the Moscow archives. In July 1944 Pavel Fitin, head of NKVD intelligence and recipient of the Venona cables, wrote a memo to his superior Vsevold Merkulov, Commissar for State Security, complaining of delays in the translation and transmission of material. After describing microfilmed material on lend-lease and Treasury planning on post-war economic and financial relations with the Soviet Union, Fitin continued, [T]imely receipt by us of these materials could turn out to be very useful to the Instance and, particularly, for our delegation to the international currency-financial conference that is now taking place in the U.S."[638]

A second indication of the value of information coming to the Kremlin from Washington in this period is found in a document Beria sent to Stalin in November 1944. Attached to the document, but not yet declassified, is a list of nominees to "be decorated with orders of the Soviet Union" for "obtaining political, economic, technical, and military

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[638]Quoted in Weinstein and Vassiliev, Haunted Wood, 163-164. The authors almost surely misidentify the conference as Dumbarton Oaks. The "Instance: is identified by the authors as "Stalin and Soviet leaders." Ibid., 164. For the organization of the NKVD in this period see Center for Cryptologic History, Venona Historical Monographs 1-5, (Fort Meade, Maryland: Center for Cryptologic History. n.d.).

information."[639] Among the American citizens nominated were Elizabeth Bentley and "George Silvermaster" (sic), who recruited "a group of ten government officials working in Washington."[640]

An assessment of what "we know now" about White, Treasury, and the Kremlin must combine information from a variety of sources and varying credibility, but the general outline is quite clear. Harry Dexter White furnished some documents as early as 1935 but was not in direct contact with Whittaker Chambers until 1936. White supplied information of a general diplomatic, political, and economic character that he had access to in his mid-level position in the Division of Research and Statistics. Chambers testified that only on occasion would White supply documents for microfilming, mostly conveying oral reports while driving with Chambers. In March 1938 the Division of Monetary Research was established with White as its director. Chambers recalled that White "was one of his least

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[639]Vladimir Pozniakov, "A NKVD/NKGB Report to Stalin: A Glimpse Into Soviet Intelligence in the United States in the 1940s," Cold War International History Project Bulletin 10 (Washington D.C.: The Cold War International History project, March 1998), 220-222.

[640]Ibid., 221. It is not clear whether Nathan Gregory Silvermaster (cover name ROBERT) or Abraham George Silverman (cover name AILERON) is the intended honoree. Both ran espionage rings in Washington in the period. Silverman, known as George, was extremely close to White, "like a brother." Silvermaster, known as Greg, complained of White's special treatment to his controller

productive sources," but as director of Monetary Research White had access to all of the sensitive financial and economic information in Treasury's possession. White may have believed that Chambers took his reports to the leadership of the CPUSA but he also probably assumed they would eventually be transmitted in some form to Moscow. White probably did not know that Chambers reported directly to the GRU station in New York.[641]

When Chambers broke with the party in the fall of 1938, he "warned off" White, and White apparently made no effort to reestablish a link once Chambers disappeared. It appears that White "purged" his division after the Hitler-Stalin pact, replacing Harold Glasser, whose loyalty was suspect, with economists from outside government service, Frank Southard and Edward Bernstein. The Pact induced Chambers to contact the administration to warn that Americans in government service had supplied information to the Soviet Union that might now "leak" to Germany. White's name did not appear on the list "Underground Espionage Agent" taken down by Adolph A. Berle, but it did appear on a list

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and had intimate knowledge of White's personal life. See Craig, "Treasonable Doubt," 176-181, 201-215.

[641]This judgment is derived from the relevant portions of Chambers, Witness, Tannenhaus, Chambers, Craig, "Treasonable Doubt," Klehr and Haynes, Venona, and Weinstein and Vassiliev, Haunted Wood.

kept by Isaac Don Levine who arranged the meeting between Chambers and Berle.[642]

Sometime after June 1941, contact with White was reestablished and White began to supply information, if not documents, to Nathan Gregory Silvermaster. The "Silvermaster Group" microfilmed documents from Treasury and a number of other agencies and passed them to Elizabeth Bentley, who delivered them to Jacob Golos who sent them on to Moscow. Bentley's knowledge of White's activities came through her conversations with Greg Silvermaster, his wife Helen, and their lodger and document photographer "Lud" Ullmann. Bentley never met White or received documentary material that was purported to be from White.[643]

The FBI contacted Chambers in the fall of 1941 and at this time he mentioned that White had supplied information, but there is no evidence that White was put under surveillance at this time. In the spring of 1944 the FBI received a letter from Victor Perlo's

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[642]Berle was Assistant Secretary of State and the president's intelligence liaison. See Tanenhaus, Chambers, 159-163, Chambers, Witness, 463-474, Craig, "Treasonable Doubt," 81-82, and Isaac Don Levine, Eyewitness to History: Memoirs and Reflection of a Foreign Correspondent for Half a Century (New York: Hawthorne Books, 1973), 190-205.

[643]For Bentley see Bentley, Out of Bondage and Hayden Peake's "Afterword" in Elizabeth Bentley, Out of Bondage (New York: Ballantine Books, 1965), 217-330, and Craig, "Treasonable Doubt," 101-153. Nathan Gregory "Greg" Silvermaster (ROBERT), Helen Witte

former wife Katherine denouncing White and a number of other government employees, including her husband, as spies for the Soviet Union. Sometime in the fall of 1945 Elizabeth Bentley "defected," contacted the FBI, and charged that White, the Silvermasters, Ullmann, and a number of others were spying for the Soviet Union.[644]

At about the same time that Bentley "defected," Isaac Akhmerov, who replaced Golos as Bentley's contact after Golos' death in 1943, was recalled to Moscow, the "Silvermaster" and "Perlo" operations shut down, and White ceased to supply reports.[645]

From the fall of 1941, if not earlier, to the fall of 1945 the Kremlin was fully informed on lend-lease negotiations and planning, financial and monetary relations of the Allied, Axis, and neutral powers, planning for postwar loans or credits for the Soviet Union, and an enormous amount of general military, political and diplomatic information. Although we have no documentary evidence, there is no reason not to surmise that White kept the Kremlin fully informed on

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Silvermaster (DORA), and William Ludwig "Lud" Ullmann (PILOT) were all considered "agents" by Moscow.

[644]There are some indications that the FBI began some sort of surveillance of White in the summer of 1944 as a result of the Perlo letter. For the Perlo letter see Craig, "Treasonable Doubt," 102-105. For Bentley's "defection" see Peake, "Afterword," Bentley, Out of Bondage, and Craig, "Treasonable Doubt," 119-129.

[645]Weinstien and Vassiliev, Haunted Wood, 167-171.

Stabilization Fund planning, the Washington technical talks, and the Bretton Woods conference and the American negotiating position and strategy.

This insight demands that we completely reconsider the current account of economic, financial, and monetary relations between the United States and the Soviet Union during World War II. Before this new information came to light, the December 1945 Molotov explanation that the Bretton Woods agreements had not yet been ratified because "our experts have not yet had sufficient time to study the agreements" might have been accepted as accurate. We now know that the Kremlin had a close and intimate knowledge of Bretton Woods and that Molotov's statement is more an indication of uncertainty than ignorance.

One example of this is the issue of the postwar loan to the Soviet Union. This has become a prominent landmark in the various interpretations of the beginning of the Cold War. One group of historians see the "misplacement" of the Soviet loan request as evidence of either economic blackmail or acting in bad faith. Another group of historians emphasize the presumptuous manner in which Molotov virtually demanded the loan and the intimation that the Soviet Union would aid Washington by accepting the loan.[646] We now have evidence that the originator of the loan plan, White, counseled the Kremlin in January 1945 to await "more favorable conditions."[647]

Perhaps the most significant thing "we now know" is that Stalin in many ways was a prisoner of his ideology. He was fully aware that the Bretton Woods institutions were formulated in the spirit of "Rooseveltian internationalism" and that White, Morgenthau, and FDR were "accommodationists," but he still feared American economic "hegemony." In the last analysis Stalin seriously considered postwar cooperation along the lines drawn by Litvinov and Maiskii and argued by Varga, but ultimately decided to revive Leninist orthodoxy. Stalin weighed access to American capital against the repudiation of Leninism and ideology, but preferred the conservative course to a new departure or an "accommodation" of his own. By the late spring of 1946 Stalin decided to denounce

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[646]For an example of the former position see Paterson, Soviet American Confrontation, 33-56 and Kolko, Politics of War, 333-340. For the latter see Pollard, Economic Security, 35-53 and Feis, Trust to Terror, 71-75.

[647]New York-Moscow, #83, January 18, 1945, National Security Agency, Third Venona Release: Volume 3, (Fort Meade, Maryland: National Security Agency, March 1996), 45.

"revisionism" and revive orthodox Leninism.[648] As Vojtech Mastny has recently noted:

> Perhaps the greatest surprise to come out of the Russian archives is that there was no surprise: the thinking of the insiders conformed substantially to what Moscow was publicly saying. Some of the most secret documents could have been published in Pravda without anybody's noticing. There was no double bookkeeping, it was the single Marxist-Leninist one whose defects spelled the bankruptcy of the Soviet enterprise in the long run.[649]

We now know that Stalin knew more of Washington than Washington knew of Stalin.

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[648]Varga's "revisionism" was criticized in a series of meetings in 1947 in which Varga was forced to defend his wartime views and 1946 book. He ably defended himself but was forced to recant and the Varga Institute was merged into another institution. Varga survived this ordeal and later turned out more "orthodox" works. James Allen was also denounced by name for revisionism at these meetings. A translated transcript of these meetings is found in Leo Gruliow, trans., Soviet Views on the Post-war World Economy: An Official Critique of Eugene Varga's "Changes in the Economy of Capitalism Resulting From the Second World War" (Washington, D.C.: Public Affairs Press, 1948). This marked the triumph of Voznesenskii, Zhdanov, and the "Party" group. The economic dispensation appeared in the "voluntarist" book by Voznesenskii, The Economy of the USSR During World War II (Washington, D.C.: Public Affairs Press, 1948). Zhdanov died under somewhat mysterious circumstances in 1948 and Voznesenskii was shot after his conviction in the "Leningrad Affair" of 1949. At the death of Stalin Malenkov and Beria controlled the field and the fall of the "Party" group is surely in part their responsibility. For the struggle between Varga and Voznesenskii see McCagg, Stalin Embattled, 156-158, 276-293, the Leningrad Affair, 118-148. For Varga debate see Hahn, Postwar Soviet Politics, 67-70.

[649]Mastny, Cold War and Soviet Insecurity, 9.