

THE UNTOLD STORY OF ECONOMIC CONFLICT IN THE SECOND GREAT WAR:
BATTLE TO BRETTON WOODS, RHETORIC OF THE MARSHALL PLAN,
GEORGE F. KENNAN, JOHN MAYNARD KEYNES, AND
DISREGARDED ORIGINS OF THE COLD WAR

by

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ABSTRACT

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Reflecting back in his *Memoirs*, George F. Kennan, wrote that the document that propelled his career was dispatched after a telegram informed the U.S. embassy in Moscow that the “Russians were evidencing an unwillingness to adhere to the World Bank and International Monetary Fund.”¹ Kennan’s provocative narrative was published in 1967, more than two decades after he sent the famous *Long Telegram*. He published his *Memoirs* during the turbulence of the 60s, around the time President Johnson announced he would not seek re-election. By the time of publication, the Cold War narrative was entrenched in anti-Marxist rhetoric and any re-examination of the origin of the Cold War was subdued. Analysis of the *Long Telegram* in relation to World Bank remained unexplored. Two decades after Kennan published his *Memoirs* in 1986, the U.S. Government declassified a telegram he dispatched prior to the *Long Telegram* in January 1946. It was simply titled: “551 Bretton Woods Telegram.”

The origin of the Cold War was the Soviet decision not to join the World Bank. Negotiations for the Bretton Woods Agreement began in February 1942, when John

¹ George F. Kennan, *Memoirs 1925-1950* (Boston, MA: Atlantic Monthly Press, 1967), 292.

Maynard Keynes sent the U.S. Treasury his *Proposals for an International Clearing Union*. To understand the Soviet decision not to join the World Bank historians need to review the debates between the United States and Great Britain that led to Bretton Woods.

Because the Soviet Union did not to join the World Bank, the United States created the National War Planning College and developed the *Strategy of Containment*. The rhetoric to convince Congress and the public to fund the Marshall Plan led to the development of neoclassical economic theory, which thwarted Keynes' theory of internationalism promoted by global currency stabilization.

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Introduction

JOHN MAYNARD KEYNES AND GEORGE F. KENNAN: A NEW WORLD BANK AND THE STRATEGY OF CONTAINMENT

Humpty Dumpty sat on a wall,
Humpty Dumpty had a great fall;
All the king's horses and all the king's men
Couldn't put Humpty together again.

Nursery Rhyme

A young Serbian nationalist assassinated Archduke Franz Ferdinand, heir to the Austro-Hungarian throne, and his wife Sophie, Duchess of Honeberg, on June 28, 1914. The Great War that followed shocked the world. Contemporaries and historians have struggled to understand the causes of the war. The slaughter between nations and subsequent revolutions disrupted the conscience of peoples across the globe. Philosopher L. P. Jacks wrote in 1917: "In the space of two years, 6 million human beings have been slaughtered by other human beings, and the slaughter still goes on; 35 million have been mutilated, and the mutilation still goes on...on the one side a devastating whirlwind, a tempest of elemental forces, a wild chaos of death and ruin; on the other side, a chorus of talkers and speech-makers and article-writers; political philosophers building their cloud-castles...." He asked readers to "visualize...the slain...and...wounded" to find "meaning in the words, Oh, how I wish they would all shut up!"² Winds carried mustard gas and chlorine gas fired from canisters to soldiers in trenches. Bullets and artillery butchered millions. Individual battles left hundreds of

² L. P. Jacks, "The Insane Root: Even the lowest of the carnivorous animals do not kill members of their own species for no good reason," January 1917 – reprinted *The Atlantic: World War I: How the Great War Made the Modern World*, October 27, 2014, 19.

thousands of casualties or more. In the Battle of the Somme, British and French forces suffered a million casualties when they failed to defeat German lines.³ The scope of the Great War in scale of death and destruction remains distant, cloudy, and ambiguous to many because nationalist interpretators of the war failed to comprehend the material economic consequences of the Great War and its aftermath, which would not be thoroughly considered until after the Second World War.

John Maynard Keynes, Deputy Chancellor of the Exchequer of the Supreme Economic Council and attached to the British Treasury, resigned as the principal representative of the British Treasury at the Paris Peace Conference on June 7, 1919, as nations negotiated terms for peace.⁴ Keynes resigned primarily due to the harsh reparations imposed on Germany and Austria, and after his resignation, he worked on economic theory and *A Treatise of Money*. The League of Nations did not materialize with an international central bank designed to regulate the supply of money and currency rates based on trade imbalances created by creditor and debtor nations and the availability of commodities between trading partners. As Keynes argued for profound international economic coordination, the American public supported isolationism. Although President Woodrow Wilson supported the subpar League of Nations, the U.S. Congress and general public opposed his views of internationalism. He collapsed while promoting the *Treaty of Versailles* to the public. Without the underlying economic theories of Keynes as part of the *Treaty of Versailles* and participation of the United

³ Clare Sestanovich, "The War Year by Year," *The Atlantic*, October 27, 2014, 10.

⁴ Keynes wrote in the preface to *Economic Consequences of the Peace* that he was "temporarily attached to the British Treasury during the war and was their official representative at the Paris Peace Conference up to June 7, 1919; he also sat as Deputy Chancellor of the Exchequer on the Supreme Economic Council." Diplomatic historian, Ivo J. Lederer wrote: "Principal Representative at the Paris Peace Conference of the British Treasury, which he had joined in 1915, Keynes left Paris early in revulsion against the severity of the economic terms of the German treaty." Ivo J. Lederer, ed., *Problems in European Civilization: The Versailles Settlement: Was it Fardoomed to Failure* (Boston: D.C. Heath and Company, 1960), 40.

States for global economic reconstruction as a key trading partner, the next generation reengaged on battlefields, and the Great War became known as the First World War.⁵

Between the wars, Keynes developed macroeconomics and explicated his theories to the public.⁶ As the soldiers of the Second World War slaughtered each other in Normandy in 1944, the Allies met again to negotiate to end monetary and trade imbalances, which caused economic depressions and contributed to world destruction. Again, John Maynard Keynes returned on behalf of the British to argue for a new World Bank and global currency. During the international negotiations that led to Bretton Woods, Keynes failed to secure a global currency backed by various commodities as

⁵In a personal letter from Myron Taylor, a State Department official and personal friend, to FDR sent September 9, 1944, shortly after Bretton Woods, he stated agreement with the President in a letter dated August 19, 1944: "The League was powerless to enforce its decisions, for no provision was made for real enforcement." He stated that his views were consistent with the President's experience with the League. He continued, "With the U.S.A outside the League, there was all the more reason why Britain, France and the European countries should have protected themselves before it was almost 'too late.' But that is 'old stuff' so to speak." He stated that he was a "firm believer in an international organization 'with teeth' – real 'teeth.'" Taylor asserted that "the Bretton Woods Conference did its best...." Letter addressed to Hull and FDR: Roosevelt Library: Vatican: Taylor, Myron C.: Sep.-Oct. 1944 (i470) index. <http://docs.fdrlibrary.marist.edu/PSF/BOX52/a470g02.html>

For example, without currency regulation based on international trade and commodity values, wheat prices dramatically rose in the United States to unsustainable levels. Donald Worster documented the price of wheat due to the Turkish government cutting off supply lines from Russia during the First World War, the Food Control Act of 1917, and the impact of price controls on wheat that led to market speculation in the U.S. Southern Plains. Combined with new technology and industrialized farming, the increase in the wheat supply did not increase labor demand, which caused a labor surplus (high unemployment). The increased production of wheat in the Southern Plains led to the man-made environmental catastrophe *The Dust Bowl*. Combined with price declines when Russian wheat returned to the European markets, the drought, debt accumulated to speculate on land and purchase machinery, and high unemployment, the economic consequences from international trade of a single commodity became catastrophic to the Southern Plains. See: Donald Worster, *The Dust Bowl: The Southern Plains in the 1930s* (Oxford: Oxford University Press, 1979, 2004), 89. See Also John Steinbeck, *Grapes of Wrath* (New York: Penguin Books, 1939, 1992), Chapter Five, 42-53. For a comprehensive overview of Keynes plan following the First World War, see: Eric Rauchway, *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace* (New York: Basic Books, 2015), 8-16.

⁶ Although the term macroeconomics is attributed to the Norwegian economist Ragnar Frisch in 1933, the modern ideology of statistical analysis of the business cycle and government measurements of economic data is most closely associated with John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Classic Books America, 2009). First published 1936.

opposed to the U.S. dollar backed by gold. During the negotiations at the Allied Conference at Bretton Woods, Keynes lost the ability to secure the currency stabilization that he sought. Ultimately, the agreement at Bretton Woods caused the Cold War. To understand the postwar era, it is essential to revisit the development of modern economic theory between the world wars and, specifically, the monetary and fiscal theories that rebuilt Europe and converted the world's currency to the U.S. dollar following the Second World War.

John Maynard Keynes, a key negotiator of the *Bretton Woods Agreement*, rose to notoriety following the First World War due to his criticism of the *Treaty of Versailles* and his concern that the treaty neither adequately addressed the economic conditions of Europe nor provided sufficient economic stability to maintain peace.⁷ The day following ratification of the *Bretton Woods Agreement*, George F. Kennan, a career diplomat assigned to the U.S. embassy in Moscow, sent a telegram dated January 2, 1946, in which he explained why the Soviet Union had failed to join the agreement. Shortly thereafter, he sent what became known as the *Long Telegram*. To better understand Kennan's *Bretton Woods Telegram* and famous *Long Telegram*, it is first necessary to analyze the development of Keynes' economic theory.

As the world faced economic depression, the rise of totalitarian governments, and exorable pressures leading to the Second World War, Keynes transitioned from an economic advisor to the Allies to a public communicator of complex economic theory. Between the time of his resignation from the Paris Peace Conference and his subsequent

⁷ Nicholas Wapshott, *Keynes/Hayek: The Clash that Defined Modern Economics* (New York: W.W. Norton & Company, 2011), 14. *The Economic Consequences of the Peace* immediately sold out of the 20,000 copies printed for the first American edition. "By April 1920 the tally was 18,500 in Britain, and 70,000 in the United States. It was translated into French, Flemish, Dutch, and Italian, as well as Russian, Romanian, Spanish, Japanese, and Chinese. By June, worldwide sales were over 100,000." Wapshott, *Keynes/Hayek*, 14.

appointment to Bretton Woods in 1944, Keynes wrote volumes developing his economic theory (today called Keynesian economics). To understand his economic theory, his influence on public opinion and government leaders throughout Europe and the United States, and the negotiations following the Second World War, it is not only necessary to revisit the economic arguments that occurred between the wars and evaluate them in relation to their consequences, but also to understand George F. Kennan's role as the Director of the Policy Planning Staff for the European Recovery Program and his interpretations of Soviet policy that led to the strategy of containment.

George F. Kennan began his career as a diplomat and an expert on Russia. His early assignment to the U.S. Embassy in Moscow following the Bolshevik Revolution demonstrated to the State Department that he was an unparalleled expert on the *Sources of Soviet Conduct*.⁸ In early 1946, he dispatched two telegrams from the U.S. embassy in Moscow. The first telegram addressed to the Secretary of State in Washington was not declassified until 1986, the *Bretton Woods Telegram*. Then he sent the *Long Telegram*, which was also dispatched to the Secretary of State and disseminated throughout the Department of State.⁹ These telegrams led to Kennan's assignment to the newly-created War Planning College (to further educate military leaders, members of Congress, Department of State, and defense officials on the threats the Soviets posed). General

⁸ Diplomatic relations with the Soviet Union had been formalized on November 17, 1933. The first ambassador, William C. Bullitt, supported the Bolshevik revolution and shortly before his departure to the new embassy, he invited George F. Kennan to accompany him. John Lewis Gaddis, *George F. Kennan: An American Life* (New York: The Penguin Press, 2011), 73.

⁹ The Long Telegram was addressed to the Secretary of State Byrnes. The Harry S. Truman archives documents that it was also sent to General George C. Marshall on February 22, 1946. Digital Copy of telegram sent to Marshall and Byrnes provided by the Truman Library Organization. See: https://www.trumanlibrary.org/whistlestop/study_collections/coldwar/documents/pdf/6-6.pdf
See also: http://www.trumanlibrary.org/whistlestop/study_collections/coldwar/documents/index.php?documentid=6-6&pagenumber=1 The Harry S. Truman Organization Archives document that General Marshall received telegrams from Kennan dated: January 29, 1946; February 12 and 22, 1946; and March 11 and 14, 1946.

George C. Marshall was appointed Secretary of State in early 1947, and later Kennan participated in the Truman Doctrine discussions at the White House. Kennan was subsequently promoted to Director of the Policy Planning Staff to help develop and implement the European Recovery Program (later known as the Marshall Plan). He shaped the postwar era into two competing ideological economic hemispheres. His theories are inseparable from those of the British economist Keynes because Kennan's understandings of Bretton Woods Agreements and their consequences for the Soviet Union allowed him to explain why the Soviet Union failed to join the *Bretton Woods Agreement*. Kennan, like Keynes, viewed government spending as an economic tool to prevent revolutions, and this idea helped shape American policy for economic reconstruction following the Second World War to prevent Soviet expansion.¹⁰ Furthermore, Kennan's assignment to the War Planning College and his anonymous writings as "Mr. X" when he was the director of the Marshall Plan, helped shaped public opinion about economic reconstruction, which included massive government spending abroad to stimulate the economies of the United States, Europe, and Japan. However, rather than framing the discourse within economic context, the highest levels of the U.S. government used anti-Marxist rhetoric due to the Soviet threat of expansion, which rhetorically led to the moralization of capitalism to protect peoples from secular socialism.¹¹ Because the *Bretton Woods Telegram* was not declassified until 1986,

¹⁰ Whether or not Kennan fully understood the multiplier effect or stimulus in economic terms remains irrelevant. The Marshall Plan was implemented as economic stimulus. See Chapter Three.

¹¹ I am using the term *secular socialism* because economic materialism is based upon the scientific method of reason and refrains if not outright critical of Hegelian constructions utilizing mysticism as partial reasoning. Marx and Keynes were outright critical of the role of religion. Moral capitalism is the social construction that emphasizes Hegelian reason or mysticism in interpretation. For example: though likely not intended by Adam Smith in *An Inquiry Into the Nature and Causes of the Wealth of Nations*, his descriptions of the "invisible hand" and "moral hazard" are often equated to God. See Also: Bill McKibben, *Deep Economy: The Wealth of Communities and the Durable Future*, (New York: Henry Holt and Company, LLC, 2007), 96, 123. As an example of an historical

historians have overwhelmingly emphasized the *Long Telegram* with little ado toward the Bretton Woods Agreements, thus interpretations of the Cold War neglected economic materialism and emphasized political rhetoric.

Because of the anti-Marxist rhetoric of Keynes and Kennan, economists and historians often misinterpret their theories. A key misconception of Keynes and Kennan by consensus historians writing after the collapse of the Soviet Union is that Keynes' and Kennan's theories sharply contrast with economic theories of Karl Marx. Instead, in-depth analysis of their theories and strategies demonstrate how coordinated government economic policy could prevent Marxist revolutions. In other words, despite the apparent anti-Marxist rhetoric of Keynes and Kennan, they did not dispute Marx's underlying economic theory and by understanding the cause of revolutions, they sought to avert them with government coordination, which created a middle ground between capitalism and socialism.

Kennan's strategy of containment (which included Keynesian theories to employ fiscal stimulus to contain Soviet expansion), defined the modern world, yet to Kennan's life-long frustration, it was misused (or misunderstood) to emphasize stimulus mostly through military spending as opposed to strengthening infrastructure and employment to establish social stability and thereby avert Marxist revolutions. Because Keynes failed to secure a fundamental component of his monetary theory at Bretton Woods, which led to the Soviet refusal to sign the final agreement, Kennan developed the strategy of containment. According to John Lewis Gaddis, Kennan's official biographer, Kennan "knew little about economics, Keynesian or otherwise."¹² Without Kennan's ability to

interpretation that uses the construction of moral capital, see: Christopher Leslie Brown, *Moral Capital: Foundations of British Abolitionism* (Chapel Hill: North Carolina Press, 2006).

¹² John Lewis Gaddis, *George F. Kennan: An American Life* (New York: Penguin Press, 2011), 390.

directly communicate within the jargon of macroeconomic theory, and with the death of Keynes in 1946, their complimentary theories were obfuscated. Furthermore, the key evidence needed to understand the early months of 1946 and the Soviet refusal to join Bretton Woods remained classified until 1986. Kennan was prohibited by the State Department from clarifying the strategy of containment, and when he left the Policy Planning Staff, many of his documents remained classified and he lost access to record his *Memoirs*.

The historical record of the early months of 1946 remains ambiguous. The key negotiator for the United States at Bretton Woods, Harry Dexter White, U.S Deputy Secretary of the Treasury, came under investigation by the Federal Bureau of Investigation as early as 1946 for possible espionage on behalf of the Soviet Union. The Secretary of the Treasury, Henry Morgenthau Jr., resigned in the summer of 1945 because he and White had supported harsh reparations against Germany known as the Morgenthau Plan.¹³ Secretary of State James F. Byrnes, a Southern Democrat replaced former Secretary of State Cordell Hull, who was a principal negotiator throughout the Bretton Woods discussions. General George C. Marshall replaced Byrnes in early 1947 because Byrnes failed to adequately advise President Harry S. Truman on the Soviet threat in 1946.¹⁴ Political uncertainty in the United States concerned the Soviet Union. The Soviet foreign minister, Vyacheslav Molotov, requested that the Soviet ambassador to the United States, Nikolai Novikov explain shifting U.S. foreign policy. Novikov sent

¹³ When Morgenthau resigned in July of 1945, President Truman wrote to him stating: "While I fully appreciate the reasons which prompted you to resign as Secretary of the Treasury, nevertheless I want you to take on a further important assignment for me. The Bretton Woods legislation will soon be enacted." Morgenthau Presidential Diary Volume 7, April 12, 1945 – July 13, 1945. 1684. Access through FDR Library.
<<http://www.fdrlibrary.marist.edu/resources/images/morg/mpd20.pdf>>

¹⁴ Of the many reasons, political and personal, the timing of Byrnes replacement as the United States made a key shift in foreign policy toward the Soviet Union is significant.

what would later be deemed the *Soviet Long Telegram* on September 27, 1946. He cabled: the “cooperation of the two parties, which took shape in both houses of Congress in the form of an unofficial bloc of reactionary Southern Democrats and the old guard of the Republicans....” The Soviet concern with political developments in the United States materialized with the mid-term election of 1946, which created what President Truman would later call the “Do Nothing Congress.”¹⁵ The influence of the 80th Congress required the Executive Branch to alter rhetoric for European reconstruction following the Second World War, which ossified Cold War ideology and altered interpretations of economic materialism.

Bilateral negotiations between Britain and the United States for an International Clearing Union and postwar currency stabilization began in early 1942 with major differences emerging between the Keynes plan (British) and White plan (American). The differences were to be finally resolved during the Bretton Woods Conference, July 1944. *Foreign Relations of the United States (FRUS)* maintained the State Department communications of the negotiations and the *Morgenthau Diaries* preserved the deliberations in the United States Treasury. President Roosevelt instructed Treasury to iron out a plan in coordination with the Export/Import Bank, Board of Economic Warfare, and Department of State. The American and British governments disputed the underlying commodity value of an international currency and whether or not loans should be tied directly to trade, and after the American plan prevailed in the final Agreement, the Soviet Union refused to ratify the final accord on December 31, 1945. Following

¹⁵ Kenneth M. Jensen, ed., *Origins of the Cold War: The Novikov, Kennan, and Roberts 'Long Telegrams' of 1946* (Washington, D.C: United States Institute of Peace, 1991), 6. The underscore was in the original document and reproduced in the text. “The Soviet Foreign Ministry published the Novikov cable, alongside the Kennan *Long Telegram*, in the November 1990 issue of *Mezhdunarodnaia zhizn*, an official publication of the Foreign Ministry.” Xii. The telegram became accessible to U.S. historians when it was released by the Soviet Union in 1990.

Truman's speech before a joint session of congress on March 12, 1947 (Truman Doctrine) and his Executive Order 9835, which prescribed procedures for a "loyalty program" for the executive branch, the transition to anti-Soviet and anti-Marxist rhetoric emerged within State Department correspondence preserved in *Foreign Relations of the United States* (Volume III, 1947). With the work of the U.S. Institute of Peace through negotiations with the Department of State and Mikhail Gorbachev's Soviet government in 1990, the Soviet Union released key documents from 1946 to assist historians with the reconstruction of the origin of the Cold War. The Soviet Union had expressed concern that the new Truman administration abandoned key principles of the Roosevelt administration.¹⁶

Eventually, President Dwight Eisenhower warned at the end of his second term in 1961 of the development of the "Military-Industrial Complex," but Pandora's Box had been opened. With the anti-Soviet rhetoric developed to implement the Marshall Plan, misconceptions (or lack of implementation) of Keynes' theory of money as established in *A Treatise on Money*, and with the development of neoclassical economic theory in the 1950s, the long-term postwar economic stability of the United States and Europe became jeopardized. This jeopardy was exposed with the United States led War in Iraq in 2003 and the financial crisis of 2008. Thus, the door opened for Keynesian and Marxist economists to reassert their theories and historical interpretations.

The Ideological battles between neoliberals and neoclassical economists developed during the postwar era also shaped interpretations of the Cold War. The key distinction between preventing Marxist revolutions and understanding Marxist economic theory blurred. This distinction is a prerequisite to further understand Keynesian

¹⁶ Kenneth M. Jensen, ed., *Origins of the Cold War*.

economics, including both the New Deal and the Marshall Plan. The development of the Chicago School of Economics in the early 1950s revived neoclassical economic theory and usurped the anti-Marxist rhetoric of George F. Kennan. The onset of the Cold War began when the Soviet Union refused to sign the *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development* (The Bretton Woods Agreement), even though the Soviets participated in the negotiations in New Hampshire through July of 1944. To understand why the Soviet Union refused to finally sign the agreements in December of 1945 (the final date for nations listed in Schedule A to subscribe to the Bretton Woods Agreements), it is important not only to consider the geographic areas most contested in 1946 such as Greece, Turkey, Palestine, Iran, the Balkans, and China, but also to return to the First World War and, ultimately, the resignation of Keynes from the Paris Peace Conference on June 7, 1919, which not only explained the geographic contestation, but offered material economic understanding.

A better understanding of the early years of the Cold War and the Marshall Plan would enable historians and contemporary policymakers to develop strategies to confront issues such as international currency devaluations, the potential creation of a new world bank to compete with the bank established in 1946, Soviet expansion, turmoil in the Middle East, economic and political uncertainty within the European Union, and the transatlantic transition where political adversaries compete against the old guard of neoliberalism.¹⁷

¹⁷ This is most evident with the negotiations between the European Union, the United States, the World Bank, and the International Monetary Fund concerning the severe economic depression in Greece and the conflict with their creditor nations when their debt transferred from private banks and investors to public ledgers beginning in 2010. The Persian, Arabic, Kurdish, and Turkish questions of 1946 re-emerge as historical trading alliances cracked with the Arabic revolution in Syria and Iraq and the migration crisis created in Europe. With destabilization of the Balance of Power in the Middle East, the Security Council of the United Nations confronts reassessment of historical Persian and Arabic international alliances. The devaluation of Chinese and global currencies, the strength of the U.S. Dollar, falling commodity prices, and interest rate policies of

Humpty Dumpty sits on a wall, as John Maynard Keynes concluded in *The General Theory of Employment, Interest and Money*:

But apart from this contemporary mood, the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler a few years back.¹⁸

Reified ideas enable obdurate policymakers. If the gross misuse of the *invisible hand* is not scrutinized with scientific reason, then hail to the cliché that history repeats itself. The hands of the clock signify the time to sound a reveille to call upon principled intellectuals to align their squadrons on the battlefield of ideas before the world's sons and daughters clash in war.

Central Banks contribute to investment volatility and political uncertainty throughout the United States and Europe.

¹⁸ John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Classic Books, 2009), 331. First published 1936.

Chapter 1

THE BIRTH AND DEVELOPMENT OF KEYNESIAN ECONOMICS

Keynes' international notoriety increased following his fervent attack on *The Treaty of Versailles*, which he published in 1920 as *The Economic Consequences of the Peace* with his near-prophetic economic analysis. Frustrated with the peace negotiations following the First World War, Keynes resigned as an official representative at the Paris Peace Conference on June 7, 1919.¹⁹ In the preface to his famous critique, he wrote about himself in the third person: "He resigned from these positions when it became evident that hope could no longer be entertained of substantial modification in the draft Terms of Peace. The grounds of his objection to the Treaty, or rather to the whole policy of the Conference towards the economic problems of Europe, will appear in the following chapters."²⁰ In the following chapters, he outlined the fundamental problems with the European economy and explained how the peace agreements would undermine a tenuous international economic situation, which inevitably would threaten the peace. Nicholas Wapshott, British author and political commentator, summarized Keynes's critique in *Keynes/Hayek: The Clash that Defined Modern Economics*: "Keynes's predictions that the burdensome reparations would lead to political instability and extremist politics, and that they might spark another world war would turn out to be chillingly prescient."²¹

¹⁹ Keynes wrote in the preface of *Economic Consequences of the Peace* that he was "temporarily attached to the British Treasury during the war and was their official representative at the Paris Peace Conference up to June 7, 1919; he also sat as deputy for the Chancellor of the Exchequer on the Supreme Economic Council." There are no markings for a page number. The preface is a stand-alone paragraph.

²⁰ Keynes, *Economic Consequences of the Peace*, Preface.

²¹ Wapshott, *Keynes/Hayek*, 5.

To better understand the intricacies of the monetary policy debate and subsequent agreements at Bretton Woods, historians need to reconstruct the economic theories that Keynes articulated between the wars in publications such as *The Economic Consequences of the Peace* (1920), *The Economic Consequences of Mr. Churchill* (1925),²² *A Treatise on Money* (1930), and his magnum opus, *The General Theory of Employment, Interest, and Money* (1936). These publications are important because each of these books explained the causal relationship between monetary and fiscal policy in relation to economic and social stability.

In his critique of the *Treaty of Versailles* following the First World War, Keynes emphasized the complex economic relationship between European nations. Because of Germany's industrialization, it contributed the economic "heart of Europe," and because of the manner in which nations financed the war effort, the interdependent relationship between debtors and creditors did not rely on international borders. The reparations levied against Germany threatened creditors of multiple nations and thereby international economic stability for Europe. Keynes described this relationship as follows:

The war has ended with every one owing everyone else immense sums of money. Germany owes a large sum to the Allies, the Allies owe a large sum to Great Britain, and Great Britain owes a large sum to the United States. The holders of war loans in every country are owed a large sum by the State, and the State in its turn is owed a large sum by these and other taxpayers. The whole position is in the highest degree artificial, misleading, and vexatious. We shall never be able to move again, unless we can free our limbs from these paper shackles.²³

Therefore, for economic stability, Germany must be capable of repaying debt to foreign creditors otherwise the financial institutions of Europe would deteriorate. Under the terms of the peace, Germany would be unable to repay debts realized during the war, which

²² *The Economic Consequences of Mr. Churchill* was published as an essay and later reprinted in a collection of essays in 1931.

²³ John Maynard Keynes, *The Economic Consequences of the Peace* (Open Source of Original Publication: BibioBazaar, LLC., 1920), 197.

were actually tied to foreign creditors and therefore jeopardized economies beyond German borders.

Further complicating the amount of debt acquired during the war efforts, Keynes feared that the additional reparations levied against Germany would leave the industrial heart of Europe overburdened with so much debt owed to foreign powers that it would be unable to satisfy the terms.²⁴ Keynes emphasized that the means by which Germany could repay reasonable debts would be destroyed by the reparations, which, by design, would destroy the German economy. Six months following publication of *The Economic Consequences of the Peace*, the American *Everybody's Magazine* solicited Keynes to write an essay for a more generalized audience to emphasize the inherent dangers of the terms of the Peace.²⁵

Keynes opened the essay by describing the broad publication of *The Economic Consequences of the Peace* and insisted that his work was subjected to intense peer review. He described the six months that followed publication: "In this period the book has been published in the principal languages of the world, and it has been reviewed in many hundreds of journals. The best and the worst have been said of me. But, at any rate, my facts and arguments have been open to the examination of expert critics everywhere; and my conclusions have had to justify themselves before the bar of the educated opinion of the whole world in a manner never required of the half-secret deliberations in Paris."²⁶ The purpose of his essay was to articulate his concerns to a

²⁴ Debt is a subject of intense debate throughout multiple disciplines: politics, economics, and history. Isolated discussion of debt, in and of itself, leads to oversimplification and provides damning fodder for political and economic rivalries. Debt is relative to monetary policy and mechanisms that control the supply of money in terms of the perceived value of money.

²⁵ John Maynard Keynes, "The Peace of Versailles," *Everybody's Magazine*, XLIII (September, 1920): 36-41. Reprinted in Ivo. J. Lederer, ed. *Problems in European Civilization: The Versailles Settlement: Was it Fardoomed to Failure*, (Boston, MA: D.C. Heath and Company, 1960), 40.

²⁶ Keynes, "Peace of Versailles," 40.

broader audience. At the time Keynes wrote the magazine essay and *The Economic Consequences of the Peace*, his primary objective was to alter the terms of the peace, which he failed to accomplish. However, it is important to consider his arguments because of the subsequent events that unraveled global economic stability. Keynes described the economic consequences such as the Great Depression, rise of totalitarian governments, and the Second World War.

Keynes's essay in *Everybody's Magazine*, "The Peace of Versailles," condensed his arguments in *Economic Consequences of the Peace*. He was concerned with "two separate aspects of the peace which we have imposed on the enemy—on the one hand its justice, on the other hand its wisdom and its expediency."²⁷ While Germany bore the brunt of the blame for the Great War, the causes of the war developed from international trade relations and militarism beyond the borders of Germany. "To lay the entire responsibility for the state of affairs out of which the war arose on any single nation," violated the principals of justice because the war was caused "by the essential character of international politics and rivalries during the latter part of the nineteenth century, by militarism everywhere (certainly in Russia as well as in Germany and Austria-Hungary), and by in the universally practiced policies of economic imperialism."²⁸ If, as Keynes argued, economic imperialism and militarization caused the war, then punitive measures to cripple the economy of Germany and to starve the German people were unjust. However, in addition to the question of justice, Keynes confronted the "wisdom and expediency" of the treaty by demonstrating that punitive measures against Germany would adversely impact the broader European economies, endangering social stability,

²⁷ Keynes, "Peace of Versailles," 40.

²⁸ Keynes, "Peace of Versailles," 41.

and possibly leading to further economic conditions, which could inflame international conflict and war.

Keynes argued that rather than using the terms of the peace to “terrify future malefactors,” it was “our duty to look more to the future than to the past, to distinguish between the late rulers of Germany on the one hand and her common people and unborn posterity on the other....”²⁹ Before Germany’s industrialization, Keynes estimated that the agricultural state could feed “forty million inhabitants...as an industrial state, she could insure the means of subsistence for a population of sixty-seven million.” The distinction was quantified by calculating imported food. “In 1913 the importation of foodstuffs amounted, in round figures, to twelve million tons.”³⁰ This was important for several reasons: First, and most obvious, without food, people die.³¹ Second, the reparations levied against Germany crippled trade and the ability to import the raw materials necessary to support industrialization, which provided the economic resources to purchase food. Keynes summarized the quagmire: “After this diminution of her products, after the economic depression resulting from the loss of her colonies, her merchant fleet and her foreign investments, Germany will not be in a position to import from abroad an adequate quantity of raw material. An enormous part of German industry will, therefore, be condemned inevitably to destruction. The need of importing foodstuffs will increase considerably at the same time that the possibility of satisfying this demand is as greatly diminished.” Due to the condition of Germany following the war, the “catastrophe would not be long in coming....”³² Thus, Keynes demonstrated that the injustice of the treaty

²⁹ Keynes, “Peace of Versailles,” 41.

³⁰ Keynes, *Economic Consequences of the Peace*, 164.

³¹ This is a key component of economic materialism as related to Abraham Maslow’s hierarchy of needs. If basic needs are not satisfied through a welfare state, then people will turn to other means. Consider the moral quandary: if a child starves while a neighbor hoards bread, then is the child’s guardian just by robbing and/or killing the neighbor?

³² Keynes, *Economic Consequences of the Peace*, 164.

would lead to inadequate subsistence for the German people and “no help...could prevent those deaths *en masse*.”³³ Therefore, according to Keynes’ analysis, “those who sign this Treaty will sign the death sentence of many millions of German men, women and children.”³⁴ Additionally, the consequences extended beyond the sustenance of the German people because their economy was intertwined with global economies and financial markets depended upon Germany’s ability to repay debts. In other words, not only would the deterioration of Germany’s industry hinder the ability to import food, it would destroy the means by which economic growth would permit Germany to repay debts and interest.

The terms of the peace, according to Keynes, “shattered the heart of Europe.” Germany’s prewar economy primarily consisted of three main factors: overseas commerce, exploitation of coal and iron “and the industries built upon them,” and their “transport and tariff system.”³⁵ The debt that Germany owed, due to the terms of the treaty, would be impossible to pay. The German economy would be shattered. He referred to this debt crisis as “an avalanche of debt,” and wrote: “That is to say, even if Germany pays seven hundred and fifty million dollars annually up to 1936, she will nevertheless owe us at that date more than half as much again as she now does (sixty-five billion dollars as compared with forty billion dollars). From 1936 onward she will have to pay to us three billion two hundred and fifty million dollars annually in order to keep pace with the interest alone.”³⁶ He summarized the reparations conundrum as “Germany has in effect engaged herself to hand over to the Allies the whole of her surplus

³³ Ibid.

³⁴ Keynes, *Economic Consequences of the Peace*, 165.

³⁵ Keynes, “Peace of Versailles,” 43.

³⁶ Keynes, “Peace of Versailles,” 48.

production in perpetuity” because Germany would ultimately be unable to pay the demands.

In his essay, “The Peace of Versailles,” Keynes wrote:

It is evident that Germany’s pre-war capacity to pay an annual foreign tribute has not been unaffected by the almost total loss of her colonies, her overseas connections, her mercantile marine, and her foreign properties; by the cession of ten percent of her territory and population, of one-third of her coal and of three-quarters of her iron ore; by two million casualties among men in the prime of their life; by the starvation of her people for four years; by the burden of a vast war debt; by the depreciation of her currency to less than one-seventh its former value; by the disruption of her allies and their territories; by revolution at home and Bolshevism on her borders; and by all the unmeasured ruin in strength and hope of four years of all-swallowing war and final defeat.³⁷

As Keynes noted, a key component of many causes of Germany’s economic plight was “the depreciation of her currency.” He summarized the material causes that would inhibit all possibility of economic growth. When economic growth is unable to sustain debt repayment, the supply of money and inflation rear forth as plausible alternatives and the Lernaean Hydra emerges as the consternation of economic debate.³⁸

Keynes described the situation of Europe following the treaty and detailed the immense problems created by inflation: “The inflationism of the currency systems of

³⁷ Keynes, “The Peace of Versailles,” 48.

³⁸ Edith Hamilton, *Mythology* (Boston, MA: Little, Brown and Company, 1942), 231. – Lernaean Hydra is the many headed swamp monster, who when one head is severed emerges with two more. Inflation, like debt, is a root of economic debate. See: Paul Krugman, “The Inflation Cult,” *New York Times*, September 11, 2014, <http://www.nytimes.com/2014/09/12/opinion/paul-krugman-the-inflation-cult.html?partner=rssnyt&emc=rss&r=0>. Although the subsequent period of rampant inflation following the Great War is the subject of intense economic debate, and as this thesis demonstrates, the cause of wars, it is extremely important to understand that debt and inflation are two parts of a triatic relationship. Keynes struggled with the subject as he began to develop *A Treatise on Money*, where he concluded Centralized Banks needed to coordinate the supply of money with economic need as opposed to the pure profit motive of lending for market priced rates. In other words, interest rates should be managed by economic necessity as opposed to the profit motives on banks. Rates should decrease as the supply of money increases to encourage investment, and when investments exceed sustainable growth rates then interest rates should increase to encourage savings. It is also vital to differential debt owed to external creditors versus debt owned internally within a nation-state. There is a direct correlation between the supply of money (who controls it) and debt (who is owed). When this relation is severed in macro terms, creditor nations conflict with debtor nations.

Europe has proceeded to extraordinary lengths.”³⁹ Keynes’ brilliant criticism of inflationary policies of governments following the Great War remained the subject of prevailing economic debate in the postwar era. As Keynes sought to solve the problems created by uncoordinated central banks, the money supply, exchange rates, and inflation, the famous classical economist, Friedrich Hayek, would be commissioned by the London School of Economics (LSE) to rebut his arguments.⁴⁰

Two intractable realities developed and coexisted simultaneously that muddied the theoretical and rhetorical understanding of the supply of money: inflation and Bolshevism. Not only did the revolutions in Eastern Europe contribute to the devastation of German trade, theories presented to explain the cause of the revolutions coincided with monetary discussions. It was at this crossroads that Keynes became disassociated from Marxist ideology, though his theories also pertained to causes of revolution. He did not necessarily dispute the causes of revolution from a Marxist view, but as he understood the causes, he wished to prevent them. Although his arguments in *Economic Consequences of the Peace* and subsequent essay, “The Treaty of Versailles,” were designed to alter policy to prevent the pending economic catastrophe in Germany, he used the situation in Russia to justify his digression into the currency situation in Europe.

After Keynes demonstrated the importance of the German economy to Europe, he criticized the reparations levied against Germany and warned of the pending disaster by referring to Russia. He described Germany’s economic problems as “secular” (which coincides with materialism versus ideological or religious) and warned that those who are “apt to indulge their optimism” and “those whose immediate environment is American,

³⁹ Keynes, *Economic Consequences of the Peace*, 170.

⁴⁰ Wapshott, *Keynes/Hayek*, 48. According to Wapshott, Hayek initially admired Keynes for his criticism of inflation in *The Economic Consequences of the Peace*. Later, however, Hayek would be commissioned at the London School of Economics to counter-argue Keynes’ theories of centralized planning.

must cast their minds to Russia, Turkey, Hungary, or Austria, where the most dreadful material evils which men can suffer—famine, cold, disease, war, murder, and anarchy—are an actual present experience....”⁴¹ It was his “digression on the currency situation in Europe,” in which he wrote, “Lenin is said to have declared that the best way to destroy a Capitalist System was to debauch the currency.” He contended that the effects of debasing the currency would upend social stability and create “profiteers, who are the object of the hatred of the bourgeoisie, whom the inflation has impoverished, not less than of the proletariat.” In a scathing dissent from the Peace Treaty, Keynes concurred that “Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. In the latter stages of the war all the belligerent governments practiced from necessity or incompetence, what a Bolshevik might have done from design.”⁴² Keynes’ statement not only demonstrated strategic interests in terms of domestic security, but it also provided insight in terms of international relations where a trade competitor destabilized a foreign nation through currency wars. In other words, through exchange rates, creditor and debtor nations could influence domestic tranquility or incite revolutions. This particular notion of economic theory would prove to be the crux of the negotiations at Bretton Woods in 1944. It was also crucial to George F. Kennan’s strategy of containment as debated within the Policy Planning Staff when diplomats and officials debated “loans” versus “grants” as they designed the European Recovery Program (The Marshall Plan).

⁴¹ Keynes, *Economic Consequences of the Peace*, 182.

⁴² Keynes, *Economic Consequences of the Peace*, 168. The idea of debasing or debauching currency is the subject of fiat currency debates and what ultimately creates currency value. Keynes would later argue that the Gold Standard created a fiat currency.

In addition to highlighting Lenin's views on currency, Keynes elaborated on concerns of income inequality and misaligned economic reconstruction, which favored profiteers: "But further, the Governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct on a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods."⁴³ He defined profiteers as the "entrepreneur class of capitalist," who are "the active and constructive element in the whole capitalist society," and during "a period of rapidly rising prices cannot help but get rich quick whether they wish it or desire it or not."⁴⁴ Most important, he described how hatred would inevitably rise against this class of "profiteers." He wrote: "By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and established equilibrium of wealth which is the inevitable result of inflation, these Governments are fast rendering impossible a continuance of the social and economic order of the nineteenth century. But they have no plan for replacing it."⁴⁵ Keynes argued that the danger inherent in an international economic order where countries competed for trade advantage was the risk of devaluing currencies.⁴⁶ Although Keynes warned against the rise of income inequality and the inevitable profits of the "entrepreneur class of capitalist" as a threat to social stability, he also warned against Russian communism.

⁴³ Keynes, *Economic Consequences of the Peace*, 168.

⁴⁴ Keynes, *Economic Consequences of the Peace*, 169.

⁴⁵ Ibid. For example, policies of the Federal Reserve throughout the financial crisis of 2008 created inflationary pressure to stabilize real asset values to counter deflationary pressure. Inadvertently investor assets appreciated while income and debt remained stable. In other words, investors achieved significant capital returns and increased wealth, while most felt left out of the economic recovery creating a rise in populist politics.

⁴⁶ It is important to note that the "inherent danger of devaluing currencies" preexisted his theories of controlled monetary policy through centralized banks (international) and his views pertaining to a globalized currency. He would develop these theories as ways to prevent or minimize currency wars.

As the First World War entered 1917, the Russian people launched a revolution. Although the causes of the Bolshevik revolution remain contestable and solicit political dissent with any interpretation, it is important to consider the underlying role that currency valuations contributed to the discontent of the Russian people. In 1918 an “appanage of the Russian Government which established itself in North Russia after the flight of the Bolshevik authorities from those parts” issued a new currency. D. Spring Rice, an economist, wrote an essay published in *The Economic Journal* in 1919, with “an attempt to describe the origin and operation of the issue of [that] currency made in 1918.” Rice’s essay offered a concise history of Russian currency. He wrote: “It is well known that Russian currency went through many vicissitudes during the nineteenth century, but when the war broke out in 1914 it was on a stable basis.” During the war state debt increased, gold reserves decreased, and currency note distribution increased. The value of the ruble was further devastated by increased loans provided by England, which coincided with a decreased rate of exchange. He concluded that “the coming into power of the Majority Social Democrats [the Bolsheviks] was followed by a repudiation of National Debt...and by a general nationalization of industry and public companies, including finally all the banks....”⁴⁷ The inflation of the ruble threatened the stability of the *bourgeois*, which according to G.D.H. Cole, a scholar of the Soviet Union: “It was an unquestioned assumption of Bolshevik doctrine that a *bourgeois* revolution had to come first, and that the proletariat must help the bourgeoisie to overthrow the autocracy as a

⁴⁷ D. Spring Rice, “The North Russian Currency,” *The Economic Journal* 29, no. 115 (1919): 280. doi:10.2307/2223402. While serving under the British Treasury, Keynes played a key role in the Northern Russian currency experiment. He wrote a “Memorandum of Financial Arrangements of Northern Russia” in August of 1918, in which he wrote: “The existing issues of rubles are without intrinsic value and must certainly become worthless as soon as normal trade relations are established with Russia if not sooner.” Vincent Barnett, “Keynes, Socialism and Russia: A Contextual Clarification,” *Journal of Economic Issues* 43, no. 1 (2009): 260. <http://www.jstor.org.ezproxy.uta.edu/stable/25511417>.

necessary part of the preparation for socialism.”⁴⁸ According to Cole, “the collapse of the undeveloped Russian economy under the strain of war had been preparing the way for revolution in Russia itself—that is, for *bourgeois* revolution—despite the weakness of the Russian *bourgeoisie*.” The success of the revolution required an international uprising against the autocratic governments that started the Great War. The “Bolsheviks, under Lenin’s influence, decided not to wait...” for the international revolution, “but to seize an authority which the Russian *bourgeoisie* had already let drop and the rival Socialist parties appeared quite unable to exercise.”⁴⁹ It was this calculation that differentiated Lenin from Marx. If the Great War was a capitalist competition between international capitalists-imperialists, then a revolution of the proletariat needed to be international. The economic consequences of the First World War led Russia to the second Bolshevik Revolution from which Vladimir Lenin emerged as the leader of a dissolved Russia and a new Soviet Union. The revolution did not materialize in the West: “When the expected revolution in the advanced capitalist countries failed to develop directly out of the war, they [Bolsheviks] continued to hope for it and to scan the horizon eagerly for signs of renewed crisis and revolt; and in the meantime they had to carry on with their own revolution without Western aid.”⁵⁰ Without the international revolution, the Bolshevik government unleashed the printing presses to distribute currency that was neither backed by gold nor with a “decent system of taxation by which currency could be recovered.”⁵¹ With the instability of the Soviet currency, trade collapsed. Keynes was acutely aware of the causes of the Russian Revolution and feared the ideology behind it would spread if

⁴⁸ G. D. H. Cole, “The Bolshevik Revolution,” *Soviet Studies* 4, no. 2. (1952): 141. <http://www.jstor.org.ezproxy.uta.edu/stable/149159>.

⁴⁹ Cole, “The Bolshevik Revolution,” 142.

⁵⁰ Cole, “The Bolshevik Revolution,” 143.

⁵¹ Rice, “The North Russian Currency,” 281.

economic conditions warranted, in the minds of many, the “popular hatred of the class of entrepreneurs.”⁵²

In his essay, “Soviet Russia,” Keynes compared Leninism to a new religion and warned that as a religion, many people would identify with it because of the economic conditions in Europe. He wrote: “Leninism is a combination of two things which Europeans have kept for some centuries in different compartments of the soul—religion and business. We are shocked because the religion is new and contemptuous because the business, being subordinated to the religion instead of the other way round, is highly inefficient.” He continued to compare Leninism to a religion: “If we want to frighten ourselves in our capitalist easy chairs, we can picture the Communists of Russia as though the early Christians led by Attila were using the equipment of the Holy Inquisition and the Jesuit Missions to enforce the literal economics of the New Testament.”⁵³ Keynes elaborated on the comparison between a literal economic interpretation of religion and the notion that Russia communism created a new religion. He warned his audience of historical atrocities that occurred when religion dictated economic considerations.

The structure of his essay addressed three underlying questions: “Is the new religion partly true, or sympathetic to the souls of modern men? Is it on the material side so inefficient as to render it incapable to survive? Will it, in the course of time, with

⁵² Franklin Foer, former editor of *The New Republic*, a progressive publication since 1914, wrote: “During the years between the wars, there were many moments when *The New Republic* willfully glanced past the horrors of the Soviet Union...Unlike most of the editors of *The New Republic*, Keynes had visited Russia, seen the future, and found it grotesque.” Franklin Foer, ed., *The New Republic: Insurrections of the Mind—100 years of Politics and Culture in America*. (New York, NY: HarperCollins, 2014), 52.

⁵³ John Maynard Keynes, “Soviet Russia,” October 28, 1925. Reprinted: Franklin Foer, ed., *The New Republic: Insurrections of the Mind—100 years of Politics and Culture in America*. (New York, NY: HarperCollins, 2014), 53.

sufficient dilution and added impurity, catch the multitude?"⁵⁴ These questions harkened back to his argument that hatred would inevitably rise against "this class of profiteers."⁵⁵ As to his three questions, Keynes segregated those "who are completely satisfied by Christian Capitalism or by Egotistic Capitalism un-tempered by subterfuge, will not hesitate how to answer it, for they either have a religion or need none" from the "many in this age without religion [who] are bound to feel a strong emotional curiosity towards any religion which is really new...." In other words, Keynes argued that the rise of inequality and economic instability created by economic conditions following the First World War invited gravitation toward Soviet-style ideology. His argument contrasted those who were "satisfied by Christian Capitalism" and those without religion who wanted to find advantage with the new religion. Keynes warned of the conflict between the two, to establish a middle ground. He disparaged the notion of religion commingled with economic theory. "For me, brought up in a free market air undarkened by the horrors of religion with nothing to be afraid of, Red Russia holds too much which is detestable."⁵⁶ What proved most detestable to Keynes was the Russian ideology of revolution. For Keynes the Communists "believe in two things—the introduction of a New Order upon earth and the *method* of the Revolution as the *only* means thereto."⁵⁷ This meant that those "satisfied by Christian Capitalism" included many of the "profiteers," who "cannot help but get rich quick whether they wish it or desire it or not," and inevitably sew the seeds of revolution. Keynes concluded in 1925 with the following question pertaining to Leninist ideology: "But is it appropriate to assume, as almost the whole of the English and American press do assume, and the public also, that it is insincere or that it is abominably

⁵⁴ Keynes, "Soviet Russia," 54.

⁵⁵ Keynes, *Economic Consequences of the Peace*, 169.

⁵⁶ Keynes, "Soviet Russia," 55.

⁵⁷ Keynes, "Soviet Russia," 56.

wicked?”⁵⁸ Although implicit, Keynes concluded that the third question was most satisfactory and religious interpretations of economic theory should be diluted. In other words, Keynes did not reject economic materialism, but rather rejected mysticism as an organizing principal of economic theory.⁵⁹

Throughout the Roaring 20s, without a good way to regulate international trade and currencies, “profiteers” in creditor nations such as the United States, Great Britain, and Canada amassed tremendous wealth leading to issues of inequality between capital and labor, while debtor nations devalued currencies to facilitate trade in failed efforts to reconcile the international debts following the First World War. As Keynes wrote, “Every one owed everyone.” The end result was that countries such as Germany and Italy devalued currencies, disrupting the social and economic order as totalitarian authority emerged, while the inequality in the creditor nations threatened the economic distribution of wealth between capital and labor.⁶⁰ It was during this period that Keynes worked on his theory to develop an international centralized bank, later published as a *Treatise on Money*, and he published essays such as *The Economic Consequences of Mr. Churchill*.

Although there is an underlying congruency of liberal economic theory, it is important to note that during the period between the wars, peoples’ theories diverged between internationalism and nationalism. The failure to understand the distinction further upset economic interpretations of the postwar era following the Second World War. Keynes criticized world leaders following the Great War. He diligently argued for international coordination of monetary policy through a centralized world bank, as others

⁵⁸ Keynes, “Soviet Russia,” 59.

⁵⁹ It is important to note the decades of Marx writings, which rejected the economic construction of Hegelian philosophy.

⁶⁰ “Lira is Devalued: Mussolini’s Order: Italy Follows Other European Countries in Currency Revision,” *Lawrence Daily Journal-World*, Monday, October 5, 1936, 3.
<http://news.google.com/newspapers?nid=2199&dat=19361005&id=LgZRAAAAIBAJ&sjid=Dr8MAAAIIBAJ&pg=1263,1993590>

on the left argued for retribution against provocateurs of the First World War. In the United States, progressive intellectuals such as historians Mary and Charles Beard and politicians such as U.S. Senator William E. Borah, U.S. Senator and Governor Hiram Johnson, and aviator Charles Lindbergh (prior to Bretton Woods) promoted isolationism.

Keynes elaborated on the role of a Central Bank in a national economy and compared or contrasted it with the need for international centralized planning; i.e. a world bank. Keynes, for example, wrote in *A Treatise*: “we considered the limitations on the discretion of a member bank in a monetary system to ‘create’ bank money. We found that any individual bank is compelled—unless it is prepared to allow its reserve-ratio to be modified (up or down)—to ‘keep step’ with the other banks of the system, including the Central Bank. They can all march forward together and they can all march backward together....But a single bank cannot move far unless the others move too; for otherwise its loss or gain of reserve-resources will rupture its reserve-ratio.” This relationship between the member banks and the national central bank is what governed the “total quantity of bank money created.”⁶¹ It is fundamentally important to understand the relation between the supply of money and the banking entities that control it.

Keynes assumed that if an international “Bankers’ Bank for Central Banks” was created and the reserves that the member banks held was cash backed by gold, then the amount of gold in reserves would determine the amount of bank money created, and it would not necessarily relate to the “annual increment of the world’s output of goods and services.”⁶² In other words, if gold was not used as a direct currency, meaning “no gold was used in circulation, [then] any variations [creation of bank money] would solely depend on the annual difference between the amount of new gold mined and the amount

⁶¹ John Maynard Keynes, *A Treatise on Money: Volume II The Applied Theory of Money*, (London: Macmillan & CO LTD, 1960), 279-80.

⁶² Keynes, *Treatise Vol II*, 281.

of gold consumed in the arts.”⁶³ Thus, new money in circulation would depend on factors other than economic necessity, such as mining activity, and countries with gold ore yet to be mined would be custodians of economic advantage because they controlled the supply of money. He dove deep into the disadvantages of an international gold standard and then, after careful deliberation of economic analytical theory, he shifted his language to poetic prose to emphasize his point: “But before we proceed with a scientific and would-be unbiased examination of its claims, we had better remind the reader of what he well knows—namely, that gold has become part of the apparatus of conservatism and is one of the matters which we cannot expect to see handled without prejudice.”⁶⁴ He wrote that prior to the First World War, individuals “threw their little stocks [of gold] into national melting-pots,” and “wars sometimes served to disperse gold, as when Alexander scattered the temple of hoards of Persia or Pizarro those of the Incas.” But contrary to these historical examples, Keynes wrote that “on this occasion war concentrated gold in the vaults of Central Banks; and these banks have not released it. Thus, almost throughout the world, gold has been withdrawn from circulation.” In other words, Keynes argued that the gold standard was illusionary and fiat currency (which is inconvertible paper money) existed because gold was buried in vaults and not in circulation. “The little household gods, who dwelt in purses and stockings and tin boxes, have been swallowed by a single golden image in each country, which lives underground and is not seen. Gold is out of sight—gone back again into the soil.” The allusion of the gold standard transformed into a metaphysical representation, according to Keynes, “But when gods are no longer seen in yellow panoply walking the earth, we begin to rationalize them; and it is not long before there is nothing left. Thus, the long age of Commodity Money has at

⁶³ Keynes, *Treatise Vol II*, 280.

⁶⁴ Keynes, *Treatise Vol II*, 291.

last past finally away before the age of Representative Money.”⁶⁵ This is of critical importance because Keynes addressed critics who accused his monetary theory of creating a fiat money by reversing their argument, suggesting that, in fact, it was they who created fiat money with an arbitrary gold standard. This particular criticism of *A Treatise* had its roots in Keynes’ dispute with the conservative government of England in the mid-1920s.

In 1925 the English government returned to the gold standard despite Keynes’ virulent dissent. He opposed the gold standard because “as long as the gold standard persisted, central banks would not be able to manage credit so that savings and investment were kept equal, as they would instead be using interest rate policy to maintain the currency at the fixed rate.”⁶⁶ Although he specifically argued against “pegging” the pound sterling to a fixed rate, he lost the argument. The sterling was pegged by the conservative British government, which led Keynes to publish *The Economic Consequences of Mr. Churchill*. According to British economic historian, Nicholas Dimsdale, “In *The Economic Consequences of Mr. Churchill*, Keynes argued that sterling was overvalued by 10% on Britain’s return to the gold standard in April 1925. He predicted that an attempt by the authorities to reduce domestic costs and wages to restore British competitiveness would give rise to stagnation and persistent unemployment.”⁶⁷ The details of his arguments concerning currency are important

⁶⁵ Keynes, *Treatise Vol. II*, 291.

⁶⁶ Wapshott, *Keynes/Hayek*, 55.

⁶⁷ N. H. Dimsdale, “British Monetary Policy and the Exchange Rate 1920-1938,” *Oxford Economic Papers, New Series*, 33, Supplement: The Money Supply and the Exchange Rate (1981): 306-349. <http://www.jstor.org.ezproxy.uta.edu/stable/2662793>. Dimsdale added: “In the event Keynes’ prediction proved to be correct and his conclusion that the overvaluation of the pound was a major factor contributing to the problems of the British economy in the 1920s has been accepted by the majority of later writers, both economists and economic historians.”

because following the Great Depression and Second World War, these arguments would reemerge as the world negotiated a World Bank.

According to Keynes, an international bank organized with a common currency backed by various commodities would be able to coordinate economic equilibrium to offset the global threat of armed conflict created by global economic competition. When Keynes published *A Treatise*, he defined a “state of equilibrium.” A “state of equilibrium would be reached when savings and investment were equal and prices were stable, whatever the interest rate set by the central bank, and at that time there would be full employment.” Keynes argued that interest rates should be set through central planning and monetary policy to facilitate such a “state of equilibrium.” As a political compromise, Keynes believed the “value of gold should be so managed as to conform to a crude international Tabular Standard. In the Production Index of Economic and Financial Section of the League of Nations sixty-two commodities are taken into consideration.”⁶⁸ In other words, Keynes suggested that the gold standard was in fact a fiat currency in its current form, and if currencies were backed by a basket of commodities reflected by economic reality and international trade, international monetary policy would be better able to manage “Commodity Money” as opposed to “Representative Money.” By managing currencies based on the international demands of sixty-two commodities, there would be opportunity for quantitative analysis to determine currency valuations between competing nations, especially those with less mining. If currency valuations were quantified by actual commodity distributions in various nations, then trade value would be determined materially as opposed to undermined with currency variations that could be arbitrarily determined. This approach, however, would require empirical data collection

⁶⁸ Keynes, *Treatise*, 391.

by nations and banks to permit central planners a scientific approach for currency exchange rates. This idea of empirical data collection created the foundation of macroeconomics, a theory that was not yet fully developed. Thus, Keynes argued for an international bank with member banks to be national central banks and currency exchanges to be moderated by fixed values backed by a basket of commodities and represented by gold (but not fixed to the value of gold). By quantifying commodity values and fixing to currency rates, a true value for exchange would be qualified, thereby, regulating international trade to diminish the threat of violent competition.

After publication of *A Treatise*, nations began to dismantle the gold standard. Without adherence to the argument promoted by Keynes, nations neither created a World Bank nor considered the value of the currencies represented by commodities. Trade imbalances resulted. According to Ben Steil, senior fellow and director of international economies at the Council of Foreign Relations, “The fraying relic of the gold-exchange standard that remained at the end of the 1920s had collapsed entirely by 1934. Britain, its inspiration and foundation in the nineteenth century, abandoned it with great reluctance and bitterness in September 1931. Twenty-five nations followed. The United States refused until April 1933, shortly after Franklin D. Roosevelt took office.”⁶⁹ According to Steil, the British believed that U.S. tariffs and French devaluation forced them to leave the gold standard, while the United States thought that Europeans had forced Americans to abandon the standard because the Europe decision threatened U.S. banks.

President Roosevelt’s first *Fireside Chat* on March 12, 1933 intended to educate the general public and “the comparatively few who understand the mechanics of banking”

⁶⁹ Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Makings of a New World Order*, (Princeton, NJ: Princeton University Press, 2013), 25.

of the importance of “one of his first official acts,” which “proclaimed a nationwide bank holiday to commence on March 6 and last four days.”⁷⁰ According to the archives and history maintained by the Federal Deposit Insurance Corporation (FDIC), between 1921 and 1929 “an average of more than 600 banks per year failed.” The bank failures during the 1920s “evoked relatively little concern, however, because they primarily involved small, rural banks, many of which were thought to be badly managed and weak. Although these failures caused the demise of the state insurance programs by early 1930, the prevailing view apparently was that the disappearance of these banks served to strengthen the banking system.”⁷¹ The prevailing view altered with the development of international pressures: “In 1931, policy makers were primarily preoccupied with international monetary matters. The abandonment by Great Britain of the gold standard in September 1931 aroused general fears that other countries might follow. These fears caused many foreigners with U.S. bank accounts to convert deposits to gold in the New York money market. To stem the ensuing gold outflow, the Reserve Bank of New York sharply increased its rediscount rate.” Although the Reserve Bank of New York “achieved the desired effect, no steps were taken to augment already depleted bank reserves through extensive open market purchases of securities.” According to Division of Research and Strategic Planning, because the Reserve Bank of New York “ignored domestic financial considerations, the Federal Reserve added to the banking industry’s woes.”⁷² These woes, of course, were an ensuing liquidity crisis and subsequent bank failures, which ultimately led to the Banking Crisis of 1933.

⁷⁰ Federal Deposit Insurance Corporation, “The First Fifty Years,” *FDIC.gov*, Last modified July, 24, 2006, 3. <https://www.fdic.gov/bank/analytical/firstfifty/chapter3.html>.

⁷¹ Federal Deposit Insurance Corporation, “The First Fifty Years,” 1.

⁷² Federal Deposit Insurance Corporation, “The First Fifty Years,” 2.

FDR's first *Fireside Chat* explained to the general public the difficulties created by the run on the banks and that the problem arose primarily from a crisis of confidence. His speech lasted roughly twelve minutes. He began: "First of all let me state the simple fact that when you deposit money in a bank the bank does not put the money into a safe deposit vault. It invests your money in many different forms of credit-bonds, commercial paper, mortgages and many other kinds of loans. In other words, the bank puts your money to work to keep the wheels of industry and of agriculture turning around." Roosevelt explained that the purpose of the bank was to benefit economic growth and "a comparatively small part of the money you put into the bank is kept in currency—an amount which in normal times is wholly sufficient to cover the cash needs of the average citizen. In other words the total amount of all the currency in the country is only a small fraction of the total deposits in all the banks."⁷³ It was important for FDR to explain the basic structure of banks as they related to investments and to currency for the general public because he needed to maintain the public's confidence that the "new currency...being sent out by the Bureau of Engraving and Printing in large volume to every part of the country [is] sound currency because it is backed by actual good assets."⁷⁴ It was important for the President to ask the general public to "remember that the essential accomplishment of the new legislation is that it makes it possible for banks more readily to convert their assets into cash than was the case before. More liberal provision has been made for banks to borrow on these assets at the Reserve Banks and more liberal provision has also been made for issuing currency on the security of those good assets." FDR emphatically stated: "This currency is not fiat currency. It is issued

⁷³ Federal Deposit Insurance Corporation, "Transcript of Speech by President Franklin D. Roosevelt Regarding the Banking Crisis, March 12, 1933," *FDIC.gov*, 1. <https://www.fdic.gov/about/history/3-12-33transcript.html>.

⁷⁴ Federal Deposit Insurance Corporation, "Transcript of Speech by President Franklin D. Roosevelt Regarding the Banking Crisis, March 12, 1933," 2.

only on adequate security—and every good bank has an abundance of such security.”⁷⁵

As the President explained the mechanics of the banks and the currency, which would be backed by “good assets,” he expressed his “belief that hoarding during the past week has become an exceedingly unfashionable pastime” and his desire that “the phantom of fear will soon be laid.” He assured the public that “people will again be glad to have their money where it will be safely taken care of and where they can use it conveniently at any time.” He said, “I can assure you that it is safer to keep your money in a reopened bank than under the mattress.” He concluded with an appeal for confidence:

After all there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people. Confidence and courage are the essential of success in carrying out our plan. You people must have faith; you must not be stampeded by rumors or guesses. Let us unite in banishing fear. We have provided the machinery to restore our financial system; it is up to you to support and make it work. It is your problem no less than it is mine. Together we cannot fail.⁷⁶

Roosevelt’s plea to the public along with legislative action by Congress staved off the liquidity crisis and the economy gradually improved.⁷⁷ However, the next month the United States abandoned the gold standard.

⁷⁵ Federal Deposit Insurance Corporation, “Transcript of Speech by President Franklin D. Roosevelt Regarding the Banking Crisis, March 12, 1933,” 3.

⁷⁶ Federal Deposit Insurance Corporation, “Transcript of Speech by President Franklin D. Roosevelt Regarding the Banking Crisis, March 12, 1933,” 4.

⁷⁷ “While the effects of a still-depressed economy also engendered caution on the part of bankers and regulators, conditions improved from the low point reached in 1933. Unemployment declined significantly, real GNP increased at an average annual compound growth rate of 9.5 percent between 1933 and 1937, and price increases were moderate. The recession of 1937-1938 interrupted this pattern of economic expansion. Owing to the continuous improvement in the banking system that had occurred since the banking holiday of 1933, however, banks were able to meet without difficulty the strains resulting from the decline in business activity that ensued. Following the recession, economic conditions improved once again as real GNP rose and unemployment declined.” Federal Deposit Insurance Corporation, “The First Fifty Years,” 1. Roosevelt’s first *Fireside Chat* is echoed in the 1946 movie *It’s a Wonderful Life* when James Stewart’s character, George Bailey, explains to the bank’s depositors why they should not take out Mr. Potter’s offer of fifty cents on the dollar. Mr. Potter was buying while the people were selling.

After assuring the public in his first fireside chat that the bank's currency was backed by good assets on April 5, 1933 Roosevelt issued Executive Order 6102: "All persons are hereby required to deliver on or before May 1, 1933, to a Federal Reserve Bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates now owned by them or coming into their ownership on or before April 28, 1933."⁷⁸ The Executive Order made exceptions for those who used gold in their art, industry, or mining. It included provisions for the government to pay for the gold. However, Roosevelt's executive order, his policy concerning gold, and subsequently Congress's decision to nullify gold clauses in contracts, dismayed many in the private sector who relied on gold clauses in contracts to hedge against inflation. In reality, due to deflationary pressures during the Depression, the gold clauses required debtors to pay back more "than they originally owed."⁷⁹ The gold clauses in private contracts led to Constitutional questions, which were decided in February 1935. For example, in *Perry v. United States*, the Supreme Court "did not hold that the gold clauses must be enforced. With respect to Treasury Bonds, however, a plurality of the Justices concluded that the Joint Resolution was unconstitutional but that the bondholders were not entitled to relief."⁸⁰ In other words, though the Court recognized the importance of capital markets and investing (bond markets), it reasoned on behalf of economic criterion "to stop a looming wave of bankruptcies." Furthermore, by not enforcing gold clauses in treasury bonds, the court thwarted a bailout for treasury investors during the Great Depression.

⁷⁸ Franklin D. Roosevelt, "Executive Order 6102 – Requiring Gold Coin, Gold Bullion and Gold Certificates to Be Delivered to the Government," April 5, 1933. Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=14611>.

⁷⁹ Gerald N. Magliocca, "The Gold Clause Cases and Constitutional Necessity," *Florida Law Review*, 64, (2012): 1243

⁸⁰ *Ibid.*

Due to the consequences of the Great Depression and currency manipulation between trading nations to secure trade advantages (through devaluation of currencies, i.e. the decoupling of currencies from gold), two predominant international questions emerged to be settled at Bretton Woods in 1944: should there be an international organization to regulate currencies, surplus and deficit accounts, and if so, should the currencies be backed by gold?

When Keynes published *A Treatise of Money* and argued for an international centralized bank and opposed the gold standard, he “suggested that the cause of the alternate booms and busts of the business cycle was the action of the banks, which also held the cure.” Keynes asserted that with profit as the underlying motive “banks created credit irrespective of a community’s desire or ability to save.” Since lending was not directly correlated to savings but based on cash reserves, “the level of savings and investment could be brought into line if a central bank were to carefully control the amount of credit it offered.”⁸¹ This meant that the Central Bank would control the supply of money based on liquidity needs to stimulate the economy. In other words, at the date of publication in 1930, after seven years belaboring the effort, Keynes argued for central banks and a basket of commodities to back currencies, which would better regulate currencies in circulation based on economic needs. When Europe and the United States left the gold standard, there was not an international institution to regulate currencies and exchange rates. Within a few years the world would descend into the Second World War. Private bankers bore the brunt of the blame for trade imbalances and depressions while governments were blamed for devaluing currencies and/or using tariffs creating

⁸¹ Wapshott, *Keynes/Hayek*, 55.

trade imbalances to favor export nations, or as the United States would accuse the British, engaging in imperial preferences.

As the global economic depression deepened and the world moved closer to war, Keynesian economic theory became popular. To reassert classical economic influence, the London School of Economics (Austrian Economics) brought in a young Austrian economist by the name of Friedrich Von Hayek to refute Keynesian ideas of centralized planning.⁸² Although earlier theoretical disputes between Keynes and Hayek circulated primarily in a high-brow British publication from the London School of Economics, *Economica*, the theoretical disagreements eventually emerged into what Nicholas Wapshott has called *The Clash that Defined Modern Economics*. Friedrich Von Hayek was introduced to British readers when Lionel Robbins, an economist at the London School of Economics and editor of *Economica*, published Hayek's journal article "Paradox" in 1931.⁸³ Alarmed by world events, both economists wrote about the dire consequences of unsound economic theory and the disastrous consequences of war. "By introducing Hayek into Britain, Robbins instigated the great debate between Hayek and Keynes."⁸⁴ The two economists, Hayek and Keynes, debated their ideas of economic theory in subsequent years. Hayek's magna opus, *The Road to Serfdom* (1944), took years to write as rebuttal to Keynes' *General Theory* (1936). In his book, Wapshott summarizes *The Road to Serfdom*. Hayek, he writes, "asserted that the common perception that the extremes of Left and Right [socialism and fascism] were polar opposites was a misapprehension, for both, by replacing market forces with comprehensive state planning, assaulted individual liberties. He reiterated his belief that

⁸² Wapshott, *Keynes/Hayek*, 72.

⁸³ F. A. von Hayek, "The 'Paradox' of Saving," *Economica*, No. 32 (1931), 125-169. <http://www.jstor.org/stable/2547921>.

⁸⁴ Wapshott, *Keynes/Hayek*, 51.

as economic planners cannot know the will of others; they end up acting like despots.”⁸⁵ Hayek contended that monopolies led to tyranny and that the problem was more than “capitalist monopolist whom we have to fight,” but that the danger was created by “the support they have obtained from those whom they have let share in their gains, and from the many more whom they have persuaded that in supporting monopoly they assist in the creation of a more just and orderly society.” He further asserted that the “fatal turning-point in the modern development was when the great movement which can serve its original ends only by fighting all privilege, the labor movement, came under the influence of anti-competition doctrines....”⁸⁶ It was therefore, likewise, that labor consolidation and central planners that coordinated with monopolistic capitalists (fascists) and socialists that paved *The Road to Serfdom*.⁸⁷ Keynes, however, asserted that centralized planning averted the harsh realities of economic cycles where depressions led to revolutions and wars because of the social instability created by high unemployment and unregulated market cycles, which created economic recessions and depressions. Keynes and Hayek developed and debated their economic theories through the Great Depression and Second World War and, after Bretton Woods and the development of the Cold War, their contrasting economic theories defined the postwar era. This is important because as the Second World War ended, Keynesian theory prevailed; however, due to the rhetoric of the Cold War, Hayek’s influence increased. Understanding the Bretton Woods Agreement as the underlying cause of the Cold War further clarifies economic interpretation and materialism.

⁸⁵ Wapshott, *Keynes/Hayek*, 194.

⁸⁶ Bruce Caldwell, ed. *The Collected Works of Hayek: Volume 2 The Road to Serfdom* (London: The University of Chicago Press, 2007), 207.

⁸⁷ “Socialist Roots of Nazism” is chapter twelve of *The Road to Serfdom*.

To fully comprehend the significance of Keynes' economic theory, it is important to consider the personal letter he wrote to President Roosevelt on March 25, 1938, to criticize Roosevelt's "middle path" toward developments in Europe explained in a previous letter to the English economist: "But further experience since I wrote does seem to show that you are treading a very dangerous middle path. You must either give more encouragement to business or take over more of their functions yourself." It is noteworthy that the English economist forcefully told the President of the United States what to do. Before enclosing an article he intended to publish, he wrote the President to convey: "Today, however, our thoughts are occupied with other things than economic prosperity...The tragedy is that the right-minded show no indication of supporting one another. You will be reluctant to support us; we are reluctant to support France; France is reluctant to support Spain. At long last we shall get together. But how much harm will have been done by then?"⁸⁸ Keynes proved to be correct. Moreover, after Hitler's invasion of Poland in 1939, countries spent money to arm without concern for deficits.⁸⁹ On December 8, 1941, the United States entered the Second World War and on February 23, 1942, the United States Treasury received Keynes' proposal of an international institution for currency stabilization. As Keynes wrote to President Roosevelt, "at long last we shall get together."⁹⁰

⁸⁸ John Maynard Keynes, "Letter from Keynes to President Roosevelt March 25, 1938," *Franklin D. Roosevelt Presidential Library*. <http://docs.fdrlibrary.marist.edu/PSF/BOX37/t342a01.html> The article Keynes sent with the letter began with the following poem: "Sweet Peace, where dost thou dwell? I humbly crave, Let me once know. I sought thee in a secret cave, And asked, if Peace were there. A hollow wind did seem to answer, No: Go seek elsewhere." Keynes began his article: "Our troubles are of our own making and our errors were obvious at the time when we made them..."

⁸⁹ Keynes' economic theory of deficit spending correlated with the view that governments spent in war without regard for deficits. Likewise, when aggregate demand dropped in the private sector, governments should create demand through public works to avoid the consequences of social disaster and potential war.

⁹⁰ Keynes, "Letter from Keynes to President Roosevelt March 25, 1938."

In mid-1942 two economists, Keynes and Hayek, sat together atop the roof of St. Paul's Cathedral in London "armed with shovels" to repel German incendiary bombs and protect Henry VI's "ornate Gothic chapel." German bombers roared through London's night skies during the spring and summer of 1942. "In the face of a vicious common enemy," Lord Maynard Keynes and Friedrich Von Hayek forged a friendship in spite of their adversarial debates concerning economic theories.⁹¹ Merely two years after that night atop the Chapel, the Allies invaded Normandy, a feat intended to turn the tides of war. Roughly a month after the invasion, the Allies met to finalize the design of international monetary policy to prevent another world war. Keynes reportedly read *The Road to Serfdom* on his voyage across the Atlantic ocean in route to a luxury hotel in New Hampshire to help the Allies organize a new world bank.⁹²

⁹¹ Wapshott, *Keynes/Hayek*, xii, xii, 193.

⁹² Wapshott, *Keynes/Hayek*, 198.

Chapter 2

VOYAGE TO BRETTON WOODS: A BATTLE OF ECONOMIC IDEAS IN THE MIDST OF THE SECOND GREAT WAR

The United States mobilized for war December 7, 1941, while economists mobilized for the battle of Bretton Woods. In the months following the Japanese attack at Pearl Harbor, as millions marched to their graves, cities were destroyed, bullets, bombs, famine, concentration camps, and unimaginable flames of war spread, the United States entered technical discussions with Britain for postwar international currency stabilization. British Prime Minister Winston Churchill visited Washington between December 22, 1941 and January 14, 1942 to coordinate the war efforts, and it became apparent to the war managers that the Lend Lease Agreement negotiated prior to U.S. direct involvement in the war would be insufficient to finance the war.⁹³ The initial discussions that led to Bretton Woods began with “Negotiations Relating to the Lend-Lease Agreement between the United States and the United Kingdom signed at Washington, February 23, 1942.”⁹⁴ The agreement intended to design financial aid to the United Kingdom to prosecute the war effort.⁹⁵ “In reference to the agreement of February 23, 1942, the British contacted

⁹³ See: Warren F. Kimball, “Lend-lease and the Open Door: The Temptation of British Opulence, 1937-1942,” *Political Science Quarterly* 86, no. 2 (1971): 232–59, doi:10.2307/2148009. Kimball wrote that “repayment clauses [were] purposely vague in order to avoid the kind of war debts problem which occurred after World War I.” The debts proved to be negotiating leverage for the United States during the currency stabilization debates conducted throughout the war. See also: Warren F. Kimball, “Beggar My Neighbor: America and the British Interim Finance Crisis, 1940-1941,” *The Journal of Economic History* 29, no. 4 (1969) 758–72. <http://www.jstor.org.ezproxy.uta.edu/stable/2115709>.

⁹⁴ *Foreign Relations of the United States (FRUS)*, “Negotiations Relating to the Lend-Lease Agreement Between the United States and the United Kingdom, Signed at Washington, February 23, 1942,” *FRUS diplomatic papers, 1942. General; the British Commonwealth; the Far East, I. UW-Madison Libraries: Digital Collections* (2000): 525. <http://digital.library.wisc.edu/1711.d/FRUS.FRUS1942v01>.

⁹⁵ *FRUS*, “Lend-Lease,” *General*, Vol. I (March 19, 1942): 537. For text, see Department of State Executive Agreement Series No. 241, or 56 Stat. (pt. 2) 1433.

Cordell Hull, U.S Secretary of State, to begin informal conversations with Ernest F. Penrose, an economist and special assistant in the Embassy at London, Nigel Bruce Ronald, Counselor for British Foreign Affairs, and John Maynard Keynes, Economic Advisor to the British government, to propose conversations between British and American government economists. The purpose for the informal conversations “stressed the balance of payments question...instead of directly attacking the problem of tariffs.” Keynes emphasized the need for “financial arrangements that will ensure an adequate supply of foreign exchange for the purchase of essential imports, since their [British] principal apprehension is that, particularly in the first two years after the war, they will not be able to obtain the imports necessary to get back reasonably near their pre-war standard of living and to undertake essential physical reconstruction.”⁹⁶ As the United States entered the Second World War, serious efforts began to develop international economic reconstruction to stabilize peace efforts and avert the economic consequences of the *Treaty of Versailles* following the Great War. The world’s foremost critic and author of *The Economic Consequences of the Peace* usurped the international economic authority to avert another economic conflagration like the one he forewarned in 1919.

Redvers Opie, Counselor of the British Embassy, sent “Proposals for an International Clearing Union” by Keynes to Adolf A. Berle, Jr., Assistant Secretary of State, on August 28, 1942.⁹⁷ A copy was also sent to Harry Dexter White, Director of Monetary Research at Treasury. Opie contended that although informal discussion occurred between U.S. and British officials, at the request of Dean Acheson, a “written statement for the informal considerations of United States experts” was composed by

⁹⁶ *FRUS*, “Discussions Regarding Postwar Economic and Financial Arrangements,” *General*, Vol. I (April 12, 1942): 163-164.

⁹⁷ For further reading see: Jordan A. Schwarz, *Liberal: Adolf A. Berle and the Vision of an American Era*, (New York, NY, Free Press, 1987), <http://catalog.hathitrust.org/Record/000859617>

Keynes.⁹⁸ Opie stressed that the paper addressed “postwar international financial problems” and had resulted from discussions of “British experts only,” and was sent for the purpose of facilitating agreement between American and British views.⁹⁹ Keynes outlined the need for an international currency that “blocked balances and bilateral clearings” between nations while “private individuals, businesses and banks other than Central Banks, each continuing to use their own national currency as heretofore.” He called for uniformity in “determining the relative exchange values of national currency units” and an agreed upon methodology to determine the supply of money. Furthermore, he sought to address funding issues and enforcement mechanisms “to work in the interests of international planning and relief and economic health, without detriment to the liquidity of these balances.” He wanted individual nations to have some discretion on the best way to deploy funds; however, he called for “a central institution, of a purely technical and nonpolitical character, to aid and support other international institutions concerned with the planning and regulation of the world’s economic life.” Keynes stressed the collective need of “reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety, for causes which are not of its own making, concerning its ability to meet its international liabilities...of self-protection from disruptive outside forces.” In other words, Keynes argued for debt relief for war-torn nations, most specifically, for invaded countries.¹⁰⁰ After receiving the paper from Keynes, Berle replied on August 31, 1942. He agreed “entirely that this document should not be shown at this time to anyone outside the United States Government Departments” and no further written communications should proceed

⁹⁸ Dean Acheson was a State Department official who oversaw the implementation of Lend-Lease. He also led the State Department delegation at Bretton Woods. He served as Secretary of State 1949-1953.

⁹⁹ *FRUS*, “Proposals for an International Clearing Union,” *General*, Vol. I (August 28, 1942): 203.

¹⁰⁰ *FRUS*, “Proposals for an International Clearing Union,” *General*, Vol. I (August 28, 1942): 203-4.

on the subject: "it can only be dealt with orally at this stage."¹⁰¹ He assured the Counselor of the British Embassy that the Treasury and State Departments were "working in close cooperation."¹⁰² The battle of Bretton Woods had begun.

Harry Dexter White forwarded Keynes' letter to Henry Morgenthau, Jr., Treasury Secretary, with a letter from Sir Frederick Phillips, Head of the Treasury Mission in Washington, addressed to White, which summarized the paper from Keynes.¹⁰³ White indicated that at a later date he would "submit a memorandum with comments and evaluation of Keynes' proposal."¹⁰⁴ An interdepartmental subcommittee convened in White's office on October 5, 1942, and included members of the State Department, Board of Economic Warfare, White House, Interior Department, Department of Commerce, Office of Price Administration, Federal Reserve Board, and the Treasury Department. The subcommittee developed a list of eleven complex questions to be delivered to Keynes to clarify or rebut his paper: "Proposals for an International Clearing Union."¹⁰⁵ The list of questions "approved by the Inter-Departmental Subcommittee...was handed to Sir Frederick Phillips" on October 7, 1942.¹⁰⁶ Assistant Secretary of State Berle discussed the list of questions with Sir Frederick: "We had a general conversation about the Keynes plan." Though they agreed on (or at least Sir Frederick realized) the "obvious

¹⁰¹ This was most likely that for security reasons, discussion summaries should not be transmitted and communications needed to be by courier. The response to Keynes' letter would be delivered in person by Sir Frederick Phillips when he traveled back to England from the United States.

¹⁰² *FRUS*, "Postwar Economic Arrangements," *General*, Vol. I (August 31, 1942): 222.

¹⁰³ Treasury: Papers of Sir Frederick Phillips are held by The National Archives in Kew Richmond, England TW9 4DU. They are public record.

¹⁰⁴ *Diaries of Henry Morgenthau, Jr., April 27, 1933-July 27, 1945*, "Letter from White to Morgenthau," *Diary Book 565, Franklin D. Roosevelt Presidential Library and Museum*, (September 1, 1942): 345.

<http://www.fdrlibrary.marist.edu/archives/collections/franklin/?p=collections/findingaid&id=535&q=&rootcontentid=188897#id188897>. The Keynes plan is 348-352.

¹⁰⁵ *Morgenthau Diaries*, "Interdepartmental Subcommittee Meeting in White's Office," *Diary Book 575* (October 5, 1942): 91-93.

¹⁰⁶ *Morgenthau Diaries*, "Meeting in Berle's Office," *Diary Book 576* (October 7, 1942): 162. Berle recorded that he delivered the list of questions to Phillips on October 6, 1942. *FRUS*, "Postwar Economic Arrangements," *General*, Vol. I (October 6, 1942): 224.

main points,” which were that Britain and other countries “would need goods and were faced with adverse balances” and “there were only two ways worked out of settling these balances—gold, if gold is acceptable, and otherwise goods.” Keynes plan, however, “came to giving to the proposed Clearing Union a method of creating money which could be used in settling these balances.” When Berle insisted that new money created “could only be availed by taking goods,” a fundamental disagreement emerged between the United States and Britain. “Sir Frederick objected, saying that great use of it was for foreign lending.” While Britain sought currency stabilization between creditor and debtor nations, the United States sought trade advantage with actual goods. Berle summarized: “that arrangements would have to be made, during the postwar period to enable other commercial countries to get back on their feet and start work. This period might well synchronize with a period when the United States was seeking activity for its plants and employment for its people.” In other words, for U.S. Congressional support and public approval, Berle impressed upon Sir Frederick that to acquire the necessary loans, Britain would need to buy American goods.¹⁰⁷ Sir Frederick agreed to deliver the questions to Keynes and arrange to have “comments sent back...soon thereafter as he himself would not be returning for several weeks.”¹⁰⁸ Sir Frederick confirmed that the British government had agreed not to disseminate information to either China or Russia regarding proposal discussions concerning the Clearing Union.¹⁰⁹

¹⁰⁷ *FRUS*, “Postwar Economic Arrangements,” *General*, Vol. I (October 6, 1942): 225. This would later be fully developed by the Marshall Plan.

¹⁰⁸ *Morgenthau Diaries*, “Meeting in Berle’s Office,” *Diary Book 576* (October 7, 1942): 162.

¹⁰⁹ *FRUS*, “Postwar Economic Arrangements,” *General*, Vol. I (October 12, 1942): 227. Canada protested the secret meetings between the United States and Britain. There are recorded exchanges in which Britain assured Canada of the informal nature of the discussions. *FRUS*, “Postwar Economic Arrangements,” *General*, Vol. I (October 19, 1942): 227.

Sir Frederick delivered a revised copy of the "Proposals for an International Clearing Union" to Berle on November 25, 1942.¹¹⁰ The new proposal recognized an impasse between Britain and the United States and the amended paragraph six called for more international cooperation and incorporated the United Nations into the amendment process. The revised plan included specific answers to the eleven questions drafted by the Interdepartmental Subcommittee on October 5, 1942. The U.S. Treasury department held a meeting in Morgenthau's office on December 15, 1942, to reconvene an Interdepartmental Subcommittee to address the revised version of Keynes plan. White set the agenda for the meeting, which included a brief report from the Technical Committee, the progress of discussions with other governments, and to distribute and explain the preliminary draft of the American proposal. White wanted to further discuss the fundamental differences between the British plan and American plan, as well as the views of the Cabinet Committee to develop the next steps and provide further instructions to the Technical Committee.¹¹¹ The meeting began when Morgenthau stated: "You had better open the meeting, Harry [White]." Berle stated that the British government wished to give copies of the Keynes plan to the Soviet and Chinese ambassadors in London and that he and White opened discussions with Russia and asked "if they would put themselves in a position to exchange ideas with us on the subject." They intended to visit with the Chinese ambassador the following day. The Treasury plan was not communicated to foreign governments because there was not an "understanding in advance" of the "meeting—some consensus of opinion...." The revised draft of the Keynes plan was presented. The discussion emphasized the quotas and exchange rate

¹¹⁰ *FRUS*, "Proposals for an International Clearing Union, Revised November 9, 1942," *General*, Vol. I (November 9, 1942): 231.

¹¹¹ *Morgenthau Diaries*, "Agenda for Meeting in Secretary Morgenthau's Office," *Diary Book 596* (December 15, 1942): 199.

concerns of the fund. Berle notified the committee that “the British have served notice on us that they are going to give copies of the Keynes plan to the Russian ambassador and the Chinese ambassador.” He therefore proposed providing the Treasury plan with the full understanding that it was a draft version and not binding. Berle thought it important to provide the American view, otherwise Britain would lead the discussions and the conference would likely be in London. Although the Treasury plan would not be binding, it needed to be presented to Secretary of State Hull for further review. The President needed to approve communicating the plan to foreign governments.¹¹² When Morgenthau presented the proposal to Hull, he included a letter dated May 16, 1942 from President Roosevelt that instructed Treasury to work in “conjunction with the State Department, B.E.W. [Board of Economic Warfare] and the Export-Import Bank.” After interdepartmental concurrence, Roosevelt wanted Morgenthau to report to him prior to calling a conference of Finance Ministers of the United Nations. With a copy of the President’s letter, Morgenthau sought Hull’s opinion on the preliminary draft to obtain consensus.¹¹³

On the following day, December 16, 1942, Morgenthau received a confidential intelligence report from the Office of War Information: “America and the Post-War World.” The report comprised changing views of the American people. It detailed the shifting views of the American people from isolationism and their views of other nations. Three-

¹¹² *Morgenthau Diaries*, “International Stabilization Fund,” *Diary Book 596* (December 15, 1942): 198. The Preliminary Draft of the Proposal for United and Associated Nations Stabilization Fund is located on page 200 of the *Diary 596*.

¹¹³ *Morgenthau Diaries*, “International Stabilization Fund,” *Diary Book 596* (December 15, 1942): 198. Records of the Board of Economic Warfare (1941-1943) are located at the National Archives. The Board of Economic Warfare was organized on December 17, 1941. Initially the board maintained control over exports. Roosevelt issued an Executive order on April 13, 1942, expanding the board with authority over imports and granting authority over economic warfare. Vice President Henry A. Wallace presided over the Board. See: *National Archives: Records of Foreign Economic Administration: Records of the Board of Economic Warfare (1941-1943)*. <http://www.archives.gov/research/holocaust/finding-aid/civilian/rg-169.html>

fourths of Americans generally viewed England favorably, and twenty-five percent expressed concerns with British Imperialism and British postwar intentions. Many held “misgivings...and a bitter minority charged that England was simply fighting for the preservation of her empire.” Although roughly the same percentage of Americans expressed concerns with the Soviet Union following the war, “only four percent of the sample expressed the fear that Russia would try to spread communism throughout the world after the war.” The report continued, “Furthermore, confidence in Russia’s postwar intentions is growing.” The report expressed concerns that “many Americans still talk about Russia, England, and other nations in stereotyped, unrealistic terms.” The concern from the Office of War Information was that “persons who were ignorant about international affairs were far more prone to be isolationists than those who were relatively well informed.” The Bureau of Intelligence reported that “fear of unrestricted foreign competition still dominated the thinking of a rather high percentage of Americans.” The majority surveyed expressed concerns with free trade because they wanted American industry to be “protected from foreign underselling; cheap foreign labor must not be permitted to undermine their high standard of living.” Surveyed Americans were also concerned with American immigration policy because of worries of mass immigration to the United States following the war. Half of those surveyed wanted “severe or complete restrictions on immigration,” and the majority expressed anxiety about an economic depression that would follow the war.

The report was important because it detailed administrative goals to educate the American people against isolationism by appealing to “hope and overcoming fears.” More importantly, “the fears which might make people hesitate to accept the responsibilities of international collaboration must be attacked. Mistrust of other nations must be broken down. It is particularly important that residual suspicion of Russia and

England be dissipated, so that the United States can cooperate closely with them in peace as well as in war. The fear that close economic relationships with other nations will be disadvantageous to the United States must be dispelled with facts and figures.”¹¹⁴ As war was raging and the United States engaged in complex negotiations for a World Bank and Fund, it was important for the government to dispel the overbearing fear of the American people against Keynesian principals of internationalism. Cooperation with England and Russia was paramount to achieve these goals. Therefore, as the Battle of Bretton Woods begun, the appearance of cooperation was vital.

Secretary of State Hull replied to Morgenthau on December 17, 1942, on the World Stabilization agreement (Treasury’s plan for the Clearing Union), and confessed he “was still in a fog on it,” meaning he did not fully understand the proposal. Hull wanted to confer with Herbert Feis, an economic advisor to the State Department, and asked that White call another meeting of technical experts.¹¹⁵ In a telephone conversation Morgenthau informed Vice President Henry Wallace that Hull had called for another meeting of the technical experts. Wallace stated: “I don’t profess to be any technician in this field, but it looks to me like the boys have done a good job and the thing to do is to press it along. It seems to be better than the alternative British plan.” After obtaining the Vice President’s assurance, Morgenthau discussed problems within the Department of State and disagreements he held: “as I told the Lend-Lease people that I thought that they were definitely open for criticism, that they didn’t have all the answers on Lend-Lease in Reverse and all the rest of the stuff.” It is noteworthy that the leader of administration for Lend Lease, Dean Acheson, was replaced at the meeting with Berle,

¹¹⁴ *Morgenthau Diaries*, “America and the Post-War World,” *Diary Book 597* (December 16, 1942): 71.

¹¹⁵ *Morgenthau Diaries*, “America and the Post-War World,” *Diary Book 597* (December 16, 1942): 81.

Assistant Secretary of State. Berle worked directly with Treasury to develop the Treasury plan in response to Keynes plan. Instead of meeting in Morgenthau's office, the Vice President and Morgenthau agreed to have a frank discussion the following morning while taking a walk in the park.¹¹⁶ Hull agreed to meet with Morgenthau after the technical meeting to iron out the Treasury plan before sending it to the President for approval to call a conference of international experts to develop an international bank.¹¹⁷

Assistant Secretary of State, Adolf Berle, dispatched a memorandum to Washington on January 9, 1943, which summarized a conversation he had with the British Treasury Representative in the United States, Sir Frederick Phillips, and Redvers Opie, Counselor of British Embassy. The British representatives wanted to know if the United States was "making any progress in getting our ideas together in answer to the Keynes plan which they had presented." Berle answered the question "categorically." He said, "we [United States] made very considerable progress in getting up our ideas and I thought they were now substantially complete. We did not, however, feel it advisable to lay down an American plan. Instead, the Treasury was contemplating calling a meeting of treasury experts from whom a plan might develop."¹¹⁸ The meeting took place on January 26, 1943. The Department of State sent Adolf Berle, Jr. and Leo Pasvolsky, an economist and assistant to Secretary of State Cordell Hull. The Treasury Department sent Harry Dexter White and Daniel W. Bell, Undersecretary of the Treasury. Berle spoke for Hull. Bell asked if "a few things should be cleared up with the British before going forward with further consideration of the proposal," and "Mr. Berle explained that

¹¹⁶ *Morgenthau Diaries*, "Telephone Call: Wallace and Morgenthau," *Diary Book 597* (December 16, 1942): 239.

¹¹⁷ *Morgenthau Diaries*, "Letter Hull to Morgenthau," *Diary Book 597* (December 16, 1942): 246.

¹¹⁸ *Foreign Relations of the United States (FRUS)*, "Preliminary and Exploratory Discussions Regarding Postwar Monetary and Financial Arrangements," *FRUS General 1943*. *UW-Madison Libraries: Digital Collections* (2000): 1054.

what they had agreed upon to do was to call a conference of the British, Russians, Chinese, and Americans at which meeting the American draft would be submitted and discussions would take place.” White explained that before going forward to arrange an international conference, Morgenthau would need to meet with the President, but before doing that “White thought more progress might be made by continuing to handle it at an informal level and suggested that a letter, a draft of which is appended, be sent out to various Governments. After further informal discussions had taken place and we had a better idea of the reactions of the technicians of various Governments, Secretary Morgenthau could then speak to the President” to decide “whether to go ahead with a formal conference.”¹¹⁹ After discussion, the committee agreed that the draft proposal and the accompanying letter should be distributed to all the United and Associated Nations. Berle was responsible for delivering copies to the Soviet, Chinese, and British governments. The agreed-upon cover letter indicated that the proposal was a draft and “not as an expression of the official views” of the U.S. government. The Treasury plan was labeled: “Proposal for an International Stabilization Fund of the United and Associated Nations.”¹²⁰ The committee members agreed to send the counter proposal to the Keynes plan for informal discussions prior to submitting the plan to the President.

Berle transmitted the “preliminary memorandum and preliminary draft of a Proposal for an International Stabilization Fund of the United and Associated Nations” to the British, Chinese and Soviet ambassadors on February 1, 1943.¹²¹ Sir Frederick

¹¹⁹ *Morgenthau Diaries*, “Conference in Mr. D. W. Bell’s Office,” *Diary Book 606* (January 26, 1943): 142.

¹²⁰ *Ibid.*

¹²¹ *FRUS*, “Postwar Financial Arrangements,” *General* (January 9, 1943): 1055. For text of the Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund issued by the U.S. Treasury Department, see Department of State Publication No. 2866, *Proceedings and Documents of the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1-22, 1944* (Washington, Government Printing Office, 1948), vol. II, 1536.

replied to Berle that British government believed that the draft proposal should only be sent to the U.S.S.R. and China, and not be transmitted to other United and Associated Nations.¹²² After a brief meeting with Sir Frederick in Washington, the Department of State decided not to send the draft proposal to other nations and that the United States and Britain should continue bilateral informal discussions. Sir Frederick would communicate the British response on February 23, 1943.¹²³ Morgenthau, however, requested from Berle the list of nations to send the proposal, and he indicated that after consultation with the British, the cover letter would be amended to reference a British plan. President Roosevelt learned on March 2, 1943 that the draft proposal would be transmitted to the approved nations, and were so on March 4, 1943.¹²⁴ A committee created by Morgenthau to communicate with the public released a U.P. article to the press on March 16, 1943, titled “The Treasury Prepares for Post-War Problems” to begin the public campaign to support the efforts of the stabilization fund.¹²⁵

As many friends and family members were sent off to war, the article “Treasury Prepares for Post-War Problems” reminded people of the economic consequences that led to war: “Fiscal and non-fiscal measures designed to prevent inflation will aid us in winning the war—by forestalling a ruinous rise in the cost of living, by keeping down Government costs, by encouraging production and not speculation, by maintaining the

¹²² *FRUS*, “Postwar Financial Arrangements,” *General* (February 8, 1943): 1056.

¹²³ *FRUS*, “Postwar Financial Arrangements,” *General* (February 16, 1943): 1057.

¹²⁴ *FRUS*, “Postwar Financial Arrangements,” *General* (March 1, 1943): 1058. I have not located memorandums to document the consultation with the British as Morgenthau indicated; Britain subsequently objected to the dispatch of the American plan. See Also: *Morgenthau Diaries*, “Letter from Morgenthau to Hull,” *Diary Book 616* (March 1, 1943): 73. Argentina and France were not included nor were the neutral European nations: Sweden, Switzerland, Spain, Portugal, and Turkey. *Morgenthau Diaries*, “Finance Ministers to be Represented at Conference of United and Associated Nations,” *Diary Book 616* (March 4, 1943): 340. The cover letter and “Preliminary Draft of Proposal for a United and Associated Nations Stabilization Fund” see *Diary Book 616*: 76-89 and 225-240.

¹²⁵ *Morgenthau Diaries*, “The Treasury Prepares for Post-War Problems,” *Diary 616* (March 16, 1943): 326.

public debt with manageable bonds. By the same token, however, these very wartime measures are contributing greatly to the prevention of post-war deflation with its attendant chain of personal tragedy, economic chaos, and social unrest.” Within this context, the article explained the need for high taxes during the war where nearly “sixty cents of every dollar of income earned in the country is represented by Government purchases of tanks, ships, and planes, it is impossible to exaggerate the Government’s need for additional revenue.” It detailed the need for further investment through credit markets by issuing bonds using “individuals, fiduciaries, trusts, and corporations” as opposed to borrowing from banks. But most importantly, the article stressed the increase in American productivity during the war and emphasized the need for postwar planning to transition the economy after the war, when high productivity would be in less demand— industrial demobilization. In other words, Treasury began a public campaign to inform people that international demand would be necessary to maintain current production. Seeds of international economic coordination were deliberately planted in the public conscience through press releases from Treasury, against the wishes of Britain, which did not want loans tied to trade. Furthermore, against British objections, the proposed draft of the American plan was forwarded to United and Associated Nations.¹²⁶

Chargé de affaires in the United Kingdom, H. Freeman Matthews, dispatched a strongly worded dissent to the Secretary of State on March 18, 1943, to complain about Treasury’s decision to release the American plan to foreign representatives and Washington and to request that the American plan be sent to the U.S. Embassy in London. He emphasized previous agreements that the United States would not communicate the American plan to Allied governments. The telegram began with a

¹²⁶ *Morgenthau Diaries*, “The Treasury Prepares for Post-War Problems,” *Diary 616* (March 16, 1943): 325.

detailed recap of events following the “postwar currency conference held February 26, 1943 and developments growing out of it.” Matthews accused Treasury of placing the embassy in “a position of some embarrassment.” He included a detailed summary of notes and minutes of previous telegrams and conferences. According to Matthews, the “general purpose and character of the meeting...reported: (1) That Lord Keynes distributed to those present copies of the memorandum embodying the British proposals for an international clearing union; (2) That Lord Keynes mentioned the existence of an American paper of the same general subject; (3) That the meeting requested your observers to ascertain whether the American paper would be made available to the governments represented at the meeting; (4) That a further meeting was to be held if possible within a fortnight.” Matthews indicated that the minutes of the meeting would be sent to the United States by air. Prior to the meeting of February 26, Matthews indicated that the British had learned that the American plan was delivered to “British, Chinese, and Russian representatives in Washington,” which led to misleading press reports. As a result of misleading speculation and rumor concerning the British and American proposals, Matthews reported that members of Parliament and others in England wanted the British proposal be made public and the Chancellor of the Exchequer announced that the British proposal would be published as a White Paper. Matthews continued that “speculation and curiosity as to the American proposal have persisted not only in the press but in the form of numerous inquiries received by this Embassy and by the British Treasury....” Because of the aforementioned issues, the British Embassy dispatched multiple requests (February 27 and March 8) asking for the American proposal. Matthews was upset that the U.S. Embassy in London was not in a position to reply to the formal request because they had not received the proposal. British Treasury learned the American proposal had been given to representatives of the Allied Governments in

Washington as long ago as March 5. He requested that the U.S. Embassy receive copies of the American proposal: “Embassy would appreciate receiving copies of the latest revision available—that given to the British on February 1 or that given to the Allied Governments on March 5, if it is different.” According to Matthews, “since it seems generally agreed that the American and British proposals must be considered together, the next conference of the Allied Finance Ministers...would be postponed until all had received a copy of the American paper and had had an opportunity to study it.”¹²⁷ Matthews was concerned that Treasury usurped the authority of State by delivering the American plan to representatives of the Allied Nations in Washington. However, by delivering the plan to the Allied Nations in Washington, the United States was able to postpone the proposed Conference of the Allied Finance Ministers in London.¹²⁸

Secretary Morgenthau held a meeting with Treasury to brief the currency stabilization committee on a conference he had with the President to discuss taxes, international stabilization, and occupation currencies, on April 1, 1943. He briefed White on a meeting he had with President Roosevelt: “Now on stabilization, Harry, I told the President about going up before the Senate, and the President is very emphatic—no publication of the American plan.” He quoted Roosevelt: “These things are too early. We haven’t begun to win the war. All these plans—it is alright to talk about them. What the English want to publish is all right...Go ahead with your exploratory, that is all right, but how do you know whether it is going to be six months or a year from now...And maybe we will find a lot of gold in Germany; maybe we won’t.” Morgenthau added, “But he seemed very much against publishing it [the American plan].” Morgenthau briefed the

¹²⁷ *FRUS*, “Postwar Financial Arrangements,” *General* (March 18, 1943): 1059-61. “For text of the original White plan (American plan), see *FRUS, General* Vol. I (1942): 178. For text published on April 8, see British Cmd. 6437: *Proposals for an International Clearing Union*; or *Proceeding and Documents of the United Nations Monetary and Financial Conference*, vol. II: 1548.

¹²⁸ *FRUS*, “Postwar Financial Arrangements,” *General* (March 23, 1943): 1062-3.

committee on invasion currencies with a reminder that Morgenthau's discussion with the President should remain closely held by the members of the committee. He said, "This is all very much here in the room—is very much with us that we should use the gold-seal or spearhead currency. He [Roosevelt] thinks it is the height of stupidity that the English want to use this kind of currency (indicating British Military Authority note)." Britain proposed a British Military Authority note to be used "instead of their regular currency—sterling" to pay down balances. Concerned with mounting English debt to the United States, Morgenthau sought to reduce English balances, and he informed the President that the English would "undoubtedly go over my head to him on this thing. I wanted to know he and I were in accord on what I was trying to do." Morgenthau informed the committee that the President agreed. When the committee discussed exchange rates of invaded countries a conflict emerged between diplomatic efforts and the interests of the United States. Again, Morgenthau quoted the President: "Any rate that exists in a country we invade isn't worth considering." Morgenthau explained that Roosevelt thought "that the local rate is wholly unimportant because it is a fictitious rate." Roosevelt "thought we should just say, 'This is what the rate is,'" and that "he has it very much in his mind." Morgenthau reported that he explained to Roosevelt that the English wanted to use occupied currencies to take advantage of their relatively low value, which would be advantages to Britain because the rate of exchange would prevent England from "building up additional sterling debt." White, however, reminded the committee that when they sent the American plan to the Finance Ministers of Belgium and Holland, the draft letter stated that the Americans would consult the finance ministers of occupied territories before negotiations that concerned exchange rates. White stated: "I think one of the first things we ought to do, in light of those letters, and before anything else is done, is to write them a letter asking them to submit their views on the exchange rate. Then we will

have complied with our promise.” The committee agreed. The discussion made clear that Treasury focused on maintaining present value of British debt, not to offer debt relief through currency exchange rates. The United States intended to apply economic pressure to Britain as the International Stabilization Fund was negotiated to secure economic advantages for postwar planning.¹²⁹ To necessitate the International Stabilization Fund, the Roosevelt administration also needed Congressional support, which required the support of the American people.

As Secretary Morgenthau held the meeting on April 1, 1943, to discuss taxes, international stabilization, and occupation currencies, Under Secretary of State Sumner Welles addressed the Chamber of Commerce of New York to explain the necessity of international coordination to maintain peace and the greatest obstacle obstructing the effort.¹³⁰ Welles stated “that the greatest single interest and objective of the American people was to prevent the recurrence of war, and the greatest obstacle to success in this was defeatism, the assumption that nations were by nature so antagonistic, and that the technical problems of constructing peace machinery were so great that the task was hopeless.” Welles was convinced “that as soon as people abandoned this defeatist attitude and began searching for ways to solve these problems they could be solved....” He framed the argument for coordinated internationalism in rhetoric of humanitarian, and

¹²⁹ *Morgenthau Diaries*, “Taxes; International Stabilization; Occupation Currencies,” *Diary Book 622* (April 1, 1943): 8-13.

¹³⁰ For further reading on Sumner Welles see: Benjamin Welles, *Sumner Welles: FDR's Global Strategist* (New York, NY: St. Martin's Press, 1997); Sumner Wells, *The Time for Decision* (New York, NY: Harper & Brothers, 1944); Christopher O'Sullivan, *Sumner Welles, Postwar Planning, and the Quest for a New World Order, 1937-1943*, (Columbia University Press: Humanities E-Book, 2008), http://ns6rl9th2k.search.serialssolutions.com/?ctx_ver=Z39.88-2004&ctx_enc=info%3Aofi%2Fenc%3AUTF-8&rft_id=info:sid/summon.serialssolutions.com&rft_val_fmt=info:ofi/fmt:kev:mtx:book&rft.genre=book&rft.title=Sumner+Welles%2C+postwar+planning%2C+and+the+quest+for+a+new+world+order%2C+1937-1943&rft.au=O%27Sullivan%2C+Christopher+D&rft.date=2008-01-01&rft.isbn=9780231502160&rft.externalDBID=n%2Fa&rft.externalDocID=uc1.32106019859047¶mdict=en-US.

more importantly, economic self-interest. "After the war America would be faced with great domestic problems, in maintaining the present level of employment and at the same time re-absorbing millions of demobilized soldiers, together with an enormous war debt. It would be necessary, to preserve peace, to supply a fair share of immediate relief for the destitute peoples of the world, and this must be done not only for humanitarian reasons, but also in self-interest." To signify the importance of trade agreements, Welles emphasized that "It was highly significant that the period between the two world wars was characterized by widespread trade warfare and the fact that the spirit of co-operation between peace-loving nations was so weak that they did not unite against the Axis until their very existence was at stake." This is important because as the war was fought, top officials recognized and articulated that the cause of war was economic; and therefore, the effort for economic reconstruction coincided with blood spilled on foreign soils throughout the world. "Any organization for preserving peace would fall apart if the economic underpinnings were unsound, and therefore it was obvious that in the post-war world an expansion of international trade was indispensable."¹³¹ As American and British soldiers fought a common enemy on battlefields, their governments fought against each other to secure more favorable economic underpinnings for their countries in the postwar era. The battle soon became public.

Secretary Morgenthau appeared before a Senate Committee on April 5 and a House Committee on April 6, 1943 "in connection with the International Stabilization Fund." His prepared notes began: "For some time we in the Treasury have been deeply concerned with the threat of international monetary chaos at the end of this war." He stressed that "international currency stability is essential to reconstruction in the postwar

¹³¹ "Chronology," *Bulletin of International News* 20, No. 8 (1943): 374, <http://www.jstor.org.ezproxy.uta.edu/stable/25643429>.

period and to the resumption of private trade and finance.” To achieve this goal, Morgenthau emphasized the need for international cooperation and emphasized that “the establishment of a program adequate to deal with the inevitable postwar monetary problem should not be postponed until the end of hostilities. It would be ill-advised, if not dangerous, to be unprepared for the difficult task of international monetary cooperation when the war ends.” Morgenthau explained to Congress the necessity for postwar planning and importance of legislative support for a final agreement. Furthermore, if Congress addressed postwar planning, then it could benefit the war effort by assuring peace. Morgenthau outlined the tentative proposal for an international stabilization fund. He assured Congress that “this stability would be in large measure secured by fixing the value of currencies in terms of gold, and by providing that changes could not be made without consultation with other members.” He noted that the fund would “deal only with Treasuries and Central banks. It would not compete with private banks or existing agencies.”¹³² Morgenthau preserved the questions and answers from his Senate testimony: “Q: Does this mean a return to the gold standard? A: This plan is based firmly on gold.”¹³³ Morgenthau assured the Congressional Committee that the plan would affix the value of currencies to gold, which directly contradicted Keynes plan. Morgenthau’s

¹³² *Morgenthau Diaries*, “Material which HM Jr used when he appeared before Sen. Coms. On April 5, 1943,” *Diary Book 622* (April 5, 1943): 177-193. “Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund,” *Diary Book 622* (April 5, 1943): 197-208. “Simplified Highlights of the Proposed International Stabilization Fund,” *Diary Book 622* (April 5, 1943): 209-211. “New International Unit: The plan provides for the creation on an international gold monetary unit, the Unitas, equal in value to \$10 of United States money. The accounts of the Fund will be kept in terms of this unit.” The Keynes plan in Section I paragraph (C) described *quantum* (international currency unit) as follows: “We need a quantum of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirement of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand,” *Diary Book 565* (September 1, 1942): *The Keynes plan* 348-352.

¹³³ *Morgenthau Diaries*, “Copy of letter sent to the Ministers of Finance of 34 countries,” *Diary Book 622* (April 2, 1943): 214.

presentation neither referenced nor offered insight into Keynes plan, which differed from the American plan. The primary distinctions between the Keynes plan and the American plan were the mechanism in which the supply of money would be controlled and the underlying basis in which the global currency would be valued. Although Roosevelt was “very emphatic—no publication of the American plan,” he had assured Morgenthau that he agreed that a gold-seal should be used for the currency and thought “it is the height of stupidity” that the English wanted to use a different type of currency. Therefore, Morgenthau briefed Congress and offered assurances. Later, he briefed Roosevelt on the meeting.

The following conversation was recorded between Morgenthau, White, Daniel W. Bell (Undersecretary of Treasury), and Herbert E. Gaston (of the Export-Import Bank) at Treasury concerning International Stabilization on April 5, 1943 at 2:55 p.m:

H.M.JR: I got hold of the President and I told him what happened on the Hill this morning, and he didn't seem to know why I had gone to the Hill at all.

Mr. Bell: Didn't he know about it?

H.M.JR: I should have told him, but I didn't tell him.

Mr. White: You told him in the memo.

H.M.JR: Did I? What memo?

Mr. White: That you gave him.

H.M.JR. He forgets. Then I told him that this thing was published in the *Financial News*—this story. Have you seen this (indicating cable from Mr. Winant, copy attached)?¹³⁴

In the battle for Bretton Woods, collateral damage surfaced from friendly fire. The British government notified the Secretary of State that the White plan (American plan) “had been

¹³⁴ *Morgenthau Diaries*, “International Stabilization,” *Diary Book* 622 (April 5, 1943): 226.

published in this morning's *Financial News*.¹³⁵ Knowing that the American plan leaked and the American press would have the plan by the following day, the Treasury needed to formalize a strategy to release the American plan. Morgenthau expressed: "I am going to keep some semblance of dignity around here. You know what I mean—for the Treasury—and simply say I am going before the House and I can't give this thing out before then. Don't you agree?" The members of the committee all agreed that *emphasis* should be applied to the idea that the American plan was "exploratory" and they agreed to release the cover letter, which indicated it was not the official view of the U. S. government. Secretary Hull notified the Ambassador in the United Kingdom that Morgenthau would have a press conference the following day and will "give the press the text of the stabilization plan for release in the morning papers of April 7." The initial report from England to the Secretary of State was favorable "but there is some criticism of the fact that the proposal makes no mention of tariff reduction."¹³⁶ The Keynes plan was not yet public, so disagreement between the United States and Britain was also not public. The competing Allies needed to frame their narratives and release their competing plans to begin international negotiations.

Morgenthau, White, and Sir Frederick discussed the leak from the *Financial News* on the afternoon on April 5, 1943. They discussed who owned the *Financial News*, and Sir Frederick assured Morgenthau that "it is an opposition paper as regards our financial policy." Sir Frederick expressed concern about the phrase "abnormal war balances" as opposed to "block balances," which indicated the leak originated in the United States. Sir Frederick questioned why thirty-four nations received a copy of the White plan while London had not received it. The exchange escalated when Morgenthau

¹³⁵ *FRUS*, "Postwar Financial Arrangements," *General* (April 5, 1943): 1064.

¹³⁶ *FRUS*, "Postwar Financial Arrangements," *General* (April 6, 1943): 1065.

asked Sir Frederick: "What is the point you are making?" Sir Frederick replied, "Merely that I think it is pretty certain the text that this paper got hold of is the text issued after February 24th and was not a text that was in the hands of the British Government." Sir Frederick explained that the British government suspected it was leaked from an embassy in London. Morgenthau asked him to "write it on a piece of paper," and the name of the embassy was not recorded in the transcript. Morgenthau informed Sir Frederick that he would release the American plan the following day and emphasize the word "exploratory." Sir Frederick concurred and agreed that Britain would also release the Keynes plan.¹³⁷

When Morgenthau learned that Sir Frederick planned a press conference on April 8, 1943, he expressed bewilderment because Morgenthau had emphasized to the American press that there was not significant differences between the American and British plans. He said, "Now, I have all week gotten the press to play down the fact that there's competition between these two plans." After complementing the American press for cooperating, he complained about the London press. The concern against Sir Frederick's press conference rested on the question of English balance (debt). The White House, Department of State, and Treasury agreed "that when the English balance has reached a certain level we'd begin to cut down on them." Sir Frederick lobbied "all over Washington" against the reduction of loans. In a conversation with Sumner Welles, Morgenthau expressed growing tension with Sir Frederick Phillips and frustration that he was his chief defender in Washington: "Well, if—if—it isn't just a a—I don't think it's a day-to-day proposition, and I—I just don't like—I mean I try my damndest to all the time keep these little things from getting big, but I think what the British have done this last

¹³⁷ *Morgenthau Diaries*, "International Stabilization," *Diary Book 622* (April 5, 1943): 242-6.

week—it—it strains one’s sense of humor, if you can say that.” Welles concurred and indicated that Sir Frederick “better learn caution.” Morgenthau asked that Welles clarify and he repeated, “He’d better learn caution,” with which Morgenthau concurred.¹³⁸ Fourteen minutes following the conversation between Morgenthau and Welles, Sir Frederick Phillips phoned Morgenthau and indicated that he could not escape the press. Sir Frederick assured Morgenthau that he would “keep off any discussion of any comparison of the two plans,” and would only provide details of the British plan. They agreed to downplay differences and when Morgenthau defended the American press, Sir Frederick pointed out an article in the *Mirror*. Morgenthau assured him “that’s a Hearst’s paper. I—I—that’s one of those papers that don’t come to my desk.”¹³⁹ The key diplomats between the U.S. and British governments settled on the fact that opposition papers in their respective countries exacerbated the differences between the plans. The battle of Bretton Woods roused political opposition within the Allied countries as well as between them.

As the rift caused by the differences between the British plan and American plan intensified, Hitler’s headquarters announced that “the Führer and Duce [Mussolini] met between April 7 and 10...The detailed discussion dealt with the general political situation as well as all problems of common strategy. Complete agreement was achieved about the measures to be taken in all fields. The Führer and Duce once again expressed their firm determination and the determination of their peoples to wage the war by the total mobilization of all forces until the final victory is won and all future perils threatening the European and African areas, either from the east or the west, are completely eliminated.”

¹³⁸ *Morgenthau Diaries*, “Telephone Conversation between Welles and Morgenthau,” *Diary Book 623* (April 8, 1943): 290-3.

¹³⁹ *Morgenthau Diaries*, “Telephone Conversation between Phillips and Morgenthau,” *Diary Book 623* (April 8, 1943): 294-5.

The news release from Germany conveyed that: the “aims which the Axis Powers pursued to defend European civilization and to preserve the rights of nations to free development and co-operation were re-affirmed. The victory of the nations allied in the Tripartite Pact will secure peace to Europe which will guarantee the co-operation of all peoples on a basis of their common interest and a just distribution of all economic commodities of the world.”¹⁴⁰ As the British and American governments distributed opposing plans for economic reconstruction with currency stabilization, the Axis Powers distributed press releases assuring equitable distribution of commodities to secure European peace. In the war of propaganda, nuanced-complex economic arguments competed against simplicity. Men bled and died on battlefields throughout the world. As the rift surfaced between the American and British governments and Germany and Italy announced “complete agreement,” Russia reported the formation of a “Special Commission investigating atrocities” on the Eastern front and “declared that history knew no such wholesale extermination of a people. Hitler’s army killed and tortured all those who were not wanted by the Germans, and those who could work were carried off like cattle to slave markets in Germany. Many cases were cited of wholesale murders of women, children, and old people.”¹⁴¹ The horrors of war laid economic discussions in the shadows of peoples’ minds...the effects diminished the cause.

After the Keynes plan and American plan became public, diplomats discussed key arrangements for committees and conferences to be coordinated between various governments. Meetings took place on both sides of the Atlantic as efforts increased to secure support for the differing plans. For example, The Ambassador in the United Kingdom notified the Secretary of State that he was “aware of the possibility that, with or

¹⁴⁰ Quoted from: “Chronology,” *Bulletin of International News* 20, No. 8 (1943): 360.

¹⁴¹ Quoted from: “Chronology,” *Bulletin of International News* 20, No. 8 (1943): 380.

without the foreknowledge of the British, the purpose of the proposed meeting might well be to attempt to secure in advance an agreement among the European delegates to plump for the Keynes plan when they go to Washington.”¹⁴² The circumstances of war and the necessity to wage it complicated the narrative of economic coordination. During the latter half of April 1943, while technical experts convened meetings to deliberate the proposals for currency stabilization, Roosevelt announced “with a feeling of the deepest horror’ that some of the U.S. airmen who bombed Tokyo in April, 1942 had suffered ‘barbarous execution.’” He accused the Japanese of refusing to treat American airmen as prisoners of war. The Japanese government responded: “that this treatment had been used because the aviators had intentionally bombed non-military installations and deliberately fired on civilians.” Stories such as the aforementioned captured the public imagination as they formulated a narrative that emphasized differences of nation states. Economic analysis disrupted this narrative. Countries caught in the conflagration dealt with labor unrest, trade disputes, and economic instability that trumped national narratives. For example, in late April, *The New York Times* published an article that read “Washington had intimated to the Finnish Foreign Minister that it would consider acting as intermediary in peace negotiations between Finland and Russia. The report added that Finland had referred the matter to Hitler” and the German government “had informed the Finnish government that if they were persuaded by this offer, Germany would ‘sell Finland down the river’ by making a separate peace with Russia.” Following the report in *The New York Times*, “A national committee of Finnish-American trade unionists, in a public statement at Newark, N.J. protesting against the ‘pro-Nazi policies of the Finnish Government’ urged the Government to declare war on Finland ‘as an enemy of America

¹⁴² FRUS, “Postwar Financial Arrangements,” *General* (April 6, 1943): 1072.

and of the United Nations.”¹⁴³ These stories not only demonstrated the necessity for international economic coordination, but they clarified that trade relations underpinned national narratives in the European theater. The narrative differed in the Far Eastern theatre.¹⁴⁴ Nonetheless, to understand war, it is necessary to understand economics.

White briefed Morgenthau on the status of meetings and on replies from various governments to Morgenthau’s letter to Finance Ministers, which had accompanied the American plan on May 3, 1943. His letter provided a detailed description of the ongoing negotiations with multiple countries. White wrote: “We did not send a letter to Russia nor have we contacted them since Mr. Berle handed them a copy of the proposal several months ago.”¹⁴⁵ In response to White’s letter, Morgenthau telephoned him and said, “I notice that no letter went to Russia.” White hedged and Morgenthau cut him off stating, “Well, I think we should send a letter to Russia. And what I would do is—I—you prepare a letter and we’ll send on just where we have every other, and we’ll just tell Berle we’ve done it, that’s all.” When White objected, Morgenthau stated, “Well, you make a better suggestion.” Morgenthau expressed his displeasure with the fact that Russia did not receive a formal letter.¹⁴⁶

¹⁴³ Quoted from: “Chronology,” *Bulletin of International News* 20, No. 9 (1943): 421.

¹⁴⁴ This is a topic that remains unexplored in this project. My hypothesis is that the economic reconstruction of Japan acted more as a military outpost in the early stages of the Cold War, and not as an epicenter of economic reconstruction, thus the effects of Japanese occupation in the Far East would be marred by Korea and Vietnam. The revolution in China abruptly ended the economic coordination between the United States and the Far East. In a key telegram from The Chargé de affairs in China (Vincent) to the Secretary of State, April 29, 1943, in reference to China it was recorded: “The discussion which took place was intelligent and realistic. Almost all participants favored China’s joining in the scheme for international monetary cooperation even though it entailed surrender of power to unilaterally change value of her currency.” It would be interesting to explore if currency devaluation preceded the Chinese Revolution – as Keynes had quoted Lenin in the *Economic Consequences of the Peace*. For Chinese response see: *Morgenthau Diaries*, “Chinese reaction to International Stabilization Fund,” *Diary Book 630* (May 3, 1943): 360.

¹⁴⁵ *Morgenthau Diaries*, “Response to Your Letter to Finance Ministers,” *Diary Book 630* (May 3, 1943): 358-9.

¹⁴⁶ *Morgenthau Diaries*, “Telephone Conversation between White and Morgenthau,” *Diary Book 631* (May 4, 1943): 69.

After the publication of the American and British plans for currency stabilization, various interested parties—academic and private—sent comments to their respective governments. The overwhelming interest in the subject delayed the conference of Finance Ministers. The American banker, Russell Cornell Leffingwell, a trustee of Carnegie Corporation, sent Morgenthau a detailed letter critical of the Keynes plan on May 5, 1943. He wrote: “No nation can be expected to surrender control of its budget, or its taxes and spending, or its level of interest, or of its currency issue, or of its domestic price level, to any foreign nation or group of nations. A sound currency is one that is not being inflated by abuse of the printing press. Yet the Keynes plan ignores all this. It undertakes to stabilize the currency of any and every nation in foreign exchange regardless of the amount printed.” The Treasury Department was put on notice that Wall Street would oppose the Clearing Union.¹⁴⁷ The details of the letter were astonishing in that he argued for the Victors to return to a prewar equilibrium fund like the one between England and the United States. Morgenthau preserved the letter in his diaries without comment. Secretary Morgenthau, Sir Frederick Phillips, and Harry D. White convened on May 6, 1943 to develop the procedure for continued discussions for the Currency Stabilization Plan. As the exploratory discussions with the experts of the various countries continued, Morgenthau, Phillips, and White agreed that the “publication of the British and American plans created considerable interest in the subject among economists and bankers, many of whom are sending their detailed comments and suggestions.” Because the discussions were ongoing, they agreed there would be ample time to respond. Most important, they concurred that “a conference of Finance Ministers will not be called until and unless there is an indication that there is substantial

¹⁴⁷ *Morgenthau Diaries*, “Letter to Leffingwell from Morgenthau,” *Diary Book 631* (May 5, 1943): 232-241.

agreement among enough countries to warrant the expectation of a successful outcome.”¹⁴⁸ The battling forces of Bretton Woods regrouped, while Morgenthau waited for a Russian response to the plan.¹⁴⁹

While Morgenthau was out of town on May 31, 1943, White received a call from Ambassador Andrei Gromyko of the Soviet Embassy, who informed White that the Soviet Union was “definitely interested in participating in the discussion on the International Stabilization Fund.” Gromyko communicated that the reason for the Soviet delay in responding was due to a misunderstanding. White recorded the misunderstanding as a result of State Department communications with the Soviet Union.¹⁵⁰ Although the Soviets expressed interest, discussions moved forward through October 1943 without further Soviet involvement.

As countries participated in the negotiations the primary discussions were between the United States, Britain, and China. After consultation with China, Treasury submitted a new draft of the proposal on July 10, 1943.¹⁵¹ Domestically, disagreement arose between the Treasury Department and the Federal Reserve with private bankers dissenting on the overall plan.¹⁵² The Treasury Department began deliberation for

¹⁴⁸ *Morgenthau Diaries*, “Procedure Being Followed with Respect to the Currency Stabilization Plans now Being Discussed in Washington by the Experts of the United and Associated Nations,” *Diary Book 632* (May 6, 1943): 27.

¹⁴⁹ For further information, see: Yale Institute of International Studies: “Two Plans for International Monetary Stabilization” by Jacob Viner, which was to be published in the autumn of 1943 and reviewed by Treasury in May of 1943. *Morgenthau Diaries Book 637* (May 26-27, 1943). 81. See also: “Summary of Parliamentary Debate on Postwar International currency,” *Diary Book 634* (May 12, 1943): 316.

¹⁵⁰ *Morgenthau Diaries*, “Telephone Conversation with Mr. Gromyko of the Soviet Embassy,” *Diary Book 638* (May 31, 1943): 160.

¹⁵¹ China proposals see: *FRUS*, “Postwar Financial Arrangements,” *General* (June 10, 1943): 1078-80. The revised preliminary draft see: *Morgenthau Diaries*, “Preliminary Draft Outline of a Proposal for a United and Associated Nations Stabilization Fund,” *Diary Book 655* (July 10, 1943): 275.

¹⁵² For Federal Reserve objections see: *FRUS*, “Postwar Financial Arrangements,” *General* (June 8, 1943): 1077. Federal Reserve Board insured opportunity for expression of opinion as plans moved forward, see: *Morgenthau Diaries*, “Letter to Federal Reserve,” *Diary Book 649* (June 17, 1943): 145. American Bankers Associate report: “Place of the United States in Post-War

postwar economic transition within the United States to address concerns for future labor surpluses, transition plans for manufacturing, and talks began to address surplus materials created for the war effort. These issues related to currency stabilization and silver and gold.¹⁵³ Furthermore, Morgenthau notified the Chairman of the Committee on Coinage Weights and Measures, Andrew L. Somers, that he was willing to brief Congress on the status of the negotiations.¹⁵⁴ The battle of Bretton Woods was active on all fronts, except the Soviet Union.

To address domestic dissent with the financial industry, Treasury engaged in a public relations campaign to generate support for the plan. Secretary Morgenthau received a copy of the article: "The World Bank Proposals" published in *Fortune* (August 1943) with a letter that suggested that "This article should bring us a considerable degree of support in the intelligent business circles." With the differences between the American plan and the Keynes plan, bankers and Wall Street opinion articles began to support Treasury by emphasizing the necessity for a gold standard. For example, in the summation of the article given to Morgenthau, the first point of emphasis was: "In the view of the author, the ideal system is a gold standard with international cooperation through a world bank to assure effectiveness in meeting severe crisis." However, if gold backed currencies, then bankers should support an international stabilization fund. To win support, it was necessary to emphasize national autonomy. The author emphasized

Economy" *Economic Policy Commission see Morgenthau Diaries* "The American Bankers Association," *Diary Book 639* (June 1, 1943): 17. On the June 8 meeting where Berle discussed the negotiations with Guaranty Trust Company people over lunch, see: *FRUS*, "Postwar Financial Arrangements," *General* (June 8, 1943): 1077.

¹⁵³ Post-War Domestic Transition plans, see: *Morgenthau Diaries*, "July 6, 1943 Committee Meeting," *Diary Book 646* (July 6, 1943): 208, "July 6, 1943—Letter White Advised Morgenthau to read," *Diary Book 261* (July 12, 1943): 261. Surplus materials, see: *Morgenthau Diaries*, "Letter expressing Surplus Materials would be responsibility of Treasury," *Diary Book 645* (June 30, 1943): 311. Labor discussion asking FDR to have labor shoulder more debt commitments to bonds to relieve bank balance sheets and the need for gold and silver, see *Morgenthau Diaries*, "Letter to the President from Charles Engelhard," *Diary Book 645* (June 30, 1943): 333.

¹⁵⁴ *Morgenthau Diaries* July 28, 1943. Book 652. 52. CITATION ERROR – wrong source

that participation in a “world bank would not involve a loss of sovereignty.” In other words, if Treasury insisted on a gold standard, then Wall Street would support the plan.¹⁵⁵

The Federal Reserve favored the view of bankers. White emphasized to Keynes the need for congressional support for any agreement, and on August 5, 1943, Morgenthau learned that Keynes was more open to White’s proposal and suggested bilateral discussion between the British and Americans take place in September.¹⁵⁶ Negotiations moved forward and the White plan seemed more likely, while the war turned in favor of the Allies. To secure victory against Germany and Japan, however, the Allies needed to rely on military efforts conducted by the Chinese and Russia, which further necessitated their participation in the currency stabilization fund to secure the peace. Although China worked with the Department of Treasury in the negotiations for currency stabilization for postwar reconstruction, the Soviets did not engage in the discussions, however, it was necessary that the Allies support China while also supplying munitions to the Soviets to secure a military victory. *The Bulletin of International News* reported that in the United States, Admiral Ernest King told the press that “China was the key to Japan’s final defeat...and Russia had the geographical position and man-power that were paramount in regard to Germany.” Furthermore, on August 16, 1943, James F. Byrnes, Director of the Office of War Mobilization, assured in a broadcast that “there was every reason for confidence in ultimate victory over Germany and Japan,” though he cautioned more battles “lay ahead.” The optimism of the United States was reported in Russia from a different perspective: an article *Pravda* reported that “According to Moscow radio, that the Red Army offensive had changed the international situation. The Allies operating in

¹⁵⁵ *Morgenthau Diaries*, “The World Bank Proposals—Fortune, August 5, 1943,” *Diaries Book 654* (August 5, 1943): 44.

¹⁵⁶ *Morgenthau Diaries*, “From Casaday for Secretary of the Treasury, Strictly Confidential,” *Diary Book 654* (August 5, 1943): 95.

Sicily had to face only two German divisions and a small number of Italian troops, while the Red Army had pinned down on its front the entire German war machine.” Because of the Russian Army, “The mainland of Europe had as yet not seen Allied forces in a degree which would mean the formation of a second front in Europe, but the Red Army offensive had brought about the situation which had compelled Hitler to refuse any serious help to Mussolini, and had thus been the main cause of Mussolini’s downfall. A serious blow from the west could greatly speed up the end of Hitlerite Germany...and the Red Army expected the Allies to develop active offensive operations on the Continent.”¹⁵⁷ With recognition that Europe leaned on the Red Army to secure an Allied victory in Europe, the Soviets called for more European and American sacrifice while increasing their negotiating power for postwar economic reconstruction, yet they were not participating in discussions for currency stabilization.

The lack of Soviet participation and the conflict between the White and Keynes plans troubled Treasury because it required Treasury to rely on more international support from other participating nations—primarily China. Treasury convened a meeting on the morning of August 18, 1943, to discuss the developments of discussions for the technical committee. Morgenthau briefed the committee that the purpose of the meeting was in preparation for the bilateral meeting with “a very important group” of delegates arriving in September from England. The meeting would authorize a Technical Committee to begin a study in preparation for the British delegates, including Keynes. Morgenthau turned the meeting over to White with the following confidence: “you can ask White all the questions. He has all the answers.” White informed Morgenthau that he would need to brief Congress on the developments and “keep them informed.”

¹⁵⁷ “Chronology,” *Bulletin of International News* 20, No. 17 (1943): 742-63. James F. Byrnes would later be named Secretary of State.

Morgenthau asked White to prepare something for Congress and joked, "They like to get something when they come to the Treasury. You can't give them a twenty-dollar gold piece, so you have to give them something." White distributed copies of the *Preliminary Draft Outline of a Proposal for International Stabilization Fund of the United and Associated Nations*. After distributing the booklet, White remarked, "Practically the only country we haven't heard from, or hasn't participated in the discussions, has been Russia." When asked to clarify, he repeated: "Russia. They have repeated that they are very interested and that they will send representatives, but so far they have never arrived." In an interesting exchange, Morgenthau then interrupted to tell a "very amusing" story. He relayed the story that Larry Bell of Bell Aircraft had sent a personal letter to Stalin addressed "My dear Mr. Stalin" in which he requested permission to send Bell employees to Russia to work on or monitor Bell planes. Morgenthau continued, "Within a week or ten days he got a letter saying 'sure, send them over.' So maybe we should sit down and write a letter, 'Dear Joe.'" The story was followed by laughter in the room. Assistant Secretary of State Adolf Berle, noted that he was he was "a little less optimistic" that Russia would send delegates. White proceeded to explain that "practically all the countries seemed to be...in agreement with the revisions which were suggested," with the exception of China. To appease the Federal Reserve Board, the plan was altered to "move more in the direction of larger gold contributions." White alluded to the fact that the change could prompt differences in the formal discussion, but conceded that he did not know. He was confident that member nations would likely agree, with the notable exception of the British. White emphasized that "the British are coming with some counter suggestions. What they are, I don't know. But they are coming with some counter suggestions...." The Canadians planned on bringing a separate proposal but according to White the purpose of their proposal "was an attempt on their part to bring

together the differences between the British plan and the American plan.” White noted that the Canadian plan was closer to the American plan and the reservations made in public stemmed from the fact that Canada was part of the British Commonwealth, but in “discussions it was revealed that they are very much in agreement with our approach.” When the conversation turned to Keynes, Leo Pasvolsky from the State Department asked if the Keynes letter was in response to the current draft; White confirmed that it was. The summary of Keynes’ difference with the plan was the question of “how much gold, and what to do with foreign exchange control.” White indicated that there was not “any difference between us in the latter—foreign exchange control.” He indicated that the seeming difference between the plans was an exaggeration of London press, which “border all the way from facetious to outright hostility. There are few articles which are not of that character...” White attributed the hostile British media to “ignorance or misunderstanding,” which he accepted was in large part due to the American lack of engagement with the foreign press because the government delayed waiting for agreement between the two nations. By working with the Federal Reserve Board, the public relations campaign would expand internationally because of “conferences with banking groups.” White proceeded by explaining the high points of the plan. After discussion of the plan, the committee discussed opposition leaders in the United States against the plan. Marriner Eccles from the Department of State, remarked: “Harry, your plan is so darned complicated I asked our people to put down briefly in laymen’s language so I could understand the darned thing, just what it means, so they did. It isn’t very long, just five pages.” He offered to have a copy sent to White and along with other committee members; White agreed that he would like a copy.¹⁵⁸ The Technical

¹⁵⁸ *Morgenthau Diaries*, “International Stabilization Fund,” *Diary Book 657* (August 18, 1943): 1-22. Marriner Stoddard Eccles would be appointed Chairman of the Federal Reserve Board in November of 1943.

Committee prepared for the British delegation, which would include Keynes, to iron out the differences between the plans. The committee expressed confidence that the plans would come together favoring the American plan, because Canada would assist with bridging the differences while favoring the American plan, and China supported the American plan. With the assist of the Federal Reserve Board, organizing committees of business leaders (bankers and Wall Street) would garner support for world trade and the stabilization fund. These committees by virtue of business demands would encourage transatlantic support for the fund. The primary difficulty facing the stabilization fund was the simple fact that the Soviets were not engaged. The Russians needed to join the discussions.

Just as the United States needed to secure Soviet support, the private sector needed further assurance that free markets would not be jeopardized by the plan. To further encourage bankers, Morgenthau solicited the help of Robert E. McConnell. Morgenthau had selected McConnell to manage the German company General Aniline & Film Corporation in March of 1942 to assist with the war effort. In an interesting resignation letter that he forwarded to Morgenthau in July of 1943, he stated: "As you know, I personally am opposed in principle to Government ownership in business because of the reduced efficiency, high cost, general confusion and various other reasons which I need not enumerate in this memorandum. There are of course a certain limited number of war time exceptions which are justified only during the emergency." McConnell went on to say that he resigned because the Board of Directors considered "Government co-ownership... would result in the great detriment to the valuable public property represented by General Aniline & Film Corporation."¹⁵⁹ This is extremely

¹⁵⁹ *Morgenthau Diaries*, "Letter from R. E. McConnell to Morgenthau," *Diary Book 648* (July 13, 1943): 153.

important because, as historian Graham Taylor has written, during the Second World War “economic controls over international commerce were extended by both Axis and Allied governments, including restrictions on international communications, the flow of technical information, and private access to strategic raw materials. The movements of bank deposits, loans, and security investments across borders were subjected to intense scrutiny and tight restrictions by warring nations.”¹⁶⁰ In other words, international businesses such as the German owned Aniline & Film Corporation needed assurance that an international currency stabilization fund would not deter private ownership. When the business executive, Robert McConnell resigned, he echoed these concerns. His resignation offered him the authority of conviction and his opinion warranted merit as a representation of business leaders. Therefore, when he wrote to Secretary Morgenthau on August 18, 1943 to support Treasury’s efforts in postwar planning, an important shift in business’ views began to emerge. The business leader McConnell, not only expressed support for postwar planning, he did so by acknowledging failures following the Great War. He wrote: “The following seems to express the consensus of intelligent opinion in the analysis of post-war planning in World War I. The explanation for the non-existence of a constructive plan to meet the change at the end of World War I is: 1) concern that post-war planning during the conduct of the war would divert attention from...winning the war. 2) Lack of Presidential support for a domestic program...3) Failure to denote a single agency to conduct a program...4) Failures to anticipate an early ending of the war. 5) Failure to comprehend the importance of creating intelligent public opinion in order to

¹⁶⁰ Graham D. Taylor, “The Axis Replacement Program: Economic Warfare and the Chemical Industry in Latin America, 1942-44,” *Diplomatic History* 8 (1984): 145.
<https://books.google.com/books?id=gcQLQNxuHfUC&pg=PA298&lpg=PA298&dq=robert+mcconnell+1943&source=bl&ots=O5UZeEoH-V&sig=P4x-XImXRtAEnolBnOt8Psrwj3Y&hl=en&sa=X&ved=0CDcQ6AEwBWoVChMlJNqi5J2ByQIVSGweCh0niQI5#v=onepage&q=robert%20mcconnell%201943&f=false>

win support...” McConnell concluded that problems existed in 1943 that similarly existed in 1918 in that there was too much confusion over the postwar procedure. McConnell asked for the creation of a Department of Government to “bring together the scattered activities...to develop a consistent overall policy.”¹⁶¹ By overall policy, he sought more coordination between government and private sector opinion. Treasury was in a Catch-22. As the private sector moved more in favor of the importance of postwar planning, private sector opinion relied on the return to the gold standard; yet as the American plan demanded more gold deposits, they moved further from the Keynes plan. As the private sector sought more assurance for private sector autonomy, the United States needed to encourage more participation from the Soviet government. More divisions emerged as Treasury and State Department officials expressed further optimism for concurrence.

The Department of Treasury reached out to the Soviets with a phone call to Ambassador Andrei Gromyko on August 19, 1943. During the conversation, the Ambassador reassured Morgenthau and White of the Russian government’s desire to send delegates to Washington. When pressed by Morgenthau because the American press continued to ask about Russia and whether or not they had sent a delegation, Gromyko gave his personal assurance that he agreed with sending delegates, but he had not received official response from his government. He was asked if White could relay to the press that “The Russian Government was very interested in the proposal but because of difficulties of transportation they had not been able to send the delegates.” Gromyko concurred that it would be acceptable to say the Russian Government was interested in the proposal, but he objected the latter half of the statement. It was then collectively agreed that White would state: “Russian Government was very interested in the proposal

¹⁶¹ *Morgenthau Diaries*, “Inter office Communication—McConnell to Morgenthau,” *Diary Book 657* (August 18, 1943): 105.

and had had an observer present during all of the discussions.” Gromyko also wanted to know exactly how many nations had not responded to the request to send delegates and White agreed to provide him with the list of small nations. White also recorded that “When the Secretary told him the story of the airplane manufacturer who had written directly to Stalin and gotten an immediate response. Gromyko said he knew of the incident.” As The Department of Treasury pressed for further Soviet participation in the currency stabilization fund, the Soviet Union continued to express interest without offering any commitment to send delegates.¹⁶²

British experts met with the Department of Treasury in Washington in September and October of 1943. In a Memorandum by Assistant Secretary of State, Adolf Berle acknowledged that minutes of the first two meetings were not maintained while the minutes of the meetings between September 23 and October 9 were not printed. There were no records kept for the first eleven meetings. Those “discussions led to agreement on two documents: (1) A draft directive for a drafting committee, and (2) a set of agreed minutes.”¹⁶³ The second document was a negotiated agreement to record the disagreements between Keynes and White. The fundamental disagreement was that Keynes believed the “plan did not give enough consideration to the debtor-creditor position of countries. White argued that the purpose of the Bank “was not a device to bring equilibrium into the balance of payments, but in so far as it stimulated private capital.” Keynes was reported not to agree with that purpose. Keynes argued that the loans would be too restrictive on spending and tied too much to trade. White dissented and articulated provisions in the plan established to mitigate the risk. Keynes replied, “That the main lines of the plan make it appear very restrictive of the use of funds, but

¹⁶² *Morgenthau Diaries*, “Conference in Secretary Morgenthau’s Office, August 19, 1943,” *Diary Book 657* (August 19, 1943): 117.

¹⁶³ *FRUS*, “Postwar Financial Arrangements,” *General* (September 14, 1943): 1083.

that on closer analysis it seems this feature is mitigated by several jokers.” The transcript noted that “White said there were no jokers in the plan.” The disputed paragraph read, “The Bank shall impose no condition upon a loan as to the particular member country in which the proceeds of the loan must be spent; provided, however, that the proceeds of a loan may not be spent in any country which is not a member country without the approval of the Bank.” Keynes objected to the paragraph. He insisted that the reality was that the “borrower instead gets his bills paid.” He spelled out that by demonstrating the mechanism in which money is borrowed to pay interest and principal of current loans. He spelled out that bad loans were disguised by issuing new loans, which he concurred was the financial mechanism used to finance the war. This mechanism worked in the short-term; however, using the same mechanism in postwar reconstruction tying loan repayment “directly or indirectly with exports” and the balance of payments between nations would be an error. When White articulated that the relationship between the import and export nations would facilitate the gradual balance of payments, Keynes “interjected that there would be a third gain, namely the accumulation of funds for an emergency; that such accumulation at compound interest would provide a country with a valuable asset.” Keynes was concerned that equilibrium would not be achieved because creditor nations could accumulate profits while demanding interest payments from debtor nations; therefore, increased productivity in debtor nations would not necessarily result in further domestic spending to stimulate local economies. White “referred to the provision that a competent committee was to consider whether a loan would raise the productivity of the borrower, and whether the balance of payments prospects of the borrowing country were favorable to servicing the loan.” A provision in the White plan created a competent committee to determine whether new proceeds from economic growth should be used to pay down debts accrued from loans or to be

allocated to further investments within the debtor country. Keynes “remarked that an incompetent committee might come to more useful conclusions.” The men did not resolve the disagreement. They agreed to have further negotiations and reconvene at a future date.¹⁶⁴

Following the meetings in Washington between the British and American experts, diplomats confronted rumors and leaks about the discussions. Because of articles published by the British *Financial Times*, British and American authorities agreed to publish official statements over the objections of Keynes.¹⁶⁵ It took months to negotiate the content of a Joint Statement of principles. Furthermore, a key negotiating member, the Soviet Union, remained uninvolved in the discussions, though news outlets such as *Reuters* published articles that stated otherwise. The U.S. Ambassador in the Soviet Union, W. Averell Harriman, received a letter from the Soviet Foreign Minister Vyacheslav Molotov on October 30, 1943, in which Harriman reported that the Soviets would send delegates to Washington. The contents of the letter sent to Harriman were not printed.¹⁶⁶ While the United States pressed the Soviets for further involvement, it needed to suppress rumors of secret negotiations with the Soviet government to other allies. For example, a *Reuters* news dispatch referencing Russian financial experts who planned to travel to Washington concerned South Africa. American diplomats needed to assure foreign governments that meetings were not being held between the Soviet and American governments, while assuring the public that the Soviets participated as observers during discussions.¹⁶⁷ Furthermore, after the meeting with British experts in

¹⁶⁴ *FRUS*, “Postwar Financial Arrangements,” *General* (October 11, 1943): 1092-6.

¹⁶⁵ *FRUS*, “Postwar Financial Arrangements,” *General* (October 11, 1943): 1096. For further reading on Winant, see: Bernard Bellush, *He Walked Alone: A Biography of John Gilbert Winant* (Paris: Mouton, 1968).

¹⁶⁶ *FRUS*, “Postwar Financial Arrangements,” *General* (October 11, 1943): 1098.

¹⁶⁷ *Foreign Relations of the United States (FRUS)*, “United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, July 1-22, 1944,” *FRUS diplomatic papers, 1944*.

Washington and subsequent reports by the *Financial Times*, the British delayed agreeing to Roosevelt's request for a formal conference to be held in May of 1944.¹⁶⁸ The Americans and British could not reach an agreement on the Joint Statement of Principles, which needed to be agreed upon prior to a conference.¹⁶⁹ As the disagreement escalated between British and American delegates, it became more important to facilitate Soviet participation. This necessity elevated the importance of the United States Ambassador to the Soviet Union, Averell Harriman and his key advisor George F. Kennan.

Henry Morgenthau Jr. called Ambassador Harriman on the morning of April 21, 1944, to press for further clarification of the Soviet view. In a most remarkable exchange the transcript follows:

H: Have you gotten the cables I sent last night?

HMJr: No, I have not.

H: Do you mind inquiring at the State Department?

HMJr: I'd love to.

H: The answer, now, is "yes."

HMJr: The answer, now, is "yes"?

H: With the request not to discuss it until you've seen my cables.

HMJr: Now, wait a minute. See if I've got it—the answer, now, is "yes" but I shouldn't discuss it until I see your cable?

H: Yes, because there are certain aspects about it that you will have to look at before you—for you make up your mind about before you...

HMJr: Well, I'll get hold of Dean Acheson and tell him to get me the cable right away.

H: Yes. And don't do anything until you have read the cable.

General: economic and social matters, II. *UW-Madison Libraries: Digital Collections* (2000): 106. <http://digital.library.wisc.edu/1711.d/FRUS.FRUS1944v02>.

¹⁶⁸ *FRUS*, "Bretton Woods," *General*, Vol. II (April 5, 1944): 107.

¹⁶⁹ *FRUS*, "Bretton Woods," *General*, Vol. II (April 20, 1944): 120-124.

HMJr: I will do nothing until I have read the cable.

H: Yes. Ask Mr. White to get in touch with the experts and see if they have heard from their people.

HMJr: I'll do that.

H: I'd appreciate very much being told what your decision is.

HMJr: —the minute we make one I'll let you know.

H: Yes. Okay.

This is the recorded moment the Cold War began, although it was neither known at the time of the call, nor when it was recorded in the *Morgenthau Diaries*.¹⁷⁰ The beginning of the call was routine in that the operator at the embassy reminded the Secretary of Treasury of operational awareness and secrecy due to the fact that the call could have been intercepted by foreign agents. However, the operator's routine reminder set forth the reasons Harriman could not discuss the content of the cables that were previously dispatched. During the course of the conversation, Harriman informed Morgenthau that the Soviet agreement to participate in the negotiations did not necessarily imply agreement and that before making any statements, it was important that Morgenthau review the official response from the Soviet government. The conversation between Morgenthau and Harriman was at 9:20 a.m. on April 21, 1944. At 9:27 a.m., he sought Acheson to retrieve the cable and reported that he and Acheson were scheduled to report to Congress at 9:45 that morning. It was clear that reading the cable was urgent and important before the meeting with Congress. Furthermore, the transcript referred to "cables," when Harriman asked if Morgenthau had received the communications. Morgenthau replied back with the word "cable." The singular form of the noun was repeated through the following dialogue. Neither the "cable" nor "cables" are recorded in

¹⁷⁰ *Morgenthau Diaries*, "Telephone Conversation between Harriman and Morgenthau," *Diary Book 723* (April 21, 1944): 188-191.

the *Morgenthau Diaries*. There is a cable recorded in *Foreign Relations of the United States* dated: April 20, 1944—10 p.m and marked “Received April 21—4:18 a.m. Morgenthau received the cable while at the committee for currency stabilization in Congress: “the hearing was adjourned for a couple of minutes while Mr. Morgenthau read the cable” and two of his advisors left the Committee to draft a reply, which was read to Congress. It is noteworthy that the draft was read to the Committee and that the draft was attached to the file for the *Morgenthau Diaries*.¹⁷¹ The draft statement was unremarkable. The original draft read: “We have just received a message from Moscow that the Soviet experts **agree with** the general principles of the Joint Statement, and that the Joint Statement will be published in Moscow. There are some points of detail on which they wish to continue discussions after the principles have been published.” The words “agree with” were struck through and replaced in writing with **associate themselves with**. After the Committee hearing, Morgenthau called the Soviet Ambassador to the United States in Moscow.¹⁷²

The conversation between Gromyko and Morgenthau at 12:23 p.m on April 21, 1944, revealed as much as the previous conversation between Morgenthau and Harriman. Although the words “agree with” were replaced with “associate themselves with,” the Soviet Union had reservations about the statement. Again, since the dialogue marked the beginning of the Cold War, it is important to understand the context of the conversation as it was spoken:

HMJr: Well, we had a very good message from Mr. Harriman.

G: Yes, I am familiar with it.

¹⁷¹ *Morgenthau Diaries*, “Mr. Collado took with him...the cable,” *Diary Book 723* (April 21, 1944): 203.

¹⁷² *Morgenthau Diaries*, “We have just received a message from Moscow,” *Diary Book 723* (April 21, 1944): 204.

HMJr: You are familiar?

G: Yes.

HMJr: And I am very happy about it.

G: Uh huh.

HMJr: And we've sent an answer through Mr. Harriman to Mr. Molotov.

G: Uh huh.

HMJr: But I wanted to, also, send one through you.

G: Uh huh.

HMJr: And—telling them how happy I am that I was able to tell the Committee this morning...

G: I will do....

HMJr: that the Soviet Government was going to associate themselves with us.

G: He's already advised us.

HMJr: I don't understand that.

G: We have been—did you receive the full text which was handed to the Ambassador?

HMJr: I am not sure. The trouble is that the one that was handed to the Ambassador came through to us and it was very much "garbled."

G: I see. Well, Mr. Secretary, we will transmit to you the very short, very brief text of the the—which was handed to the Ambassador by Mr. Molotov.

HMJr: Could I get that before a quarter of two?

G: Yes. Because I received it and I am expecting the chauffeur will arrive within several minutes to the Embassy and I will give this text to him...and will ask him to transmit to you immediately.

HMJr: Here at the Treasury.

G: All right.

HMJr: Because I go back up again to testify before the House.

G: All right. The best wishes for you in this difficult work.

HMJr: Well, you'll be interested—I was testifying and Senator Vandenberg, who is—you know who he is...

G: (Laughs) I think I know a little bit.

HMJr: Yes. Well, Senator Vandenberg whispered to me. He said, "Henry, I'm for this plan."

G: Uh huh.

HMJr: So that's—makes it a success in the Senate, if he's for it.

G: I see. I see. Well, I am delighted; too, that you and I received such a wire.

HMJr: Yes, it gives me a very happy feeling and the experts will—they'll get together. If we can't do any other way, we'll give them some Vodka and I'll give them some American Bourbon.

G: (Laughs)

HMJr: And we'll make the Russians drink the Bourbon and the Americans drink the Vodka and then they'll get together.

G: (Laughs) That is right.

The exchange between the Soviet Ambassador to the United States and the Secretary of Treasury of the United States revealed key moments of the origin of the Cold War. Although Morgenthau called to thank the Ambassador since the Soviet government agreed to "associate with" the currency stabilization fund, Gromyko interrupted to ask if Morgenthau received the Soviet message delivered to the American Ambassador, Harriman. Morgenthau proceeded to suggest that if there were any misunderstanding it was due to a "garbled" message. With diplomacy, Gromyko made sure that Secretary knew that faulting a "garbled" message would not suffice because it was, as Gromyko

said, a “very short, very brief text....” Gromyko also expressed interest to learn that leading political opposition, Republican Arthur Vandenberg, expressed agreement with the plan.¹⁷³ Morgenthau communicated Treasury’s decision after receiving Harriman’s cable without further discussion with Harriman. Although Morgenthau could have misinterpreted the cable from Harriman, the interpretation of a key message at a critical moment in history eventually evolved into the origin of the Cold War.

There were two key components of “the short, very brief” text in the message delivered to the United States embassy on April 20, 1944. Harriman cabled the message to the Secretary of State. The message quoted the following statement from the Soviets: “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...However, if it is necessary to the Government of the United States of America to have the voice of the U.S.S.R. to secure due effect in the external world, the Soviet Government agrees to give instructions to its experts to associate themselves with the project of Mr. Morgenthau.” Harriman then offered further explanation: “Molotov explained that this was not to be a reservation of the experts but that it expressed for your information the present attitude of the Soviet Government. If under these circumstances you wished it, he would instruct his experts to associate themselves with the Monetary Fund statement.”¹⁷⁴ Because Morgenthau was to testify before Congress the following morning, Harriman explained to Molotov that there was not enough time for him to receive a reply from Treasury “and therefore suggested that he instruct his experts to associate themselves with the Monetary Fund statement provided you approved under the circumstances. Molotov agreed and will instruct his experts to

¹⁷³ *Morgenthau Diaries*, “Telephone Conversation between Gromyko and Morgenthau,” *Diary Book 723* (April 21, 1944): 200-2.

¹⁷⁴ *FRUS*, “Bretton Woods,” *General*, Vol. II (April 20, 1944): 126.

get in touch with Mr. White on receipt of this cable.” Harriman advised Morgenthau to call him when he received the cable. At the time Morgenthau called Harriman, he had not read the cable. He did so while testifying to Congress, and after “a couple of minutes” spent reading the cable, he testified to Congress that the Soviet experts “associated themselves with the general principles of the Joint Statement.” A clear communication break occurred in the sequence of events. Harriman wanted to communicate with the Soviet government the Treasury response to their position before Morgenthau communicated it to Congress. After quickly reading the cable, it seems Morgenthau confused Harriman’s summary with the official position of the Soviet government, which was that they would agree to associate their experts if necessary as propaganda “to secure due effect in the external world,” and Harriman made it clear that though Soviet experts may be inclined to agree with the plan, it was not the position of the Soviet government at the current time. The question as to whether or not these events were a historical contingency or by design would reverberate throughout subsequent events and historical interpretation.¹⁷⁵

Despite the differences between the Keynes plan and the White plan and the miscommunication with the Soviet Union on April 21, 1944, the Joint Statement By Experts on the Establishment of an International Monetary Fund of the United and Associated Nations was released. Subsequent communications were devoted to scheduling the Committee to forge the plans into an international agreement. The Soviet government planned to send a delegation for the conference in May, however their

¹⁷⁵ Subsequent events would eventually lead to the accusation that White was a Soviet spy: see Benn Steil, *Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order*. Whether or not White was a spy is not the subject of this research. Either he tried to acquiesce Soviet agreement with his plan to apply pressure against the British plan and exceeded his authority (to be called to testify at HUAC), or he may have held Soviet sympathies.

participation was contingent on British participation.¹⁷⁶ The British delayed the conference because they wanted to put the issue before the House of Commons. After the House of Commons debate, the British agreed to send delegates but stipulated that the “statement of principles provides a suitable foundation for further international consultation...[and that] it is clear that there is still some work to be done upon this statement of principles before it takes the shape of a satisfactory draft international convention.”¹⁷⁷ The world’s technical experts would convene in midsummer 1944 to iron out the details of the final agreement.

¹⁷⁶ *FRUS*, “Bretton Woods,” *General*, Vol. II (May 3, 1944): 130.

¹⁷⁷ *FRUS*, “Bretton Woods,” *General*, Vol. II (May 11, 1944): 131.

Chapter 3

ARRIVAL AT BRETTON WOODS: A CONFERENCE AND TELEGRAMS

TOWARD THE COLD WAR

Economic aggression can have no other offspring than war...¹⁷⁸

Morgenthau, Jr.

At a press conference in July 1944, Under-Secretary of War Robert P. Patterson briefed reporters “that the Germans had so far deployed all the Panzer divisions they had available in Normandy, but that the Allied troops were able to pour four bombs, shells, or bullets into the Germans for every one they received.”¹⁷⁹ The sons of mostly middle and lower economic classes risked their lives in the face of artillery and machine gun fire, while *all the king’s horses and all the king’s men* met in July of 1944 at a luxury hotel in New Hampshire that had been closed for two years and brought back to life by a delegation of international bankers, policymakers, and economic advisors for the allies, along with their supporting staffs, totaling over seven hundred attendees from forty-four countries.¹⁸⁰

The location of the conference itself was another example of Keynesian economic theory. Although other locations provided better infrastructure, Treasury Secretary Henry Morgenthau Jr. and President Franklin D. Roosevelt selected Bretton Woods as another measure of economic stimulus for a luxurious hotel on the brink of bankruptcy.¹⁸¹ The decision to revitalize the local economy of Bretton Woods also

¹⁷⁸ Morgenthau used these words to open the Bretton Woods Conference on July 1, 1944.

“Chronology,” *Bulletin of International News* 21, No. 14 (1944): 576.

<http://www.jstor.org.ezproxy.uta.edu/stable/25643650>.

¹⁷⁹ “Chronology,” *Bulletin of International News* 21, No. 15 (1944): 613.

<http://www.jstor.org.ezproxy.uta.edu/stable/25643656>.

¹⁸⁰ Steil, *The Battle of Bretton Woods*, 11.

¹⁸¹ Steil *The Battle of Bretton Woods*, 9.

created political favor from a “redoubtable opponent of international institutions,” who “faced a tough November primary election,” Republican Senator and former Governor of New Hampshire, Charles W. Tobey. Roosevelt understood the significance of the “most important international gathering since the Paris Peace Conference of 1919.”¹⁸² And, no doubt in light of President Woodrow Wilson’s failure to secure the ratification of the *League of Nations* following the First World War, Roosevelt understood the need to assure bipartisan support for any final agreements. By stimulating the local New Hampshire economy, Roosevelt increased the odds of earning the Senator’s support, which he did.

At the opening press conference on July 1, 1944, Morgenthau noted in that “in our first effort at international cooperation,” it would be the responsibility of the American and foreign press “to help make this Conference a success in the eyes of the world, and what is more important, in the eyes of our enemies.”¹⁸³ As Senator Tobey stated and Morgenthau then emphasized, it was extremely important for the Allies to maintain a unified front “in the eyes of our enemies.” However, the appearance of a united front, which was interpreted as propaganda from the Soviet view, ultimately led to confusion in early 1946 when the Soviet Union failed to sign the agreements. At Bretton Woods the foundation of international neoliberalism was cemented while the Cold War percolated.

Delegates from forty-four nations met for the economic conference at Bretton Woods, New Hampshire.¹⁸⁴ The principal negotiators, Harry Dexter White, Deputy Secretary of the U.S. Treasury, and John Maynard Keynes, British member of the House

¹⁸² Steil, *The Battle of Bretton Woods*, 10.

¹⁸³ *Press Conferences of Henry Morgenthau, Jr., July 1, 1944-March 5, 1945*, “Bretton Woods, H.H. July 1, 1944,” *Press Conferences Book 26, Franklin D. Roosevelt Presidential Library and Museum*, (July 1, 1944): 2. <http://www.fdrlibrary.marist.edu/resources/images/morg/mp33.pdf>

¹⁸⁴ Georg Schild, *Bretton Woods and Dumbarton Oaks: American Economic and Political Postwar Planning in the summer of 1944*, (New York, NY: St Martin’s Press, 1995), 109.

of Lords, met again to iron out differences between their plans. During the Conference, *The Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development* was drafted and the delegates agreed to ratify it by December 31, 1945, with a minimum of signatories from at least twenty-eight nations (more than 60% of member states). The agreement at Bretton Woods “represented a step away from the threat of reintroducing the restrictive and discriminatory trade practices of the 1930s.” According to historian Georg Schild, “At its core the Bretton Woods Conference attempted to establish a currency stabilization mechanism designed to make currencies interchangeable at stable and predictable exchange rates. If one state’s currency fell against others, its central bank would be obliged to buy its own currency and would so increase the currency’s value....”¹⁸⁵ With a World Bank, countries would be unable to devalue currencies for trade advantages. The primary disagreement between White and Keynes rested on the issue concerning the commodity, specifically gold, and whether it should back the global currency mechanism. Although the United States had financed Lend Lease through Roosevelt’s decision to abandon the gold standard and had entered agreements with “Britain and France to keep the dollar, the franc, and the pound at fixed exchange values, while preserving the flexibility for any nation to shift, at need, the worth of its currency,” the Bretton Woods agreement returned the U.S. dollar to the gold standard.¹⁸⁶ Although Keynes disputed the gold clause to back the U.S. dollar, England did not have the economic strength to further push for the Keynes plan due to debts accumulated through Lend Lease and the destruction caused by the war in the United Kingdom.¹⁸⁷

¹⁸⁵ Schild, *Bretton Woods and Dumbarton Oaks*, 109.

¹⁸⁶ Eric Rouchway, *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace* (New York, NY: Basic Books, 2015), XXII.

¹⁸⁷ For further reading and brief overview of Lend Lease, see: Mark Seidl “Great Britain on the Brink,” *Franklin D. Roosevelt Presidential Library and Museum*, (2012).

Although all the Allies participated in the negotiations, ultimately the Soviet Union did not sign the agreement. According to Schild, “there were virtually no published personal reports about the proceedings at the conference from members of the Soviet delegation. It appears safe to assume, however, that the Soviets considered their negotiating behavior as much in their national interest as the Americans and British delegates theirs.”¹⁸⁸ To understand the refusal of the Soviet Union to sign the agreement and the reaction of the United States, it is important to evaluate the negotiations as they relate to economic theory, specifically, to the theories of John Maynard Keynes.

The purpose of the negotiations at Bretton Woods was to develop a fund and a bank to facilitate global economic reconstruction following the Second World War. According to the minutes preserved in the *Morgenthau Diaries*, Harry Dexter White summarized the Soviet view that “Russia is insisting on getting in original participation, a reduction of fifty percent. And her reason for that is...she has had terrific destruction and

<http://www.fdrlibrary.marist.edu/aboutfdr/lend-lease.html>. Lend Lease as U.S. Policy to aid the allies in the Second World War is also attributed as the origin of the Cold War by George C. Herring, Jr. See: George C. Herring Jr., “Lend-Lease to Russia and the Origins of the Cold War, 1944-1945,” *The Journal of American History* 56, no. 1 (1969) 93-114. George C. Herring, *Aid to Russia, 1941-1946: Strategy, diplomacy, the origins of the cold war* (New York, NY: Columbia University Press, 1973). Through the public relations campaign of Lend Lease, such as FDR’s “Rubber Hose” speech delivered at a press conference on December 17, 1940, his *Fireside Chat* delivered on December 29, 1940, the Congressional debates to pass HR 1776, the Lend Lease Act, many historians conclude that the United States never intended to force repayment of the debts assumed by Allies. However, the debts were a key leverage point during the negotiations at Bretton Woods. For example, shortly after the Bretton Woods Conference, on September 9, 1944, Myron Taylor, diplomat and friend of the President, sent a classified letter detailing a dinner discussion with Leopold Amery, Minister for India and “life-long intimate companion for the P.M. (Churchill),” informing the President and Secretary Hull that they should anticipate that the Churchill would take the position that “he does not believe that gold is any longer essential but that credit, represented by pound sterling, is adequate for purpose of trade—That his country is to find itself in so depleted a condition....” Letter sent from Gregoriana Roma August 19, 1944 addressed to the President and Secretary Hull (Declassified January 11, 1972). *Vatican Diplomatic Files – Box 52, Franklin D. Roosevelt Presidential Library and Museum*, (August 19, 1944): <http://docs.fdrlibrary.marist.edu/PSF/BOX52/a470g02.html> The Novikov Telegram of September 1946 would express deep concerns about American loans to England. Jensen ed., *Origins of the Cold War*, 12. Grants versus loans would be a key debate for the U.S. State Department during the discussions for the Marshall Plan in 1947.

¹⁸⁸ Schild, *Bretton Woods and Dumbarton Oaks*, 113.

will need to spend a great deal of money on foreign goods during the first few years and that it is only reasonable to give her some consideration by virtue of the destruction.” He continued to explain that Russia’s position was consistent for all invaded countries and emphasized Greece. According to White, the British position conflicted with this view, because England had not sustained the damage of the invaded countries while “France, Greece, Netherlands, Belgium, and so forth—China” supported the Russian view. England wanted to include the destruction of “international assets” in the requirement calculations for “original participation.” The requirement, deposits to fund the Bank, would be determined to rebalance international trade following the war.¹⁸⁹ In simple terms, the Bank and the International Monetary Fund negotiated at Bretton Woods concerned currency valuations and lending requirements (exchange rates) to rebuild economies. The initial capital requirement balanced international accounts between creditor and debtor nations for economic reconstruction. The amount of the initial requirement to begin restoring international trade was adjusted to reflect economic damage inflicted on various nations. By adjusting to account for international assets, Britain attempted to restore prewar trade advantages destroyed during the war and wanted to use foreign damage as a means for domestic reconstruction. The United States wanted to limit prewar imperial preferences enjoyed by the United Kingdom. Therefore, to understand the origin of the Cold War, it is paramount to comprehend the Soviet decision not to join the Bretton Woods Agreements, which was due to the reintroduction of the gold standard by way of the U.S. dollar and concerns over economic competition between the United States and United Kingdom. The agreement at Bretton Woods diverged from Keynesian economic theory, diverged from his concerns relating to

¹⁸⁹ For detailed index of Bretton Woods discussions in the *Morgenthau Diaries* see: *Diary Book 749* (July 1-3, 1944). *Morgenthau Diaries*, “Fund: Russian Provisions Interest Rates Location,” *Diary Book 751* (July 7, 1944): 1.

the gold standard, and, from what he thought would lead to perilous international trade competition.

Interpreting the Bretton Woods agreement is not only complicated due to the fact that after agreement was reached but before it was ratified sixteen months later, public discourse convoluted the narrative while much of the official records remained classified. The Americans and British disputed “the meaning of what had been signed.”¹⁹⁰ And, there was much public confusion because of the complexity of the agreement. For example, The Office of War Information submitted a report to Treasury on July 11, 1944, to summarize survey results from various press editors. The report created by Bureau of Special Services was derived “from 33 editors and labor editors in 30 localities, in 23 states” to summarize public opinion writers. The report segregated editors and labor editors “since their reports very often show consistent differences.” In response to an inquiry for “reactions to Bretton Woods monetary conference,” the report began with the following: “There is virtually no public opinion about the Bretton Woods conference...there is no general discussion of it because there is no interest; and there is no interest because there is no comprehension of the issues involved and the plans proposed, or their importance. Bankers and business circles are believed to be more informed than the general public, yet even these are often *surprisingly ignorant* of the subject.”¹⁹¹ In other words, there was no consensus about the meaning of the agreement. Early writings such as that of R.G Hawtrey, who retired from Government Services but contemporarily worked for the Treasury, offered more criticism for what the agreement did not accomplish as opposed to an explanation of the agreement. In *Bretton Woods for*

¹⁹⁰ Steil, *The Battle of Bretton Woods*, 251.

¹⁹¹ *Morgenthau Diaries*, “The Public Ignores Bretton Woods: Preliminary Report” Division of Research Report No. C 34: Bureau of Special Services Office of War Information, *Diary Book 752* (July 11, 1944): 279. When Benn Steil quoted the Bureau of Special Services report, he omitted the second part of the summary concerning bankers. *The Battle of Bretton Woods*, 254-5.

Better or Worse (1946), he wrote: "It is no part of my purpose to find fault with the plan itself. My theme is the fatal neglect of what I believe to be the essential condition of the successful working of any plan for international co-operation in regulating rates of exchange."¹⁹² Monographs, such as that of Schild, that argued because the Soviet Union was a "closed economic entity, rich in natural resources and without a history of extensive foreign trade relations, [that they could rebuild their economy] from the devastation of the war without the support of the fund and the bank," are misguided.¹⁹³ This is important to underscore because that narrative neglected Soviet self-interest.

The reason the Soviet Union did not join the World Bank and International Monetary Fund was not from lack of necessity, but because the currency arrangement would have collapsed their economy. Scrutiny of the final decision to implement the gold standard (despite protests from Keynes) and subsequent reaction of the United States when the Soviet Union failed to sign the final agreement provides a more accurate and more thorough understanding of the origins of the Cold War. As Hawtrey published in 1946, "the money units linked by rates of exchange should themselves be stabilized in their wealth-value or purchasing power. The economic catastrophes of the inter-war years, 1919-39, were traceable to disastrous variations in the wealth-value of money units. The value of gold in terms of other forms of wealth was quadrupled between 1920 and 1935."¹⁹⁴ The Soviet Union and the United States engaged in the Cold War to preserve and/or expand trade relations throughout the globe, which created two

¹⁹² R. G. Hawtrey, *Bretton Woods for Better or Worse* (London: Longmans, Green and Co. 1946), V.

¹⁹³ Schild, *Bretton Woods and Dumbarton Oaks*, 103.

¹⁹⁴ Hawtrey, *Bretton Woods*, v. His explanation of wealth value for currency stabilization favors the argument of Keynes published in *A Treatise*. Hawtrey criticized Keynes as follows: "Lord Keynes was not oblivious of the need for international co-operation to guard against an undue monetary expansion. But he hardly accorded the need the prominence that it merits." Hawtrey continued by explaining the White plan, which prevailed.

economic hemispheres divided by international currencies and debated as ideological differences.

Therefore, to understand the economics of Bretton Woods, it is necessary to contrast the agreement with that of Keynes' economic theories to facilitate international trade balances, which he attributed as the cause of the world wars. Although the agreement created the foundations for the World Bank and International Monetary Fund, the monetary policy of these two institutions rejected Keynes' theory on the underlying commodity value on which currencies should be standardized, which ultimately led to the Soviet rejection of the agreement. The primary conflict between Keynes and Harry Dexter White, Deputy Secretary of the U.S. Treasury, was twofold: the issue of fixed rates backed by dollars and gold, or fixed rates of exchange of an international currency (*bancor*), and whether or not the currency would be regulated by a Central Clearing Union (bank) or an International Fund that would "constitute a reserve of foreign exchange containing initially all the currencies in due proportion."¹⁹⁵ Keynes plan, which would create a "foreign exchange fund [bank] where creditor nations would be penalized for excess reserves," would regulate excess savings and require creditor nations to invest, which would have a stimulus effect on economies.¹⁹⁶

Although political reality forced Keynes to abandon his theory of using indexed commodities to back the global currency, he did propose a middle ground. Hawtrey's criticism in 1946, when he argued that in any plan "the money units linked by the rates of exchange should themselves be stabilized in their wealth-value or purchasing power"

¹⁹⁵ Hawtrey, Bretton Woods, 34.

¹⁹⁶ Steil, *Battle of Bretton Woods*, 143. According to historian Eric Rauchway, the economist Dennis Robertson convinced Keynes that "the only way to enlarge quotas enough to make the other nations happy while keeping the plan acceptable to Americans was to assure U.S. creditors that they would not have to accept any novel currency such as *bancor* or *unitas*...One way to satisfy American creditors while also permitting higher quotas would be to let the U.S. dollar become the Fund's principal currency." Eric Rauchway, *The Money Makers*, 168.

echoed Keynes' view prior to the compromise.¹⁹⁷ Keynes' middle ground proposal where the *bancor* would be backed by gold and banks could buy *bancor* with gold did not accommodate distributions in gold. Although he proposed that national banks "would not be allowed to redeem *bancor* for gold," the proposal failed in conference.¹⁹⁸ Hawtrey summarized: "Whereas Lord Keynes had proposed to supplement monetary reserves with a right to an advance in *bancor* from the Clearing Union, the American proposal contemplated the creation of an International Fund, to which every participating country could contribute (along with some gold) a quota of its own currency."¹⁹⁹ The Bretton Woods Agreement adopted the American proposal. This is important because according to Keynes, the World Bank would have marked credits and debits in trading nation accounts with an international currency. From Keynes' perspective, the *bancor* would serve as a compromise to a more rugged fixed rate tied directly to gold, which the American plan accommodated. Either way, exchange rates would be regulated by governments as opposed to private bankers or Wall Street firms and the rates would be determined by necessary trade between creditor and debtor nations.²⁰⁰ By allowing gold deposits to purchase the currency, Keynes compromised his views of the gold standard; however, by not allowing *bancor* to be redeemed for gold, the international bank could regulate against excess profits of creditor nations by controlling the supply of money, which would be an international currency. The concept of the *bancor* was also defeated

¹⁹⁷ Hawtrey, *Bretton Woods*, v.

¹⁹⁸ Steil, *Battle of Bretton Woods*, 143. Further, by not permitting banks to exchange *bancors* for gold, Keynes built in inflationary measures: currency could be created but not contracted. Keynes was an adamant opponent of deflation.

¹⁹⁹ Hawtrey, *Bretton Woods*, 34.

²⁰⁰ Various Central Banks such as the U.S. Federal Reserve, the European Union, and Asian Banks are currently under pressure from competing currency values and subsequent interest rates, which are not regulated by an International Clearing Union as proposed by Keynes. Thus, global interest rates are under tremendous pressure from international investors in both foreign and domestic markets.

in the final version of the Bretton Woods agreement, and the American proposal to use U.S. dollars as the international currency prevailed, which meant that the supply of international currency would not be maintained by the Central Clearing Union, but rather by monetary policy of the Federal Reserve and U.S. Treasury. Although the member nations that participated in the Bretton Woods Agreements indicated intent to ratify, these issues would emerge in January of 1946 when the State Department sought to understand why the Soviet Union refused to sign the agreement.

It is also important to note that although Keynes represented the British, interpretation of the Bretton Woods Agreement became further complicated by the fact that the key negotiators from the U.S. Treasury, Henry Morgenthau Jr. and Harry Dexter White, favored harsh reparations against Germany.²⁰¹ The harsh reparations proposed by Treasury aroused tremendous friction between the Department of Treasury and the Department of State as well as created tension with British economists, specifically Keynes. In his diary, Morgenthau wrote the following memo on May 4, 1945: "Will Clayton told me this morning that the State Department had written to President Truman protesting vigorously against appointing a political Commissioner of Reparations outside the State Department, and that President Truman had handed this matter over to [Edwin] Pauley to negotiate with State. Later Pauley told me in strict confidence about the same thing, and that he had told the State Department to go to hell."²⁰² On the same day, Morgenthau forwarded a confidential letter from White House economist, Lauchlin Currie to Treasury economist, V. Frank Coe. In addition to the letter outlining general British resentment, "the Labor Party generally felt some hostility toward it in the United States," the letter also expressed Keynes' objection to the reparations proposed against

²⁰¹ Steil, *The Battle of Bretton Woods*, 266.

²⁰² *Morgenthau Diaries*, "Note from Morgenthau," *Diary Book 844* (May 4, 1945): 211.

Germany. Currie wrote: “Keynes was very exercised over the decision to exact reparations from Germany. With the current destruction in Germany and the proposed stripping of industrial equipment he was fearful that the outcome might be a situation in which the United States and Britain found themselves forced to put goods into Germany while the Russians were taking goods out.”²⁰³ At the time of Bretton Woods, the leaders of the Allies, Franklin D. Roosevelt, Joseph Stalin, and Winston Churchill, “had only agreed on the basic outline of the postwar treatment of Germany. Germany should be de-Nazified and demilitarized,” but postwar occupation and economic participation had yet to be agreed. “Neither Morgenthau nor White worked on concrete plans for the reintegration of Germany into the postwar economic and financial arrangements.” Following the Bretton Woods Agreement, The Morgenthau Plan “removed Germany from the list of international trading states.”²⁰⁴

U.S. Treasury Secretary Henry Morgenthau Jr. and U.S. Deputy Treasury Secretary, Harry Dexter White argued for retaliation against Germany. The Morgenthau Plan essentially imposed reparations against Germany, which would maintain peace by expanding international trade, dismantling German heavy industry, and excluding Germany from trading industrial commodities.”²⁰⁵ This was antithetical to Keynes’ view in *The Economic Consequences of the Peace*, where Keynes forcibly argued that the harsh reparations against Germany and its allies agreed to at the *Paris Peace Conference* “would lead to political instability and extremist politics, and that they might spark another world war.”²⁰⁶ Regardless, at the time of Bretton Woods, Morgenthau argued for

²⁰³ *Morgenthau Diaries*, “Report on Conversations with British Officials, March 1945,” *Diary Book 844* (April 24, 1945): 220.

²⁰⁴ Schild, *Bretton Woods and Dumbarton Oaks*, 132.

²⁰⁵ Schild, *Bretton Woods and Dumbarton Oaks*, 133. See also: Steil. *The Battle of Bretton Woods*, 268.

²⁰⁶ Wapshott, *Keynes/Hayek*, 5.

deindustrializing the Rhine. When advisors warned that would “put fifteen million people in extreme hardship,” he replied, “I am not going to be budged...I can be overruled by the President, but nobody else is going to overrule me.”²⁰⁷ The final Bretton Woods Agreement did not specify terms for the occupation currency of Germany, and as a result, the Soviet Union profited from arbitrage created between the exchange rates, effectively costing the United States \$300-\$500 million and the British government roughly \$300 million.²⁰⁸

Without German currency agreements, the reconstruction of Germany rested on its industrial output, which led to disputes beyond German borders due to the necessity for European trade with Germany to secure debt repayments. Nations competed for German exports, which in theory Germany sold at the best rate of exchange. Furthermore, Western Germany relied on imports for food. After the negotiations at Bretton Woods, but before the ratification deadline, the Potsdam agreement of July 1945 divided German territory among the key allies, United States, France, Britain, and the Soviet Union. This is important because Keynes eloquently argued against severe reparations for Germany after the First World War, and he argued for an international currency based on commodity values of international trade. Without securing an international currency based on commodities, colonial or imperial considerations would later re-emerge, such as the division of occupied German territories. Dividing Germany equated to severe reparations, which would also facilitate an arms race.

The currency question for Germany during the Bretton Woods negotiations attracted the attention of the German media. According to Steil, “The *Deutsche*

²⁰⁷ Steil, *The Battle of Bretton Woods*, 268.

²⁰⁸ Steil, *The Battle of Bretton Woods*, 274. The issue concerning currency plates to print occupational currency for Germany would be central to the Federal Bureau of Investigation's accusation that Harry Dexter White was a Soviet Spy.

Bergwerks Zeitung observed that Keynes had initially taken the lead in the 'monetary duel' by shrewdly protecting British interests under the pretext of saving the world economy, but that the Americans were ultimately able to impose their dollar imperialism because of superior political might. The *Kölnische Zeitung* accused Keynes of speaking not as an economist but as a man who was dressing up inevitable British concessions for political reasons.²⁰⁹ This conflict between the British and American diplomats concerning monetary policy, i.e. through the World Bank and International Monetary Fund, would later lead to Soviet concerns that perplexed American diplomats.²¹⁰ Furthermore, without settling the question of German currency, the international bank would be unable to regulate German imports and exports through market exchanges. This would prove critical and created trade conflicts, which resulted in the Soviet Blockade in 1948.²¹¹

During the Bretton Woods conference, the Soviet Union initially appeared to maintain a more observational role as opposed to engaging in debate. Schild has written that the Soviet selection of delegates "underlined the sense that the Soviet Union did not consider the Bretton Woods negotiations important for their postwar economic development." The Soviets neither sent their finance minister nor Evgenii Varga, "the

²⁰⁹ Steil, *The Battle of Bretton Woods*, 188.

²¹⁰ In George F. Kennan's famous *Long Telegram* he emphasized the Soviet were concerned that the competing capitalist nations, the United States and Great Britain, would eventually be opposing warring nations.

²¹¹ Historian Daniel F. Harrington wrote: "Charles E. Bohlen suggested in his memoirs, Soviet officials in Germany may have begun the blockade as a short-term technical response to Western currency reforms announced 18 June 1948." His citation follows: "Charles E. Bohlen, *Witness to History, 1929-1969* (New York, 1973), p. 278; Philip Windsor, 'Berlin,' in *The Cold War: A Reappraisal*, ed. Evan Luard (New York, 1964), pp. 128-9. Clay interestingly, held this view at the time, advising the secretary of the army, Kenneth C. Royall, on 25 June that 'I still doubt Soviet intent is to drive us out by starving Berlin. I think it more probable that immediate intent is to frighten Berlin people so they would not accept Western currency.' *Clay Papers*, II. 699. See also McNeil to Attlee, 24 June 1948, 70497/5093, F.O. 371 for a similar view from London." Daniel F. Harrington, "The Berlin Blockade Revisited," *The International History Review* 6.1 (1984): 88-112. See also, Daniel F. Harrington, *Berlin on the Brink: The Blockade, the Airlift, and the Early Cold War*, (Lexington, KY: University Press of Kentucky, 2012).

best-known Soviet economist.”²¹² Instead, the Soviets sent Mikhail S. Stepanov, “the largely unknown deputy minister for trade” to lead the delegation.²¹³ According to Steil, Stepanov, “whose modus operandi was to speak only as necessary, and even then mainly just to highlight the stand which the Russians were making against Hitler’s hordes in their homeland...” broke his silence on two primary issues: First, how much gold would the Soviets be required to deposit; and second, the quota that they would be permitted to borrow.²¹⁴ The Soviets needed to receive more reparations due to the massive damage sustained and the loss of millions of lives during the Second World War. The Soviet position articulated the advantages of the quotas for Britain due to extensive foreign-trade relations, while the Soviets had a nonconvertible currency, depressed domestic prices and limited foreign trade.²¹⁵ By stalling, the Soviets won substantial concessions. Countries such as Canada, Poland, and China pledged larger deposits of gold to cover the \$300 million reduction from the Soviet requirement.²¹⁶ Keynes wrote to Lord Thomas Catto, Governor of the Bank of England: “The Russians by stonewalling tactics have got everything they wanted. It has been the concern of the American policy to appease the Russians and get them in.”²¹⁷ Schild speculates that “to avoid repetition of postwar economic collapse, the Soviets might have hoped to be able to secure credits from the fund and the bank or directly from the United States.”²¹⁸ Since the agreements at Bretton

²¹² Schild, *Bretton Woods and Dumbarton Oaks*, 103.

²¹³ *Ibid.*

²¹⁴ Steil, *The Battle of Bretton Woods*, 244.

²¹⁵ Schild, *Bretton Woods and Dumbarton Oaks*, 117.

²¹⁶ Steil, *The Battle of Bretton Woods*, 244.

²¹⁷ Keynes Papers (July 22, 1944) quoted in Steil, *The Battle of Bretton Woods*, 244.

²¹⁸ Schild, *Bretton Woods and Dumbarton Oaks*, 104. Schild’s speculation rest on the Joint Statement of April 1944 following “preliminary discussions between the American, British, and Soviet delegations...According to the joint statement, the International Monetary Fund would ‘promote international monetary cooperation’ and exchange stability to maintain orderly exchange arrangements among member countries.”

Woods would not be ratified until the conclusion of the war, the Soviet government had time to reconsider any decision reached.²¹⁹

Soon after the conference ended, disputes erupted concerning interpretations of the Bretton Woods Agreements. Keynes attributed them to the manner in which delegates were rushed from the hotel to return to their prospective countries. They signed the documents without being afforded the time by their American hosts to thoroughly read the final agreement. The Bretton Woods Agreement would not be officially signed by participating governments until December 1945; however, the Bretton Woods Agreement was initialed by the delegates to indicate future assent. The period between the Bretton Woods agreement in July 1944 and the ratification deadline at the end of 1945, included global political organization for postwar global security at the Dumbarton Oaks Conference in August of 1944 and Yalta conference in the summer of 1945 that established the foundation of the United Nations.²²⁰ The confusion and/or frustration interpreting the intricacies of the Bretton Woods agreement were demonstrated by a memorandum Keynes dispatched to the British Foreign Office on December 29, 1944, five months after the conference. He wrote: "We all of us, had to sign, of course before, we had a chance of reading through a clean and consecutive copy of the document...All we had seen of it was the dotted line. Our only excuse is the knowledge that our hosts had made final arrangements to throw us out of the hotel."²²¹ The chief dispute between Keynes and Harry Dexter White would be "the designation of the U.S. dollar as the only 'gold-convertible currency [which] had remade the old gold-exchange standard into a dollar standard."²²² Steil suggests, "White's team had drafted

²¹⁹ Schild, *Bretton Woods and Dumbarton Oaks*, 104.

²²⁰ Schild, *Bretton Woods and Dumbarton Oaks*, 139.

²²¹ Foreign Office (December 29, 1944) as quoted in Steil, *The Battle of Bretton Woods*, 251.

²²² Steil, *The Battle of Bretton Woods*, 251.

the fund text behind the scenes, and Keynes and the other delegation heads saw it for the first time just as they were being rushed from the hotel as Keynes alluded.²²³ The circumstances under which Keynes signed the agreement for the U.S. dollar to be the only convertible currency are, to say the least, murky.

Steil attributed the deliberate oversight to White's brilliant maneuvers that relegated Keynes to minor committees during the negotiations. Keynes also suffered from exhaustion and poor health at various times during the negotiations and had a history of heart problems.²²⁴ After the agreements were signed, Keynes became critical of the terms and attempted to further modify them. In a subsequent international meeting in Savannah, Georgia, to negotiate further details of the World Bank and International Monetary Fund, Keynes reportedly said, "I went to Savannah to meet the world, and all I met was a tyrant."²²⁵ He suffered a heart attack on the train to Washington following the delegation in Savannah. His health continued to decline.

After Bretton Woods, pieces of the world's economic puzzle aligned in partial harmony. The agreement stipulated that the world's currency would become the U.S. dollar, backed by gold. Article II, Section 2 of the *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development* stipulated that the "authorized capital" for the bank would be "\$10,000,000,000, in terms of United States dollars," and Section 7 stipulated that "when a member makes payments in any currency under (i) and (ii) above, [provisions for paying in local currencies] such payments shall be made in amounts equal in value to the member's liability under the

²²³ Steil, *The Battle of Bretton Woods*, 251.

²²⁴ Steil, *The Battle of Bretton Woods*, 62, 305. "Maynard nonetheless had a weak constitution that would plague him for life."

²²⁵ The quote was attributed to the collection of Paul Bareau 1951 "Anglo-American Financial Relations during and since the War," Four Lectures delivered at the London School of Economics In the possession of Peter Bareau, British financial journalist, attributed the comment to Keynes quoted from Steil, *The Battle of Bretton Woods*, 303.

call. This liability must be proportionate part of the subscribed capital stock of the Bank as authorized and defined in Section 2 of this Article.”²²⁶ In other words, the capital stock of the Bank was authorized by the value of U.S. dollars. Member states could pay down debts with gold, U.S. dollars, or their own currencies, but only at the U.S. conversion rate equal to the initial debt in U.S. dollars. As a result, nations would be unable to depreciate currencies for a trade advantage or inflate currencies for the purpose of paying down debt.

The World Bank consisted of five general purposes. The *Articles of Agreement* sought to “assist in reconstruction and development [by] facilitating the investment of capital for productive purposes” to territories and economies that were “destroyed or disrupted by war.” The objective included the promotion of “private foreign investment by means of guarantees,” which would encourage foreign investment by minimizing risk for the investors. To minimize the risk of market speculation and the wholesale selloff of long-term government assets for short-term capital, the bank was designed “to promote the long-range balanced growth of international trade and maintenance of equilibrium in balance of payments....” Equilibrium was the Keynesian term to monitor savings and investments to thwart market bubbles or hoarding when economies needed stimulus. Furthermore, to control capital flows, the bank would provide or deny loans “in relation to international loans through other channels.” This provision would ensure that loans would not be excessive relative to growth assumptions of local economies. In other words, the bank would monitor debt levels and be a last resort lender or slow down borrowing if other nations and/or private sectors provided excess capital for

²²⁶ *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development. July 1 to 22, 1944: 52, 54.* Access through: The World Bank: IBRD IDA. Worldbank.org/archives:
http://siteresources.worldbank.org/EXTARCHIVES/Resources/IBRD_Articles_of_Agreement.pdf

reconstruction.²²⁷ The necessity for central planners to monitor private and public capital was summarized in the last general provision: “to conduct its operations with due regard to the effect of international investment on business conditions in the territories of the members.”²²⁸ In other words, trade and investment should be used as tools to stimulate local economies without due regard by regulators, market competition could thwart reconstruction by maximizing foreign profit at the expense of local populations. Without codified Keynesian provisions in the article with mechanisms to enforce equilibrium by limiting creditor nation accumulation, the agreement relied either on wishful thinking or a benevolent committee to balance accounts between creditor and debtor nations. As Keynes stated to White prior to meeting in New Hampshire, “that an incompetent committee might come to more useful conclusions” to accumulate profits in the creditor nation accounts.²²⁹ The concerns that creditor nations may accumulate excess profits have been summarized by historian Eric Rauchway. He wrote that “near the end of the conference, Mahmoud Saleh al Falaki of Egypt “remarked that so long as trade did liberalize, and richer countries did buy increasingly from poor ones, there need be ‘no conflict’ between the interests of the developed and the developing world.”²³⁰ The optimism expressed by the delegate from Egypt in that *so long as* richer countries would purchase goods and services from poorer countries was not shared by the Soviets. The currency and trade issues of the agreement and the economic mechanism in which a country industrialized (importing raw materials) concerned the Soviet Union. The

²²⁷ This is an important provision. The financial crisis of 2008 was facilitated by private lending to sovereign nations with the assumption that the governments would guarantee the loans. At the heart of the financial crisis was too much private debt moved to the public ledger. Also, the private sector demanded government to sell assets to raise short term capital to satisfy long term debt maintenance.

²²⁸ *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development. July 1 to 22, 1944*: 51, 52.

²²⁹ *FRUS*, “Postwar Financial Arrangements,” *General* (October 11, 1943): 1092-1096.

²³⁰ Eric Rauchway, *The Money Makers*, 196.

International Bank Reconstruction and Development (IBRD), the official name of the Bretton Woods Agreement, would be effective if signed by twenty-eight governments by the deadline December 31, 1945²³¹ Despite the concessions of relaxed lending quotas and of depositing less gold for the initial funding of the new world institutions, the Soviet Union, which sacrificed millions of lives and much treasure during the war, refused to sign.

Though united in opposition to the German army, the Allies did not have an agreement for postwar occupation. Before opening a second front to oppose the German army in the East, the Allies met at the request of the Soviet Union at the Soviet Embassy in Tehran, Iran in late November, 1943. Despite the obvious territorial issues, underlying postwar economic reconstruction rested upon the reality of currencies and exchange rates, which would re-establish global trade-parity to stabilize postwar economies. During the war, territorial issues triumphed over postwar economic reconstruction; however, the latter influenced the territorial agreements for occupation. With the German army deployed between the Soviet Union and the United Kingdom, Iran “formed the only link in the chain...that could connect Great Britain and the Allies with the Soviet Union.”²³² Iran signed a Tripartite Treaty of Alliance between Iran, Great Britain, and the Soviet

²³¹ On December 27, 1945 Belgium, Bolivia, Canada, China, Czechoslovakia, Ethiopia, France, Greece, Honduras, Iceland, India, Iraq, Luxembourg, Netherlands, Norway, Philippines, South Africa, Egypt, United Kingdom, United States, and Yugoslavia signed. Paraguay, Guatemala, Dominican Republic, and Ecuador followed on December 28. Iran signed on December 29. The agreement became effective on December 31, 1945 with the signatures of Peru, Mexico, and Chile. Of the signatories of the agreement, the most notable in hindsight was that of Iran. The stability of Iran would later be tested as the Cold War began with the Soviet strategy to counter the economic alliances of the West by stirring revolutions in former colonies. Iran became a focal point immediately following the conclusion of the war as the Soviets refused to withdraw occupying troops after six months of cessation of hostilities as they had agreed with Britain during the war. See also: United Nations Monetary and Financial Conference, Vol. I and II, July 1-22, 1944 for detailed committee notes of Bretton Woods, by Department of State. *Federal Reserve History*, <http://www.federalreservehistory.org/Events/DetailView/28>.

²³² A. H. Hamzavi, “Iran and the Tehran Conference,” *International Affairs* 20, no. 2 (1944): 192. <http://doi.org.ezproxy.uta.edu/10.2307/3018096>.

Union and later declared war on Germany in September of 1943. The Allied leaders met in Tehran on November 27, 1943, and signed the Declaration of the Three Powers December 1, 1943, and after collaborating with military staffs announced that they “have concerted [their] plans for the destruction of the German forces.”²³³ The announcement included a call for the United Nations and postwar peace.

As the Allies coordinated the military effort to wage a relentless war against German forces, the country of Iran and its role in the postwar era remained vital. The *Declaration Regarding Iran* following the Tehran conference revealed the strategic and economic influence of Iran. It was announced: “The Governments of the United States of America, the Union of Soviet Socialist Republics and the United Kingdom are at one with the Government of Iran in their desire for the maintenance of the independence, sovereignty and territorial integrity of Iran.” Furthermore, the Allies “recognize the assistance which Iran has given in the prosecution of the war against the common enemy, particularly facilitating transportation of supplies from overseas to the Soviet Union. The three Governments realize that the war has caused special economic difficulties for Iran and they are agreed that they will continue to make available to the Government of Iran such economic assistance as may be possible...with respect to the post-war period [the Allies] are in accord with the Government of Iran that any economic problem confronting Iran at the close of hostilities should receive full consideration....”²³⁴ In other words, the Allies agreed to support an independent Iran following the war and agreed to economic aid following the war to protect the vital supply lines between Great Britain and the Soviet Union to open a second front against the German army in the East.

²³³ “Conference of President Roosevelt, Prime Minister Churchill and Premier Stalin at Tehran,” *The American Journal of International Law* 38, no.1 (1944): 9. <http://doi.org.ezproxy.uta.edu/10.2307/2214039>.

²³⁴ “Conference of President Roosevelt, Prime Minister Churchill and Premier Stalin at Tehran,” 10.

The allies agreed to support an independent Iran to settle short-term disagreements concerning international influence in Iranian domestic affairs or, more importantly, economic influence related to petroleum reserves. The short-term economic uncertainty of Iran related directly to currency exchange between the Iranian rial, British sterling, and the Russian ruble, which contributed to extreme budget deficits within Iran and tied the Iranian economy to the Soviet Union and the United Kingdom.

Between the Conference at Bretton Woods and the ratification deadline of December 31, 1945, Raymond F. Mikesell, a U.S. economist employed by the American government, published "Financial Problems of the Middle East" in the *Journal of Political Economy* in June 1945, in which he explained that the currency problem confronting Iran was due in large part to neutrality prior to the war and the Tripartite Treaty of Alliance between Iran, Great Britain, and the Soviet Union: "Iran is not in the sterling area. It has an agreement with the United Kingdom; however, whereby the Iranian rial may be purchased with sterling, but a portion of the surplus sterling balances in the hands of the Iranian government must be periodically converted into gold. Iran has a similar agreement with Russia for the purchase of rials with rubles."²³⁵ The agreement proved to be to the economic detriment of Iran. Although the entirety of the Middle East experienced inflation due to a dramatic increase in the supply of money financed by government deficits, with the exception of Iran, "governmental budgets have, for the most part, been balanced, and increases in note circulation have been wholly backed by foreign exchange."²³⁶ Iran agreed to finance exchange using the sterling and ruble with gold deposits, which benefited the Allies "since the price of gold in the Middle East was

²³⁵ R. F. Mikesell, "Financial Problems of the Middle East," *Journal of Political Economy* 53, no. 2 (1945): 165. <http://www.jstor.org.ezproxy.uta.edu/stable/1825052>.

²³⁶ Mikesell, "Financial Problems of the Middle East." *Journal of Political Economy*, 164.

about double the official prices of gold in the United States and England.”²³⁷ In other words, though Iran suffered the same economic dilemma of rising prices and inflation that would imperil the postwar economic recovery of the Middle East, unlike neighboring countries, which were tied directly with the sterling and Central banks, Iran’s currency was intricately tied to Soviet currency as well as the sterling. Furthermore, budget deficits of neighboring countries could be reconciled through foreign trade since they were financed by foreign exchange. Iran’s budget deficits were not financed by foreign exchange, but required gold deposits to purchases of sterling and rubles. Iran’s economic success required global currency stabilization. Iran proved to be at an epicenter of territorial agreements as well as currency stabilization. For this reason, the first of the “Big Three” conferences was held in Tehran, Iran. The Allies recognized the necessity of coordinating the military effort through Iran, but did not concur on the postwar role of Iran. The Allies agreed that they would all recognize Iran as an independent nation that would require economic assistances following the war, thereby postponing disagreements on Iranian postwar alliances and trade. The agreement proved to be perilous to Iran’s stability at the onset of the Cold War. The conferences of Tehran, Yalta, and Potsdam are generally understood as geographic negotiations for postwar occupation, commodity distribution, and trade relations between nations through political agreements; however, the discussions for currency stabilization through the war preceded territorial agreements. Further understanding of the Tehran conference as it related to currency stabilization, and the ultimate agreement to recognize Iran as an independent nation facilitates a better understanding of the postwar economic dispute

²³⁷ Mikesell, “Financial Problems of the Middle East. *Journal of Political Economy*,” 165.

that erupted between the United States and the Soviet Union as well as the conflict between the United Kingdom and Soviet Union in Iran in early 1946.

To better understand the postwar uncertainty that developed between the Allies as they considered postwar reconstruction, George F. Kennan emerged as the vital analyst most qualified to understand Soviet ideology. Kennan was a long-time Russian and Soviet expert who on June 1, 1945, was formally promoted to Class I rank at the U.S. embassy in Moscow. According to his official biographer, John Lewis Gaddis, after Soviet-American relations further deteriorated after Yalta, President Truman sought to renew negotiations with his Soviet counterparts at Potsdam in July 1945. The negotiations became tenuous because when Churchill was defeated in the British elections, and after the death of FDR, Stalin was the only leader of “the original Big Three still in power.” Although Stalin focused throughout the war on postwar settlement, Harry Truman and Clement Attlee did not have that opportunity. Kennan thought postwar planning during the war to be fundamental for postwar reconstruction.²³⁸

Kennan opposed the geographical segregation of territories negotiated at Tehran, Yalta, and Potsdam. He did not agree with the “severance of East Prussia from Germany, the partition of that province between Russia and Poland” and cessions to the Soviet Union. He did not fault the Truman administration for the agreement at Potsdam; however, he faulted the “casualness and frivolity with which these decisions were made, the apparent indifference on the American side, then and ever since, to their real economic and other effects, and the misimpressions conveyed at the time to the American public...”²³⁹ Kennan did not believe that talks, whether at Tehran, Yalta, or

²³⁸ John Lewis Gaddis, *George F. Kennan: An American Life* (New York, NY: Penguin Press, 2011), 202.

²³⁹ Kennan, *Memoirs 1925-1950*, 263.

Potsdam, would prevent the deterioration of Soviet-American relations.²⁴⁰ In his *Memoirs*, Kennan expressed frustration in late August 1945 with Lend Lease aid to Russia. He wrote: "I know of no justification, either economic or political, for any further granting Lend-Lease aid to Russia, for any agreement on our part that Russia, not being a contributor to UNRRA, should receive any amount of UNRRA aid."²⁴¹ Kennan wrote that "after undergoing a useful critical refinement at the hands of Ambassador Harriman's judgement received his prudent and effective support and found acceptance, in the main, in Washington."²⁴² Although, he tamed his objections, Kennan remained concerned that Lend Lease aid to Russia was based too much on foreign trade, and specifically trade with foreign monopolies. He wrote in his *Memoirs*:

This last gloomy prognostication was based on my memories of the unhappy position of dependence on Soviet orders in which the machine tool manufacturers of Germany, and particularly of Saxony, had found themselves during the economic crisis at the beginning of the 1930s. It is a danger that has not matured in our case, but which should never be lost sight of when it comes to trading with a foreign governmental trade monopoly.²⁴³

This dissent, which Kennan expressed in a footnote in his *Memoirs* was similar to Hayek's assertion that monopolies led to tyranny, specifically the corruption between "capitalist monopolist" and "the support they have obtained from...[and] the many more whom they have persuaded that in supporting monopoly they assist in the creation of a

²⁴⁰ Gaddis, *George F. Kennan*, 203. "He (GFK) had always doubted that talks around big tables, whether at Tehran, Yalta, or Potsdam, would change much. With no one having listened, with the war at an end, with the agreements reached at Potsdam—as Kennan saw it—having once more papered over cracks, he saw no reason to remain the Foreign Service." Kennan's frustration with the agreements at Tehran, Yalta, and especially Potsdam led Kennan to offer his resignation from the Foreign Service on August 20, 1945. It was rescinded.

²⁴¹ Kennan, *Memoirs 1925-1950*, 269.

²⁴² Kennan, *Memoirs 1925-1950*, 269.

²⁴³ Kennan, *Memoirs 1925-1950*, 268.

more just and orderly society."²⁴⁴ In other words, Kennan objected to Lend Lease being tied to trade, which also supported foreign monopolies. This view was also similar to Keynes' argument, which opposed tying loans to trade during the Bretton Woods Conference, which would undermine debtor nation economies.

Kennan's frustration with the cession of territory to the Soviet Union at Potsdam was that it hurt the Russian people, who Kennan appreciated and admired, and ceded too much economic power to the Soviet government with the potential for the Soviets to develop trade monopolies, which would also benefit the Soviet government in international trade agreements. The conflict between Kennan's views of the Russian people and the Soviet government was a common thread through his career and contributed to his frustration with U.S. policy that in his view isolated the Russian people to the benefit of the Soviet government. Kennan's concerns with Lend Lease aid to the Soviet Union reverberated throughout the Truman administration's overall policy decisions on loans to the Allies, which further disrupted the currency stabilization objectives negotiated at Bretton Woods not only with the Soviet Union but with the United Kingdom.²⁴⁵ By August of 1945, the United States maneuvered between the disagreements with Britain at Bretton Woods and established practical pressure for an international coalition against the potential threat of Soviet expansion. Lend Lease created the debts to the United States that the U.S. government used as leverage for postwar reconstruction. The Soviet government to Kennan's dismay forwent the loans

²⁴⁴ Bruce Caldwell, ed. *The Collected Works of Hayek: Volume 2 The Road to Serfdom* (Routledge, London: The University of Chicago Press, 2007), 207.

²⁴⁵ Although Lend-Lease issues contributed to the Cold War, historians such as George C. Herring disagree. The abrupt ending of Lend-Lease hurt Soviet relations with the United States, and caused what Herring called: *The United States and British Bankruptcy, 1944-1945: Responsibilities Deferred*. George C. Herring, "The United States and British Bankruptcy, 1944-1945: Responsibilities Deferred," *Political Science Quarterly* 86, no. 2 (1971): 260-280. doi:10.2307/2148010.

negotiated at Bretton Woods in favor of territory negotiated at Tehran, Yalta, and Potsdam.

In early 1946, when the Soviets failed to join the Bretton Woods agreements, the United States applied the necessary pressure to secure the U.S. dollar backed by gold as the Western world's new currency, but it also ceded to the economic pressure that threatened the collapse of the British economy. When President Truman "ordered the immediate termination of Lend-Lease" on August 21, 1945, "Britain was left with staggering debts, without means of external assistance, facing what Lord Keynes called an 'economic Dunkirk.'"²⁴⁶ According to historian George C. Herring, "Truman later conceded that the cutoff of aid to Britain had been the greatest mistake of his presidency."²⁴⁷ Therefore, in early 1946 after the Soviets abdicated the Bretton Woods Agreement, the United States rendered new loans and aid to the United Kingdom.

After the territorial agreements at Tehran, Yalta, and Potsdam, and with the culmination of the Soviet decision to abdicate Bretton Woods, the sparks ignited and the Cold War erupted. The expert analyst who was a lesser-known diplomat at the U.S. Embassy in Moscow, George F. Kennan, dispatched *The Bretton Woods Telegram*.²⁴⁸ He sent the telegram to U.S. Secretary of State, James Byrnes, to summarize why the Soviet Union had refused to sign the agreement on January 2, 1946.²⁴⁹ Three days after the telegram arrived in Washington, President Harry S. Truman drafted a letter to the U.S. Secretary of State "chastising Byrnes' lack of communication and complaining about Soviet actions since Potsdam."²⁵⁰ The U.S. Ambassador to the Soviet Union, W. Averell

²⁴⁶ Herring, "The United States and British Bankruptcy, 1944-1945: Responsibilities Deferred," 260.

²⁴⁷ Herring, "The United States and British Bankruptcy, 1944-1945: Responsibilities Deferred," 277.

²⁴⁸ See Appendix A

²⁴⁹ George F. Kennan, "Bretton Woods Telegram," January 2, 1946. Library of Congress: GFK to State Department, January 2, 1946, Harriman Papers, Box 185.

²⁵⁰ Truman, "Draft Letter—Chastising Byrnes lack of communication, January 5, 1946." *Papers of Harry S. Truman: President's Secretary's File*. Harry S. Truman Library and Museum.

Harriman, returned to Washington shortly following Kennan's *Bretton Woods* telegram, and on February 22, 1946, George F. Kennan sent a second telegram: *The Long Telegram*. Historians have overwhelmingly focused on the *Long Telegram* without considering the *Bretton Woods Telegram* or the significance of currency stabilization as the cause of the Cold War. The *Bretton Woods Telegram* remained classified until August 1986. Furthermore, the complexity of the telegram in explicit relation to currency debates at Bretton Woods and international conflict between the Allies during the war, made it of lessor significance than the ideological framework constructed in the *Long Telegram*.²⁵¹ Understanding the Bretton Woods Agreement in relation to the origin of the Cold War was further complicated because shortly after the Soviet Union refused to sign the agreement, the FBI notified Truman that the lead representative for the United States at Bretton Woods, Harry Dexter White, Deputy Secretary of the U.S. Treasury, was under investigation for "subversive activities" and possible "espionage" for the Soviet Union.²⁵² Much of the Bretton Woods negotiations and the immediate aftermath of the Soviet refusal to sign the agreement remained classified for decades. Kennan titled the *Bretton Woods Telegram (BWT)* "A careful examination of Bretton Woods Agreements in relation to basic Soviet concepts and objectives goes far to explain the present Soviet unwillingness to enter into these agreements."²⁵³

http://www.trumanlibrary.org/flip_books/index.php?pagenumber=5&titleid=247&tldate=1946-01-05&collectionid=ihow&PageID=1&groupid=3718

²⁵¹ Although the *Long Telegram* was declassified in 1973, the contents of the telegram were widely distributed to every embassy by the Department of State. In his *Memoirs 1925-1950*, Kennan acknowledged that Stalin was also aware of the content. By 1947, the majority of the content was released anonymously by George F. Kennan as Mr. X in the *New York Times*, *Life Magazine*, and *Foreign Affairs* as the "Sources of Soviet Conduct." The contents of the Bretton Woods telegram were neither widely distributed nor leaked for public discourse. I would also like to thank my friend, Chad McDowell and his wife, Georgina Mendoza, for acquiring the document from the Library of Congress for me.

²⁵² Steil, *The Battle of Bretton Woods*, 351.

²⁵³ Kennan, *Bretton Woods Telegram*, 1.

On January 22, 1946, after the *BWT*, Kennan again asked to return to the United States. He wrote that he wished to write a book “on the structure of Soviet power.”²⁵⁴ He was often melancholic and expressed frustration when he thought his views were insufficiently influential. He had tried to resign from the State Department twice before and often wrote of his disappointment with diplomatic failure in the face of insurmountable obstacles. He did not, however, return to the United States, and the most famous telegram in the history of the United States would be dispatched on February 22, 1946. According to Gaddis, “After that, nothing in his life, or in United States policy toward the Soviet Union would be the same.”²⁵⁵ As Kennan requested leave, the U.S. ambassador to the Soviet Union, W. Averell Harriman, “left Moscow for the last time as ambassador.” He supposedly told Kennan “you’re on your own. I want you to express your opinions and send them in.”²⁵⁶ Kennan expressed his views and reframed U.S. foreign policy. Between Kennan’s *Bretton Woods Telegram* of January 2, 1946, and Winston Churchill’s March 5, 1946 “Iron Curtain” speech, the foreign policy of the United States altered dramatically as Kennan’s Strategy of Containment began to take shape.

Ambassador W. Averell Harriman left the Soviet Union the evening of January 23, 1946.²⁵⁷ The reasons for his departure remain unclear. According to one biography Harriman’s departure resulted from an argument between Harriman and Henry A. Wallace, Commerce Secretary, which occurred in front of American business leaders and professionals at conference dinner “sponsored by the American Society for Russian Relief.” Harriman supported his position by relying on Kennan’s *Long Telegram*, which

²⁵⁴ Gaddis, *George F. Kennan*, 215.

²⁵⁵ *Ibid.*

²⁵⁶ As quoted in Gaddis, *George F. Kennan*, 217.

²⁵⁷ W. Averell Harriman and Elie Abel, *Special Envoy to Churchill and Stalin 1941-1946* (New York, NY: Random House, 1975), 535.

detailed the threats of Soviet expansion.²⁵⁸ Harriman's recollections, however, differ and in his memoirs, he recalled leaving Moscow in late January to be an envoy to Japan.²⁵⁹ When he reached Washington in the second week of February, he reported to Truman, Byrnes, and the State-War-Navy Coordinating Committee (SWNCC) to debrief them on his talks with Stalin and Molotov.²⁶⁰ Concerned with the demobilization of the military in the Pacific, Harriman resigned when he returned to Washington. Truman accepted his resignation; however, in March Truman directed the State Department to reassign Harriman to London, and once Truman told him "I want you to go to England. There is a very dangerous situation developing in Iran. The Russians are refusing to take their troops out—as they agreed to do in their treaty with the British—and this may lead to war," his "firm resolve evaporated."²⁶¹

The situation in Iran was important for two reasons: first, Iran signed the Bretton Woods Agreement; and second, as Walter Isaacson and Evan Thomas wrote in *The Wise Men*, as Kennan's telegram was disseminated in Washington and throughout the Department of State, on March 6, 1946, "a cable arrived from the American consul in Tabriz reporting 'exceptionally heavy Soviet troop movements' in Northern Iran."²⁶² Kennan's *Long Telegram* warned of the danger of Soviet expansion where two economic spheres of influence would compete and Iran's commodity reserves (specifically oil) were

²⁵⁸ Rudy Abramson, *Spanning the Century: The Life of W. Averell Harriman, 1891-1986* (New York, NY: William Morrow and Company, Inc., 1992), 408.

²⁵⁹ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 545. According to the memoir McArthur offered Harriman a job under his command.

²⁶⁰ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 546.

²⁶¹ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 550.

²⁶² Walter Isaacson and Evan Thomas, *The Wise Men: Six Friends and the World They Made* (New York, NY: Simon and Schuster, 1986), 356. For further reading on Iran crisis: Kennan Telegram on Iran: Kennan papers, State Department files, National Archives; Bruce Robellet Kuniholm, *The Origins of the Cold War in the Near East*, 270-378; John Lewis Gaddis, *The U.S. and the Origins of the Cold War*, 309-312; *New York Times*, Mar. 14-April 30, 1946. The Soviets opposed the currency agreements of Bretton Woods and then followed by refusing (initially) to leave Azerbaijan, a heavy oil producing region of Iran. The correlation is relevant to currencies and underlying commodities.

crucial for further development of industrialization. Furthermore, the cable arrived in Washington the day after Winston Churchill delivered his famous “Iron Curtain” speech in the President’s home state of Missouri. Harriman reported his final conversation with Joseph Stalin on January 23, 1946, which pertained to loans for the reconstruction of the Soviet Union. Coupled with Iran’s decision to join the Bretton Woods Agreement and the Soviet decision to abdicate, Iran became the first flashpoint of the Cold War.

While Iran was the first flashpoint of the Cold War, the United States needed to reconcile deficits accumulated by the British to solidify Bretton Woods and strengthen their alliance. President Truman delivered a “Special Message to Congress Transmitting Financial Agreement with the United Kingdom,” on January 30, 1946. He began “The establishment of a permanent state of peace and prosperity is not a simple matter....In his message to the Congress recommending the approval of the Bretton Woods Agreements, President Roosevelt called these proposals ‘the cornerstone for international economic cooperation.’” He continued to describe the efforts of the 79th Congress and the establishment of the United Nations Organization, United Nations Food and Agriculture Organization, to “carry on the operations” of the United Nations Relief and Rehabilitation Administration, “the extension in a broader form” the Reciprocal Trade Agreements Act, and “the expansion” of the Export-Import Bank. He argued that these organizations “will take us a long way on the road to world-wide security and prosperity.” He cautioned that “they should not make us blind, however, to the job that has not been done—to the work that lies ahead.”

For the work that needed to be done, Truman expressed that the Bretton Woods Agreements were ratified by Congress with the “specifically expressed belief that additional measures for international economic cooperation would be necessary to render most effective the operations of the Fund and Bank. In the Bretton Woods Agreements

Act, Congress declared it to be the policy of the United States to seek to bring about further international agreement and cooperation.” After delivering background information on the intent of the Bretton Woods Agreements and specifically the non-discrimination provision in “their monetary and financial transactions that created a transition period of up to five years,” Truman made the case for additional aid to the United Kingdom without the delay created by the non-discrimination provision. He stated: “Now in time of peace as we rapidly proceed with the organization of the International Monetary fund we find that the fears which were responsible for this period of grace are verified by the facts. The most important of these facts is that the United Kingdom as a result of the war must continue for a long period many of its emergency wartime financial controls unless it obtains additional working capital.” Truman made the case that the matter with the United Kingdom was urgent: “the next order of international business before the Congress should be our financial relations with the United Kingdom. The problems involved, which are severe but not insoluble, are direct consequences of the war. They are matters of great urgency and I believe that the financial Agreement which I am transmitting herewith furnishes a real basis for their solution....” He insisted that the aid to Britain was “more than a line of credit” and would enable the United Kingdom “to move side by side with the United States toward the common goal of expanded world trade which means expanded production, consumption and employment and rising standards of living everywhere.” Therefore, Truman asked to extend a line of credit to the United Kingdom until 1951. The loan was designed to align the economic interest of the United States with the United Kingdom as the Soviet Union refused to sign the

Bretton Woods Agreements. The impact of the agreement reverberated throughout the world because of the sterling liabilities of Great Britain.²⁶³

The adjustment to the Bretton Woods Agreement to facilitate economic recovery for Great Britain had an impact on numerous nations. In his "Special Message to Congress Transmitting Financial Agreement with the United Kingdom," Truman was explicit on the impact of the agreement and assured Congress it was designed to protect the interest of the United States:

Another troublesome financial problem which has been fully and frankly discussed by the two nations is that of the sterling liabilities of Great Britain which have resulted from her large expenditures abroad during the war. In the Financial Agreements the British Government has undertaken to adjust and settle these obligations out of resources other than the American credit and has outlined its intentions with respect to their settlement. Our concern in this connection is two-fold. In the first place we want other countries which are in a position to do so to grant assistance to the United Kingdom within their means. Those which hold large sterling balances can do so by scaling them down. In the second place we want to be certain that the liquidation of these balances will not discriminate against American trade. The Financial Agreement contains a specific undertaking by the Government of the United Kingdom that no such discrimination shall result from these settlements.²⁶⁴

In other words, the United States strengthened its economic clout throughout the world by extending credit to the United Kingdom while simultaneously requiring foreign governments to reduce sterling holdings without discriminating against U.S. trade. The United States benefitted from prewar British imperialism, further weakened the British position as a global currency, and increased access to global trade. In early 1946, the British government had two bad options created by their weakened economic strength: accept American aid and its terms, or further negotiate with the Soviet Union to diminish

²⁶³ Harry S. Truman, "Special Message to the Congress Transmitting Financial Agreement with the United Kingdom, January 30, 1946," *Public Papers of the Presidents Harry S. Truman 1945-1953*. *Harry S. Truman Library and Museum*.
<http://www.trumanlibrary.org/publicpapers/index.php?pid=1467>

²⁶⁴ *Ibid.*

the economic strength of the United States. With the tripartite agreements at Tehran, Yalta, and Potsdam, the geographic spheres of influence were almost settled during the war with the notable exceptions of Greece, Turkey, and the Middle East. The Allies deferred when they agreed to an independent Iran while neighboring countries such as Egypt, Palestine, Iraq, and the Levant states were in the Sterling Area.²⁶⁵ Therefore, the United Kingdom was forced to consider accepting U.S aid with consideration of their influence in the Middle East.

As the United States negotiated the financial agreement with the United Kingdom, they also confronted the debts accumulated during Lend Lease by the Soviet Union. Although the specifics of the loan discussion between Harriman and Stalin remained vague in Harriman's memoirs, after he left the Soviet Union and before he arrived in Washington, on February 9, 1946, Joseph Stalin gave his famous election speech where he decried capitalism, claiming that "It would be wrong to think that the Second World War broke out accidentally, or as a result of blunders committed by certain statesmen, although blunders were certainly committed. As a matter of fact, the war broke out as the inevitable result of the development of world economic and political forces on the basis of present-day monopolistic capitalism."²⁶⁶ In a view similar to Keynes, Stalin claimed that "catastrophic wars could be avoided if it were possible periodically to redistribute raw materials and markets among the respective countries in conformity with their economic weight by means of concerted and peaceful decisions. But this is impossible under the capitalist conditions of world economic development."

²⁶⁵ The Chinese Communist Revolution in 1949 disrupted the spheres of influence in Asia, most notably in countries such as Korea and later Vietnam. See also: Mikesell, "Financial Problems of the Middle East. *Journal of Political Economy*," 164–176.

²⁶⁶ Joseph Stalin, "Election Speech, February 9, 1946," *Pamphlet Collection, J. Stalin, Speeches Delivered at Meetings of Voters of the Stalin Electoral District* (Moscow: Foreign Languages Publishing House, 1950): 23. <http://www.marx2mao.com/Stalin/SS46.html>.

Stalin argued for redistribution of raw materials, while Keynes had argued for an international currency backed by a basket of commodities. They both made the case that “economic weight” should be a consideration for trade. For example, the petroleum reserves in Iran and its geographic importance to international trade made their currency mechanism important for both the Soviet Union and the Western Allies during the war; gold deposits were used as a mechanism to balance the rial with sterling and rubles.²⁶⁷ The Bretton Woods Agreement failed to address Stalin’s concerns about “redistributing” raw materials because the rate of exchange would be determined by U.S. dollars and gold and not reflective of the “economic weight” of participating countries. Right or wrong, according to Kennan’s *Bretton Woods Telegram*, Stalin’s concern was legitimate because joining Bretton Woods would cause a run on Russian banks.

After Stalin’s speech, news broke concerning a Canadian spy scandal. Canadian scientists and technicians were arrested in Canada accused of providing the Soviet Union with atomic knowledge.²⁶⁸ Rumors circulated that the “espionage efforts extended into the United States.”²⁶⁹ News of the arrested scientists was announced on February 16, 1946 by the Canadian Government, which alarmed officials in the United States.²⁷⁰ At a time when the Soviets maintained forces in Iran, Stalin’s election speech decried capitalism, and officials became concerned with the threat that the Soviets were acquiring a nuclear bomb, Kennan dispatched *The Long Telegram*.

²⁶⁷ Stalin attributed global crisis to capitalist competition, while maintain forces in Iran. He believed that “as a result of the first crisis of the capitalist system of world economy, the First World War broke out; and as a result of the second crisis, the Second World War broke out.” He differentiated the industrialization of the Soviet Union from that of the “capitalist method,” which was time and profit. In a capitalist system industrialization if financed over time by reinvesting accumulation of profits. The Soviet Union did not have time to incorporate this methodology because of the immediate requirement to industrialize due to the World Wars. Stalin, “Election Speech,” 24.

²⁶⁸ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 547.

²⁶⁹ Isaacson and Thomas, *The Wise Men*, 357.

²⁷⁰ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 547.

The documents from January and February of 1946 remained classified for years. It was not until November 17, 1953, that Truman publically acknowledged that the FBI informed him in February of 1946 that Harry Dexter White was under investigation for “subversive activities” and possible “espionage” with the Soviet Union.²⁷¹ In his *Memoirs*, George F. Kennan wrote that the *Long Telegram* was in response to a vague inquiry from Treasury and State in reference to the World Bank and International Monetary Fund.²⁷² The Venona decrypts, which may implicate Harry Dexter White as a Soviet source, remained classified until the U.S. National Security Agency began to release their contents in 1995.²⁷³ Because of the various classifications of memoirs and documents related to the early months of 1946, the historical record remained incomplete. Without knowledge of the *Bretton Woods Telegram*, which was only declassified in 1986, historians grappled with the general question: of why Kennan sent the *Long Telegram*. Furthermore, it remained difficult to comprehend why U.S. Ambassador Harriman left Moscow to return to the United States in January of 1946, or why, shortly following the *Long Telegram*, Kennan left the embassy in Moscow to return to the United States to design curriculum for the newly formed National War College, “at the first school for grand strategy that had ever existed in the United States.”²⁷⁴

On the day that George F. Kennan sent the *Bretton Woods Telegram*, he also sent a one-page telegram to the Secretary of State detailing “monetary values” as they correlated to the price of gold, silver, and the value of the ruble in the Soviet Union. Like the *BWT*, this telegram on monetary values remained classified until August 28, 1986. In

²⁷¹ Steil, *The Battle of Bretton Wood*, 351. Rauchway, *The Money Makers*, 119-120.

²⁷² Kennan, *Memoirs 1925-1950*, 293. Kennan wrote: “It should be remembered that nowhere in Washington had the hopes entertained for postwar collaboration with Russia been more elaborate, more naïve, or more tenaciously pursued than in the Treasury Department.”

²⁷³ Steil, *The Battle of Bretton Woods*, 291. These cables implicate White as “Richard, Jurist, and Lawyer” and occurred between March 16, 1944 and January 8, 1946.

²⁷⁴ Gaddis, *George F. Kennan*, 231.

December, gold and silver prices faced significant deflationary pressure in the Soviet Union. The price of gold dropped from “178 rubles per gram to 136” and silver dropped from “7 rubles per gram to 2.36.” According to the document, the prewar price of silver was “1.40 rubles per gram.” Kennan explained the drop in the price as the result of a “government decree [that] implies that the price paid by government for gold purchased from population also sharply reduced.” The reduction was explained by Kennan as a result of “increased supplies of precious metals now in hands of population as result of seizure of ‘personal’ booty by Russians in portions of Russian-occupied Europe.” He concluded that because of the increase in supply, the Soviets “feel that persons can be induced to sell gold to state either for resale or for conversion to bullion for much less than previously.” The reason this was important was because of the implication for the exchange rate between U.S. dollars and the ruble. He wrote, “Even after this price reduction, price of gold in Moscow jewelry stores shows extent to which present rates charged for ruble in foreign exchange are absurdly high.” Kennan quantified the arbitrage between the exchange rates in terms of U.S. dollars compared to the price of gold in Moscow stores. “For simple gold items in which cost of workmanship is almost negligible these stores charge a rate of 238 rubles per gram of pure gold. At this rate the U.S. dollar should be able to purchase about 40 times as many rubles as it actually purchased at existing official non-diplomatic rate of exchange and over 17 times as many rubles as it purchases at diplomatic rate at the present time.”²⁷⁵ This document is important because Kennan detailed the “arbitrage” that the Soviet Union created in their favor between exchange rates. In other words, any terms for loans would favor the Soviets because they did not agree to the international agreement, which would regulate

²⁷⁵ George F. Kennan, “Monetary Values,” January 2, 1946. Library of Congress: GFK to State Department, January 2, 1946, Harriman Papers, Box 185.

the rate of exchange and mark foreign currency values with that of the U.S. dollar. As of January 2, 1946, the Soviet Union inflated the value of the ruble in terms of gold domestically (it took fewer rubles to buy gold), while not adjusting the value of rubles on foreign exchanges. This arbitrage, if continued, would be a tremendous advantage to the Soviet Union in international trade because the Soviets would be able to purchase gold by way of U.S. dollars at discounted prices. In other words, the Soviets would maintain the ability to manipulate the value of the U.S. dollar, which was fixed to gold because the value of the ruble was not adjusted to the price of gold on foreign exchanges.²⁷⁶ The Soviet Union could float the value of the ruble while the signatories of the Bretton Woods Agreement would have fixed currency values to gold marked by U.S. dollars. This was extremely important because, as Stalin would remark on February 9, 1946, the Soviet Union nationalized banks to expedite industrialization. Rather than borrowing money, the Soviet Union would be able to finance reconstruction through arbitrage. It is noteworthy that Harriman recollected that his final discussion with Stalin before he left Moscow concerned the subject of loans. Kennan sent the telegram on January 2, 1946 at 7:00 p.m. The telegram is important because as Keynes wrote: "Friends of Gold will have to be wise if they wish to avoid a revolution."²⁷⁷

²⁷⁶ Generally, inflation is associated with higher prices. When prices increase it requires more money to purchase the same goods and services. The "monetary value" telegram demonstrated that gold was devalued (increased supply) and the ruble could purchase more at discounted prices; however, the ruble was valued at a higher exchange value to purchase U.S. dollars, which were backed by gold. This would enable the Soviets to exchange rubles for dollars at a better rate, which would provide the opportunity to purchase more gold at the dollar rate. Kennan's telegram indicated that the U.S. dollar should (according to the price of gold in the Soviet Union) be able to purchase more rubles with dollars (40 to 17 times more). The difference between the price of gold in U.S. dollars and the price of gold in rubles was the "arbitrage." By purchasing more dollars with fewer rubles, the Soviets would be better positioned to exchange rubles to dollars to purchase gold on the international market. The advantage of the arbitrage would be with all nations that signed the *Bretton Woods Agreement*.

²⁷⁷ Keynes, *A Treatise*, 292.

The following hour, at 8:00 pm on January 2, 1946, Kennan dispatched the *Bretton Woods Telegram*. As he did with the “monetary values” telegram, Kennan sent the *BWT* to SECSTATE in Washington with the following: “In connection with Soviet refusal to sign Bretton Woods Agreements, following comments may prove helpful to Department.”²⁷⁸ Kennan wrote that “a careful examination of Bretton Woods Agreements in relation to basic Soviet concepts and objectives goes far to explain present Soviet unwillingness to enter into these agreements. The agreements are replete with provisions which clearly could be viewed in Soviet circles only with greatest misgivings.” The *BWT* provided analysis as to “misgivings” and offered the State Department questions to clarify with the Soviets about their intentions.²⁷⁹

According to Kennan, if the Soviets entered the agreement, the “effect of the final agreement would be to prevent Soviet Union from utilizing ruble at any future date for bilateral trade bargaining purposes with countries of eastern and central Europe.” The “Soviet government has plainly embarked upon program of tying economies of these countries in with that of Soviet Union.” Kennan stated that it was “unknown” if the Soviets planned to use the ruble “as one of the means whereby this process is accomplished.” He explained that if the Soviets lost the “advantage” then “Soviet Statesmen would rebel at acceptance.” With the current exchange rate, the Soviet Union could purchase more U.S. dollars with the inflated ruble; however, domestically, the Soviets sold “gold in state stores at rate of over 200 rubles to dollar and finds takers. If free exchange were permitted and gold or foreign currencies equivalent could be freely acquired at rate of 5.3 rubles to dollar....” In other words, based on gold, there were too many rubles in circulation. If the price of the ruble reflected the international purchasing power of gold in

²⁷⁸ Kennan, *Bretton Woods Telegram*, 1.

²⁷⁹ *Ibid.*

state stores, “it is easy to imagine what a stampede there would be.” Furthermore, “to give explanations for this situation would involve making admissions damaging, in Soviet eyes, to prestige of Soviet State.” In other words, if the price of gold fell from 200 rubles to 5.3 rubles, the ensuing deflation would damage the Soviet economy (assuming gold set the price index for other goods and services). Considering the “monetary value” telegram and the *BWT*, the ruble was overvalued for international exchange and undervalued domestically. If the values adjusted simultaneously, then in effect there would be a run on the bank or, as Kennan wrote, “imagine what a stampede there would be.” According to Kennan, “by signing documents Soviets would apparently accept an obligation either to abolish their exchange restrictions within a reasonable time or to give explanations as to their failure to do so. To abolish these exchange restrictions at this time or in the near future is practically unthinkable.”²⁸⁰ Furthermore, by signing the documents, the Soviet Union would lose the trade advantage of importing raw materials at discounted prices to further industrialization. In an effort to stabilize trade advantages or disadvantages due to currency rates, the Bretton Woods agreements required governments to submit to principals of macroeconomics and international scrutiny by enabling a world body oversight to quantify economic measurements of member countries.

Kennan listed several key economic measurements that the Soviets would be required to disclose if they joined the Bretton Woods Agreements. He wrote: “adherence to agreements would appear to oblige Soviet Union to give information to outsiders on following points: gold and foreign exchange holdings, gold production, gold exports and imports, total exports and imports of merchandise, international balance of payments,

²⁸⁰ Kennan, *Bretton Woods Telegram*, 1. These concerns are certainly similar to the issues that confronted the newly elected President of the United States in 1933 as indicated by his *Fireside Chat* and executive order to abolish the gold standard. See Chapter One.

investments abroad, national income, and price indices.” Although gold proved to be the most vexing question, the latter disclosers would unveil Soviet intentions throughout various parts of the globe. Kennan detailed that disclosing the amount of gold held by the Soviets would require them to reveal a closely held secret of a “very delicate matter.” He explained that “the amount of gold and foreign exchange holdings of Soviet Government has been a carefully guarded state secret for twenty years.” Furthermore, by disclosing “movements of gold in and out of Soviet Union,” the Soviets would reveal “large-scale expenditures abroad for purposes which could not conveniently be publically admitted.” The Soviets would be required to reveal state secrets. The economic data such as “statistics on exports and imports...data on national income...and price indices” had not been published in decades. Whether or not the Soviet Union maintained the data was not addressed. Either way, the data was either a tightly held state secret, or as a practical matter not available.²⁸¹

With specific regard to price indices, Kennan indicated that the Soviets concealed rapid inflation: “price indices have not been published for many years; not, indeed, since first five-year plan led to tremendous rise in prices which Government was forced to try to conceal by various means. To start publishing actual price indices today would again involve revelations of Soviet reality damaging to prestige and possibly to interest of Soviet State.” In other words, by concealing inflation as related to prices, the Russian people were willing to purchase gold at 200 rubles. The ruble was unhinged as a currency in relation to commodity prices. If the ruble was tied to an international exchange then prices would drop in the Soviet Union, as reflected by Kennan’s estimate that gold should be valued at 5.3 rubles to the dollar. The economic impact of deflation

²⁸¹ Kennan, *Bretton Woods Telegram*, 2.

would disrupt Soviet financial markets. When prices drop, debtors are required to repay loans at original value; therefore, the loans become more expensive.²⁸² The Soviet financial market, of course, was the Soviet government. Thus, Kennan's point: "To do this [disclose macroeconomic data] would involve a change of almost revolutionary dimensions in basic Soviet policy." Most alarming from an international perspective, or at least from a U.S. perspective, would be the requirement to disclose "investments abroad." Kennan offered little explanation in the telegram, but he made a succinct declaration: "To give information on investments abroad might entail taking outside world into confidence about Soviet economic relations with such areas as Poland, Hungary, Rumania, and northern Iran. Soviets are clearly reluctant to do this."²⁸³

Although Kennan offered little explanation, the argument recognized potential imperial ambitions of the Soviet Union. The question concerning Iran led President Truman to say to Harriman, "I want you to go to England. There is a very dangerous situation developing in Iran. The Russians are refusing to take their troops out—as they agreed to do in their treaty with the British—and this may lead to war."²⁸⁴ In other words, by disclosing economic data to a world body, the Soviet Union jeopardized their local economy and lost trade advantages to secure commodities and raw materials from abroad while also exposing foreign investment in disputed territories that could potentially be incorporated into the Soviet Union. Although the *Articles of Agreement* sought to "assist in reconstruction and development [by] facilitating the investment of capital for productive purposes" to territories and economies that were "destroyed or disrupted by

²⁸² As previously discussed, this was an issue in the United States when Roosevelt signed the Executive order to decouple the U.S. dollar and gold. Magliocca, "The Gold Clause Cases and Constitutional Necessity," 1243.

²⁸³ Kennan, *Bretton Woods Telegram*, 2-3.

²⁸⁴ Harriman and Abel, *Special Envoy to Churchill and Stalin*, 550.

war,” by participating in the agreements, the Soviet economy and ambitions would be jeopardized.²⁸⁵

Kennan further explained that the Soviet Union would be unlikely to enter into an agreement that subjected them to abdicating authority over Soviet affairs. He wrote: “Both in Fund and in Bank decisions are to be taken by majority of votes cast. It is not practice of Soviet Government to enter international bodies with power to influence Soviet actions in international affairs unless voting is based on unanimity principle and gives USSR effective veto power.”²⁸⁶ This statement harkened back to similar agreements reached in establishing the United Nations and the Security Council. Effectively, Kennan argued that the Soviet Union would not abdicate authority to a world body.

Had the Soviet Union agreed to sign the Bretton Woods Agreement, they would have created the ability to borrow from the bank to assist in war reconstruction, but by doing so, they would have established that they were a “credit risk” when borrowing. Kennan wrote: “principal attraction to Soviet Government in adhering to these agreements would be possibility of borrowing from bank. However, if we interpret agreements correctly, Soviet Government could not obtain such credit from Bank without subjecting itself to scrutiny as credit risk.” To establish credit, the Soviets would be required to further disclose economic data that would harm its economy. “Furthermore, Soviet Government would apparently have to submit to supervision of purposes and manner in which money was spent and would be under obligation not to permit political or other un-economic influences or considerations to effect expenditure of funds. Such supervision would be offensive to Soviet tradition and contrary to most deeply ingrained Soviet feelings about national security.” In other words, though the Soviet Union was a

285 *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development. July 1 to 22, 1944*, 52, 54.

286 Kennan, *Bretton Woods Telegram*, 3.

major contributor to the allied victory in the war, the damage caused by the war to its economy would cause it to be governed by international rule disrupting domestic economic distribution created by Soviet communism. As Kennan wrote, "It is utterly impossible to separate political and economic motives in conduct by Soviet Government of economic life or any other form of state activity."²⁸⁷ The *Bretton Woods Telegram* was a presage to the *Long Telegram*. The former explained the cause of the Cold War, while the latter was a strategy to contain it.

The final point in the *Bretton Woods Telegram* summarized the apparent conflict between Soviet communism and capitalism. This point contained an unveiled warning of the threat of potential war. Kennan wrote: "As Department will note, many of possible Soviet reactions listed above arise from security considerations. Disturbing as this may seem to persons animated by western hopes for a peaceful postwar world, I am afraid we cannot understand Soviet reactions in these matters if we fail to recognize the Soviets, whatever their intentions, conduct foreign policy on working hypothesis that ultimate conflict between Soviet and Capitalist systems is inevitable." This is significant because Kennan's telegram began to highlight the incompatibility of ideological economic systems. The economic reality drove a wedge between the ideological differences: "They would undoubtedly wish to see this conflict resolved in their favor by means other than clash of national military forces. But in all matters affecting their own security they reckon with the most unfavorable possibilities." As previously indicated, by adhering to the Bretton Woods Agreements, the Soviets could face a run on the bank (citizens buying gold at 5.3 versus 200 rubles), lose their competitive advantage to secure raw materials at discounted prices, and be subjected to severe deflation, which could bankrupt financial

²⁸⁷ Kennan, *Bretton Woods Telegram*, 3.

markets (the Soviet nationalized banks). All of this is to say that the Soviet Union would be subjected to potential revolution and the possible overthrow of its government.

Kennan stated that agreeing to the terms of the Bretton Woods Agreements: "would involve a change of almost revolutionary dimensions in basic Soviet policy."

By joining the World Bank, the Soviet Union would need to transform its government to capitalism, which it clearly had no intention of doing. Kennan emphasized the inherent dangers of this conflict: "Against this background obligations to divulge what have heretofore been state secrets or to permit representatives of the western world to investigate Soviet conditions at first hand assume special significance. This set of circumstances has no doubt been given particular pungency by existing situation with respect to atomic energy."²⁸⁸ The telegram did not elaborate on the issue of "atomic energy." Kennan made the case clearly that the Soviets would not join the agreements because it was in their economic interest not to do so. Furthermore, and just as important, he began to make the case that the Soviet style of communism and western capitalism were not only incompatible, but the conflict would be a significant threat to "a peaceful postwar world."²⁸⁹

After sounding an alarm of potential conflict, Kennan explained to the Secretary of State why the Soviets bothered to participate in the negotiations. He referenced a memorandum from Ambassador Harriman on April 20, 1944, where "Molotov made it plain that Soviet Government was by no means sure that it could come in on international monetary fund such as that proposed and that, indeed, the majority of Soviet experts were against it, indicated with a frankness unusual in Soviet diplomatic practice that if our Government felt it necessary to have Soviet assent for purposes of its propaganda effect

²⁸⁸ Kennan, *Bretton Woods Telegram*, 4.

²⁸⁹ Kennan, *Bretton Woods Telegram*, 5.

on outside world, the Soviet Government would be willing to have its experts participate in discussions along these lines.”²⁹⁰ Kennan continued, “When pressed as to exactly what this meant, Molotov stated that it merely was the ‘present’ attitude of Soviet Government.” This was further explained by reminding the Department of State that “in estimating this statement we must recall the war situation which then existed.” In other words, Kennan insisted that the Soviets participated in the “preliminary negotiations at that time for sake of maintaining outward appearance of tripartite collaboration” and “had not yet seen its way to acceptance of principle of Soviet association with such an international fund.”²⁹¹ Kennan also clarified by referencing Soviet press “which stressed agreements reached at Bretton Woods as demonstration of stability and success of tripartite collaboration but made it clear that actual execution of Bretton Woods ‘recommendations’ would be ‘an extremely complicated matter.’”²⁹² Kennan pointed out that the U.S. government “had been pressing Soviet Government in vain since August 10 for indication of its plans with respect to approving Bretton Woods agreements.” Therefore, Kennan argued, in reality the Soviet Union never acknowledged an intention to join the Bretton Woods Agreements, which further explained why during the Bretton Woods conference the Soviet Union initially appeared to maintain a more observational role as opposed to engaging the rigorous debates. This explains why three days after the telegram was sent, President Truman drafted a letter to the U.S. Secretary of State

²⁹⁰ Refer back to Chapter Two.

²⁹¹ Kennan, *Bretton Woods Telegram*, 4. The reference to Harriman’s memorandum, Kennan cited Embassy’s 1380, April 20, 1944, 10 p.m. for Secretary Morgenthau. This refers to “the short, very brief” text delivered to the U.S. Embassy on April 20, 1944 and Morgenthau’s statement of “associate themselves with.” *FRUS*, “Bretton Woods,” *General*, Vol. II (April 20, 1944): 126; *Morgenthau Diaries*, “We have just received a message from Moscow,” *Diary Book* 723 (April 21, 1944): 204.

²⁹² Kennan, *Bretton Woods Telegram*, 4. Kennan cited *War and Working Class* No. 19, October 1, 1944.

“chastising Byrnes’ lack of communication and complaining about Soviet actions since Potsdam.”²⁹³ Byrnes would be replaced by General George C. Marshall in early 1947.

Kennan’s *Bretton Woods Telegram* was dispatched eight days prior to Poland signing as the thirty-first member nation on January 10, 1946. According to World Bank documents, Poland applied for a \$600 million loan to develop their economy in October 1946 and a smaller loan in spring of 1947 for the coal mining industry. As a result, the first mission the Bank ever sent abroad was to Poland in June 1947.” The mission was a “fact-finding mission,” and ultimately the loans were not approved. Later, “On March 14, 1950, Poland became the first country to withdraw its membership.”²⁹⁴ This is extremely important because on January 2, 1946, when Kennan sent the *BWT*, he expressed concerns about the membership of Yugoslavia and Poland. He wrote: “Prospect of remaining outside Bretton Woods arrangements is perhaps made easier for Soviet Government by fact of membership of Poland and Yugoslavia. Moscow leaders still presumably have effective influence over fiscal policies and actions of Polish Government through membership of prominent members of Polish Government (including particularly Minz, Minister of Economy) in Polish Workers’ Party.” He continued to write that the “same must be generally true in Yugoslavia. Representatives of these countries can thus act as eyes and ears of Moscow in administrations of both fund and bank, and through them Moscow can make its own views heard, all without direct commitment or responsibility on Soviet part.” Further, “Moscow will be able in the initial period to observe actual workings of fund and bank in light of experience of these countries, without endangering Soviet economic security.” Kennan demonstrated that by proxy the

²⁹³ Truman, “Draft Letter—Chastising Byrnes lack of communication, January 5, 1946.”

²⁹⁴ “Poland Rejoins World Bank, Bringing it to 150 Member Countries,” *World Bank Group Archives*. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTARCHIVES/0,,contentMDK:22913689~pagePK:36726~piPK:437378~theSitePK:29506,00.html>

Soviet Union would be able to monitor the bank and its efforts for reconstruction without creating the internal economic turmoil that he had described if the Soviet Union agreed to the terms of Bretton Woods.²⁹⁵

Kennan concluded *The Bretton Woods Telegram* pessimistically, yet framed questions to be asked of Soviet foreign minister, Vyacheslav Molotov. “Although I cannot conceive that any amount of argument not backed with practical pressure could persuade Soviets to alter decision they have announced with respect to non-participation in agreements at this time, I question whether Molotov should not be asked for a fuller explanation of what he means by “those new conditions of the economic development of the world which are forming themselves in the postwar period.” Kennan proceeded with three questions “since international economic developments affecting Russia subsequent to conclusion of hostilities have been marked principally (1) by formation by Russia of an exclusive economic sphere in central and eastern Europe, (2) by delivery to that sphere of many millions of dollars’ worth of commodities from western nations in form of UNRRA aid and carry-over Lend Lease, and (3) by simultaneous Soviet unwillingness to permit any appreciable deliveries to be made out of that sphere to aid in general problems of world rehabilitation.”²⁹⁶ He argued that Russia and its satellites in central and Eastern Europe received raw materials (commodities) but failed to export to further assist in a broader economic recovery. The Soviets maintained advantage in the exchange rate, avoided economic equilibrium with member nations (which would result in price deflation in the Soviet Union), would be able to monitor by way of Poland and Yugoslavia the inter-workings of the World Bank and International Monetary Fund, and at that time, benefited from United Nations Relief and Rehabilitation Aid. Finally, Kennan concluded, “I find it

²⁹⁵ Kennan, *Bretton Woods Telegram*, 5.

²⁹⁶ *Ibid.*

difficult to see what new conditions Molotov could have in mind which would specifically justify Soviet withdrawal from Bretton Woods arrangements.” The final sentence contained more than a hint of sarcasm concluding that the Soviet Union would not be persuaded to join the Bretton Woods Agreements. Thus, he began a case for “practical pressure.”²⁹⁷ Shortly, Kennan would dispatch the *Long Telegram* and embark on an education tour in Washington to build political support to oppose the Soviet Union, while Ambassador Harriman would be asked by the President to go to London because of the potential for war between the Soviet Union and Great Britain in Iran. The world divided into two economic spheres and dire conflicts between competing capitalists nations (United States and United Kingdom) united against a common enemy: Marxist ideology.

²⁹⁷ Kennan, *Bretton Woods Telegram*, 5.

Chapter 4

TELEGRAMS & THE IDEOLOGICAL IMPLEMENTATION OF THE MARSHALL PLAN

As Europeans confronted economic catastrophe and as Americans contemplated possible depression in the mid-1940s, American diplomats urgently needed to simplify an argument to convince the public to support billions in aid for the reconstruction of Europe.²⁹⁸ The difficulty was to find a way to convey the complexity of economic corporatism to an American public that had voted in the elections of 1946 to reduce the deficit, cut taxes, and deregulate.²⁹⁹ Coupled with political rhetoric that emerged in 1946, diplomats reduced economic theory to polarized extremes where capitalism was represented by the United States while the Soviet Union represented socialism. Because of this ideological framework, Bretton Woods became a historical footnote, while the Marshall Plan became a representation of American generosity.

This symbolism of capitalism versus socialism originated with the strategy of containment articulated in George F. Kennan's *Long Telegram*. While serving at the U.S. Embassy in Moscow in early 1946, Kennan recorded in his *Memoirs* that he received a request from the State Department "to sum up the current situation with Moscow...to explain why the Soviets were not going to join the World Bank or the International Monetary Fund."³⁰⁰ Kennan wrote that he responded with a secret telegram on February

²⁹⁸ 69 percent of Americans surveyed feared a pending depression in the next ten years, while 20 percent feared it would be imminent. "The Quarter's Polls," *The Public Opinion Quarterly* 11, no. 1 (1947): 142. <http://www.jstor.org.ezproxy.uta.edu/stable/2745677>

²⁹⁹ For example, literary scholar Christina Klein argued in *Cold War Orientalism* that "Americans have always understood their democratic political freedoms to be inseparable from their economic ones." Christina Klein, *Cold War Orientalism: Asia in the Middlebrow Imagination, 1945-1961* (Berkeley, CA: University of California Press, 2003), 24.

³⁰⁰ Kennan, *Memoirs 1925-1950*, 292. Nicholas Thompson, *The Hawk and the Dove: Paul Nitze, George Kennan, and the History of the Cold War* (New York, NY: Henry Holt and Company, 2009), 58. Kennan's *Memoirs* paved historical interpretation to focus on the contents of the Long Telegram without a concise interpretation because the Bretton Woods Telegram remained classified until 1986.

22, 1946, that described two economic “spheres of influence.” He did not record memories of the *Bretton Woods Telegram*. The *Long Telegram* circulated throughout the Department of State. A copy was also delivered to the Secretary of the Navy, James Forrestal, “who passed copies to hundreds of colleagues. The Secretary of State read it. The President read it.”³⁰¹ The telegram was also dispatched to General George C. Marshall. The wide distribution of the *Long Telegram* dwarfed the significance of the *Bretton Woods Telegram*, which is important because the *Long Telegram* shaped the narrative of the Cold War over the subsequent decades. Kennan referred to it as a result of the Soviet refusal to join the World Bank and International Monetary Fund; however, historians failed to research the causal relationship between the Soviet refusal and the *Long Telegram* as an economic issue rather than ideological. In his *Memoirs*, Kennan recollected, “Ever since the receipt in Washington of the long telegram...Mr. Forrestal had taken a lively personal interest in my work. It was, I suspect, due to his influence that I was assigned to the War College and later chosen by General Marshall to head the Planning Staff.”³⁰² In other words, since the Soviet Union refused to join the World Bank and IMF [International Monetary Fund], U.S. policy for European reconstruction emphasized military aid to contain the Soviet Union. In the *Long Telegram* Kennan argued, “In the course of further development of international revolution there will emerge two centers of world significance: a socialist center...and a capitalist center...Battle between these two centers for command of world economy will decide the fate of capitalism and communism in entire world.”³⁰³ As Kennan recalled, the *Long Telegram*

³⁰¹ Thompson, *The Hawk and the Dove*, 59.

³⁰² Kennan, *Memoirs 1925-1950*, 354.

³⁰³ Kennan, George F. “Department of State Incoming Telegram addressed to the Secretary of State, February 22, 1946,” *The Long Telegram*. *Harry S. Truman Administration File, Elsey Papers*.

<http://trumanlibrary.org/whistlestop/study_collections/coldwar/documents/index.php?documentdate=1946-02-22&documentid=6-6&studycollectionid=&pagenumber=1>

propelled his career to the War College, which led to his involvement in the discussions leading to the Truman Doctrine. The strategy of containment became understood primarily as a military strategy as opposed to economic stimulus to promote capitalism against Soviet-style socialism by regulating international currency exchange and trade.³⁰⁴ Since the telegram circulated throughout the Department of State while it remained classified, the narrative was written retrospectively in the course of public opinion. This is extremely important because Kennan attempted in vain to correct the misunderstanding of the strategy of containment over the following decades without official influence in government.³⁰⁵

In early 1946, potential war with the Soviet Union due to their refusal to sign the Bretton Woods Agreements and remove troops from Iran disrupted reconstruction efforts in the Balkans, Turkey, and Middle East. During the Tehran Conference in 1943, the Big Three (Stalin, Churchill, and Roosevelt) pledged support for an independent Iran with postwar economic rehabilitation as an international priority. Since Iran's deficits were financed with gold deposits to purchase sterling and rubles, their economy was tied to the Soviet Union and the United Kingdom. Although the military threat in Iran seemed most plausible between the Soviet Union and the United Kingdom, the United States dispatched diplomatic efforts to avert the military conflict while simultaneously supporting Great Britain. Ultimately, the United Kingdom forfeited Palestine submitting to U.S. influence in Israel. Lost within the historical discourse was the significance of Bretton Woods and Lend Lease debts related to currency stabilization for international trade and commodity distribution. As the alliance strengthened between the United Kingdom and

³⁰⁴ For example: Klein claimed that Kennan defined containment, that he "articulated its defining logic when he called for 'long-term, patient but firm and vigilant containment of Russian expansive tendencies...'Klein, 24.

³⁰⁵ Kennan, *Memoirs 1925-1950*, 317. See also: Thompson, *The Hawk and the Dove*, 58.

the United States within an ideological framework of capitalism versus socialism, the rhetorical influence of Kennan's *Long Telegram* reframed political discourse on both sides of the Atlantic. "Less than a month later, Kennan's British counterpart in Moscow, Frank Roberts, submitted the first portion of a detailed assessment of the situation—his own *Long Telegram*—to the British Foreign Office."³⁰⁶ Although according to Roberts' recollection, he did not collaborate with Kennan other than "to making a similar assessment of Stalin's policies," the similarity between the telegrams inspired historians such as Greenwood to conclude otherwise. Either way, the dominant theme of Marxism in the Soviet Union and the threat to the United States and United Kingdom triumphed over economic materialism in subsequent interpretations of the Cold War.³⁰⁷

Historians initially interpreted the Second World War through the lenses of the Cold War, and the development of territorial conflicts between the Soviet Union and the Allies through the lenses of the *domino theory* and containment, historians emphasized ideology, which was explicit in both Kennan and Roberts' telegrams. With the simultaneous development of neoclassical economic theory in the 1950s, which coexisted during the onset of the Cold War, the international negotiations during the war for the Currency Stabilization Fund were further diminished by economic historians. However, Kennan and Roberts noted, with less fanfare, the significance of Bretton Woods. In his first of three telegrams, on March 14, 1946, Roberts cabled: "Nor has the Soviet Union adopted a helpful attitude towards the United States Government in regard to issues such as Bretton Woods and the proposed conference on international trade and

³⁰⁶ Sean Greenwood, "Frank Roberts and the 'other' Long Telegram: The View from the British Embassy in Moscow, March 1946," *Journal of Contemporary History* 25, no. 1. (1990): 105. <http://www.jstor.org.ezproxy.uta.edu/stable/260723>.

³⁰⁷ Greenwood, "Frank Roberts and the 'other' Long Telegram: The View from the British Embassy in Moscow, March 1946," Conclusion. Sir Frank Roberts wrote the introduction for Sean Greenwood's essay where he denied collaboration and contrasted the British interpretation and reaction to the telegrams with that of the United States over the subsequent decades.

tariffs, to which the American administration attribute such importance.” Roberts emphasized that in addition to refusing to sign the Bretton Woods Agreements, “American disquiet can only have been increased by the revelations of Soviet espionage in Canada—a question clearly of direct interest to the United States and affecting their treasured possession of the secret of atomic energy.” According to Roberts, the significance of the Soviet decision not to join the World Bank, espionage in Canada, and Soviet actions in Iran were the material reasons for the Cold War: “To complete the picture the Soviet Government has flagrantly broken their treaty obligations in Persia with no attempt to explain themselves and are conducting a most disturbing policy towards Turkey as well.”³⁰⁸ Since Roberts preceded the material reasons for the Cold War with ideological construction and the Soviet perception that Britain was weak—“It is possible that our very forbearance and cooperative spirit have been misinterpreted as weakness here. Indeed, a diplomatic colleague recently told me that an intelligent Soviet acquaintance of his had informed him that Britain was now the sick man of Europe, much as Turkey had been throughout the 19th century, and that our fate during the coming years was likely to resemble that of the Austro-Hungarian Empire”—the significance of global currency stabilization gave way to ideological differences.³⁰⁹ Furthermore, Roberts’ economic analysis of the Soviet Union stressed the weak economy and the necessity to rebuild industrialization through military spending. With Kennan and Roberts’ telegrams two realities emerged, one concrete and the other abstract. First and foremost, Soviet ideology, more specifically Marxism, motivated Soviet action; and second, “...the emphasis laid upon increasing the economic and military strength of the Soviet Union by maintaining the necessary armaments industry and developing heavy

³⁰⁸ Jensen, ed., *Origins of the Cold War*, 39.

³⁰⁹ Jensen, ed., *Origins of the Cold War*, 38.

industry.”³¹⁰ The Soviet Union, therefore, was an actual threat based on an international ideology, which discombobulated subsequent historical analysis.³¹¹

Although the magnitude of historical importance of Kennan and Roberts’ telegrams in February and March of 1946 cannot be understated, their impact on the postwar era and subsequent influence on historiography, economic theory, as well as contemporary events over the following decades make it important to understand them during the implementation of the Marshall Plan. Likewise, in 1990, when the Soviet government released the Novikov *Long Telegram* dispatched to the Soviet Foreign Minister Viacheslav Molotov on September 27, 1946, opportunity emerged to better understand the origin of the Cold War, but the context of the telegram is more significant as the Cold War emerged in the public sphere of influence with Kennan’s *Mr. X* articles in *Foreign Affairs* and *Life* in 1948 because Novikov’s *Long Telegram* expressed concerns with political developments in the *United States* that would materialize in the Congressional elections of 1946. As the United Kingdom embraced Kennan’s rhetoric, the Soviet Union recognized political developments in the United States as a threat to their own national security. Roberts wrote: “There is one fundamental factor affecting Soviet policy dating back to the small beginnings of the Muscovite State. This is the constant striving for security of a State with no natural frontiers and surrounded by enemies. In this all-important respect the rulers and people of Russia are united by a

³¹⁰ Jensen, ed., *Origins of the Cold War*, 39.

³¹¹ The significance of the international ideology, Marxism, will be addressed further. This is important because domestic Marxist ideology would be discouraged in the United States and to a lesser extent in the United Kingdom, which obviously infected historical objectivity. Coupled with neoclassical economics and McCarthyism the consistency of analysis through the scientific method was thwarted. Sean Greenwood wrote: “The result of this fusion of Russian nationalism and international Marxism was to make the former ‘more dangerous and insidious than ever before.” Greenwood, “Frank Roberts and the ‘other’ Long Telegram: The View from the British Embassy in Moscow, March 1946,” 108.

common fear, deeply rooted in Russian history. National security is, in fact, at the bottom of Soviet...behavior of the Kremlin.”³¹² The Novikov telegram emphasized Soviet security. Since there was no communication link between Novikov’s *Long Telegram* and the United States and Great Britain, it is best understood in the context of implementing the Marshall Plan. In other words, as Soviet concerns politically materialized, U.S. policy hardened, which created a causality dilemma for historians to grapple with.

To better understand implementation of the Marshall Plan, it is important to consider American public opinion during the end of 1946 as voters returned power to Republicans in the U.S. House of Representatives and Senate. Significantly, *The Public Opinion Quarterly* for the fourth quarter of 1946 recorded that 74 percent of respondents believed that the Soviet Union and the United States were to blame for “misunderstandings” between the countries. In a detailed analysis, 22 percent (the highest percentage) of respondents blamed the two countries for speaking in “very general terms of attitudes: fear, distrust, jealousy, greed, misunderstanding, and lack of cooperation.”³¹³ When asked if newspapers presented Russia as better as or worse than reality, 42 percent responded “worse” while only 17 percent responded “better.”³¹⁴ In other words, contrary to Kennan’s *Long Telegram*, the American public did not perceive the Soviet Union as a direct threat to its way of life in 1946. In a different poll conducted on November 30, 1946, pollsters asked, “The United States has as much national income as all of the other nations in the UN put together. In view of this, do you think the United States should pay one half of all costs of the United Nations organization?” More than half of the respondents (69 percent) responded “No,” which signified that the American

³¹² Jensen, ed., *Origins of the Cold War*, 43.

³¹³ “The Quarter’s Polls,” 147.

³¹⁴ “The Quarter’s Polls,” 149.

public opposed financing the majority of the reconstruction cost of Europe.³¹⁵ The fourth quarter polls for 1946 focused on domestic economic issues such as the conflicts between U.S. labor and management and government's role in issues such as labor, strikes, wages, and prices. Most important, as reflected in January 1947, 69 percent of respondents feared a "widespread depression within the next ten years," and more than 20 percent feared the depression would be imminent coming within 1947 or 1948.³¹⁶ In another poll, when asked, "Which of these statements best describes what we should try to do about foreign relations now and in the future?" less than 5 percent responded, "We must do the best we can for the rest of the world even if what we do isn't always the best thing for America." Thirty-two percent responded that what is "best for the world is best for America," and 43 percent favored the statement, declaring that we should "look out for America first, but at the same time we must try not to do anything that will hurt the rest of the world too much." Only 8 percent thought we should not "care too much about what happens to the rest of the world."³¹⁷

Three themes emerged from poll results for the fourth quarter of 1946: First, relations with the Soviet Union were considered "misunderstandings." Second, domestic economic issues concerning the role of government, labor, and management were dominant; and finally, the polls lacked questions concerning the reconstruction of Europe, most likely because postwar reconstruction was not a dominant concern of the American public. The polls offer better insight than newspaper articles because they are a lagging

³¹⁵ "The Quarter's Polls," 169.

³¹⁶ "The Quarter's Polls," 142.

³¹⁷ Ibid.

indicator whereas newspaper publications were oft-times a leading indicator with editorials designed to shape public opinion.³¹⁸

Prior to U.S Congressional elections in 1946, classified State Department memoranda reported that Greece faced a dire economic crisis, which could create a strategic advantage for the Soviet Union. The Greek Prime Minister, Konstantinos Tsaldaris, asked the U.S. government for an “extension of assistance to Greece to avert a foreign exchange crisis.”³¹⁹ He requested “import from abroad of the most essential consumers’ as well as capital goods” to prevent the collapse of the economy. He stressed that “internal financial problems” would be “impossible” to resolve without measures “whereby the U.S. Government may come to our aid in meeting our current foreign exchange needs.”³²⁰ The economic crisis in Greece also included military concerns. A secret memorandum issued December 19, 1946, summarized some of the frustrations of the U.S. government with the Soviet Union. The memorandum “Incidents on the Northern Greek Frontiers,” described “a disturbing situation,” which ultimately resulted from the Security Council’s rejection of the recommendations of the United States on September 20, 1946 “because of the veto of the Soviet delegate.”³²¹ The author of the memorandum, Harry Howard, of the Division of Research for Near East and Africa, argued that “evidence...points toward an over-all pattern, with indications that the USSR and its satellites...may be seeking...to give Bulgaria and the Soviet Union an outlet on the Aegean Sea” that would “place the Soviet Union in a more strategic

³¹⁸ By lagging indicator I am noting the polls are generally conducted to survey public opinion after events transpired...push polling, which are polls designed to influence public opinion emerged in the late 80s early 90s.

³¹⁹ *Foreign Relations of the United States (FRUS)*, “Greece,” *FRUS diplomatic papers, 1946. The Near East and Africa*, VII. *UW-Madison Libraries: Digital Collections* (2000): 260. <<http://digital.library.wisc.edu/1711.dl/FRUS.FRUS1946v07>>

³²⁰ *Ibid.*

³²¹ *FRUS*, “Greece,” *The Near East and Africa*, Vol. VII (December 9, 1946): 276-7.

advantage on the Aegean side of the Turkish Straits."³²² In other words, as Americans viewed tensions with the Soviet Union as "misunderstandings," the Department of State was concerned with the economic collapse of Greece and Soviet strategic advantages. In January 1946, George Kennan sent a telegram to the Secretary of State to explain why the Soviet Union did not join the World Bank and International Monetary fund,³²³ and by November 1946, the Greek Prime Minister urgently sought aid because the Soviet Union vetoed the recommendation of the United States to the Security Council in September 1946.³²⁴ International peace was at stake and the catalyst of the threat was, as Kennan suggested, the conflict between the two spheres of influence: socialism and capitalism.

Reconstruction efforts in Europe were failing by late 1946. As historian Michael Hogan summarized, "The German muddle headed a long list of problems that highlighted the failure of American policy. Great Britain's economic plight and withdrawal from Greece generated stark warnings of where current policies could lead and called for a more aggressive use of American resources."³²⁵ Due to the complexity of the problems, in January 1947, President Truman and Secretary of War Robert P. Patterson summoned former President Herbert Hoover to "...investigate the factors slowing recovery in Germany."³²⁶ Although his report was not issued until March 1947 and his recommendations did not create consensus between the War Department and the State Department concerning the specific recommendation of integrating a restored Germany within the overall European economy, a "new approach emerged from their deepening

³²² *FRUS*, "Greece," *The Near East and Africa*, Vol. VII (December 9, 1946): 276-7.

³²³ Thompson, *The Hawk and the Dove*, 58.

³²⁴ September of 1946 is when Novikov dispatched his telegram.

³²⁵ Michael J. Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952* (Cambridge, MA: Cambridge University Press, 1987), 33.

³²⁶ *Ibid.*

conviction that previous aid programs had failed and would continue to fail so long as American assistance was used in piecemeal efforts to revitalize national economies.”³²⁷ As the solutions to European recovery were debated, social and economic stability continued to deteriorate in Europe.

In the United States, after the confetti of victory parades following the Second World War was washed away by rain, the armed forces began to demobilize: soldiers, marines, airmen, and sailors returned home to seek employment and transition back to civilian life. The labor force, however, radically changed as a consequence of the war effort. The returning veterans would need to be assimilated back into the private sector while government contracts subsided, thus reducing government spending. The Dow Jones Industrial Average, a leading market indicator, adjusted for dividends, declined over eight percent. Fourth quarter polls demonstrated that as the economy turned sluggish and labor tensions escalated, public policy debates focused on the relationships between labor, management, and government. Meanwhile, overseas, the European economy was devastated by war, the U.S. economy moved toward recession, and the United States and United Kingdom needed to confront the threat of Soviet expansion. The dichotomy of a public concerned with domestic economies while diplomats confronted the complex problems of international reconstruction, required a narrative to simultaneously address both. This dichotomy became obvious in the United States with the election results of 1946.

As the election approached, *Life* magazine published: “The 1946 Campaign: Republicans are sure to Gain Ground, But Extent of Their Victory is Still Uncertain.” Democrats had controlled both houses of Congress since 1932. The article speculated

³²⁷ Hogan, *The Marshall Plan*, 35.

that Republicans would not only gain considerable victories in the election, but also alluded to the election of 1948 and insinuated the possible capture of the White House.³²⁸ After the election, the *New York Times* documented the actual size of the victory by comparing the number of party seats between the 79th Congress and the newly elected 80th Congress. In the 79th Congress, the Democratic majority was eighteen seats in the Senate and forty-seven seats in the House. After the election, the Republican Party's majority consisted of three seats in the Senate and thirty-one seats in the House.³²⁹ The *New York Times* reported that the election introduced "124 freshmen to the law-making process on Capitol Hill."³³⁰ Not only did the election significantly alter the balance of power for the implementation of the Roosevelt administration's postwar planning, the ascension of political influence between the coalition of Republicans and conservative Southern Democrats in 1946, likely alarmed the Soviet Union.

The Soviet foreign minister, Vyacheslav Molotov, requested that the Soviet ambassador to the United States, Nikolai Novikov explain shifting U.S. foreign policy. Novikov sent what was later deemed the *Soviet Long Telegram*, September 27, 1946, and not made available to Western historians until 1990. The telegram coincided with the Soviet Union's decision to block the U.S. Resolution to the Security Council in 1946. He cabled: the "cooperation of the two parties, which took shape in both houses of Congress in the form of an unofficial bloc of reactionary Southern Democrats and the old guard of the Republicans..." The Soviet concern with political developments in the United States materialized with the mid-term election of 1946, which created what President Truman

³²⁸ "The 1946 Campaign Republicans are sure to Gain Ground, But Extent of Their Victory is Still Uncertain," *Life* (October 21, 1946): 29. Time Incorporated. *Life*. *Life Archives*. Web. <books.google.com> Keywords: Life Magazine.

³²⁹ "Election Results throughout Nation and Make-Up of New Senate and House of Representatives," *New York Times*, Nov 7, 1946, 16. *New York Times*. Proquest LLC. *The New York Times. News – The Historical New York Times*. <http://proquest.umi.com/>.

³³⁰ "The News of the Week in Review," *The Historical New York Times*, May 25, 1947, E1.

would later call the “Do Nothing Congress.”³³¹ According to the Novikov telegram, the political developments in the United States following the death of President Roosevelt and shifting U.S. foreign policy alarmed the Soviet government. The Soviets were well aware of U.S. domestic political debate. Novikov outlined the ideas of “reactionaries” in the United States (those who initially opposed the war) that “calculated that the United States of America, if it was unsuccessful in completely avoiding direct participation in the war, would enter it only at the last minute, when it could easily affect the outcome of the war, completely ensuring its interest.” The strategy of the reactionaries was to wait out the war until natural competitors destroyed each other. The primary competitors were Germany, Japan, and Great Britain. With the destruction of Germany and Japan, and the overall weakness of the British Empire, Novikov wrote that Great Britain “now faces enormous economic and political difficulties.” He explained that “the political foundations of the British Empire were appreciably shaken, and crises arose, for example in India, Palestine, and Egypt,” and that the economic strength of the United States provided “American monopolistic capital with prospects for enormous shipments of goods and the importation of capital into these countries—a circumstance that would permit it to infiltrate their national economies.” Those who advocated policies to exploit the economic advantage of the United States following the war concerned the Soviet Union: “Such a development would mean a serious strengthening of the economic position of the United States in the whole world and would be a stage on the road to world domination by the United States.”³³² Novikov assessed that those “reactionaries” miscalculated the strength of the Soviet Union following the war. He surmised that they had anticipated that the

³³¹ Jensen, ed., *Origins of the Cold War*, 6. The underscore was in the original document and reproduced in the text. “The Soviet Foreign Ministry published the Novikov cable, alongside the Kennan *Long Telegram*, in the November 1990 issue of *Mezhdunarodnaia zhizn*, an official publication of the Foreign Ministry.” Xii.

³³² Jensen, ed., *Origins of the Cold War*, 4.

Soviet Union “would be destroyed in the war or would come out of it so weakened that it would be forced to go begging to the United States for economic assistance.”³³³ This reference either alluded to Lend Lease arrangements and their disruption in the late summer of 1945 or the Bretton Woods Agreement, which would have provided loans to the Soviet Union under the condition that it surrender control of its currency to the U.S. dollar backed by gold. It was most likely a reference to Bretton Woods influenced by the developments of Lend Lease in the early Truman administration. As Truman faced the political ascension of Republican and Southern Democratic coalition strength in Congress, the Soviet Union feared his administration abandoned the international principles of the Roosevelt administration.

With the Soviet economic position strengthened by territorial agreements such as those at Yalta and Potsdam, Novikov advocated policy to be an “obstacle in the path of the expansionist policy of the United States.” What is most remarkable about the contents of the Novikov telegram is that he differentiated the political influence of the political parties within the United States and their perspective influence on international policy:

The foreign policy of the United States is not determined at present by the circles in the Democratic Party that (as was the case during Roosevelt’s lifetime) strive to strengthen the cooperation of the three great powers that constituted the basis of the anti-Hitler coalition during the war. The ascendance to power of President Truman, a politically unstable person but with certain conservative tendencies, and the subsequent appointment of [James] Byrnes as Secretary of State meant a strengthening of the influence on U.S. foreign policy of the most reactionary circles of the Democratic Party. The constantly increasing reactionary nature of the foreign policy course of the United States, which consequently approached the policy advocated by the Republican Party, laid the groundwork for close cooperation in this field between the far right wing of the Democratic Party and the Republican Party. This cooperation of the two parties, which took shape in both houses of

³³³ Jensen, ed., *Origins of the Cold War*, 4.

Congress in the form of an unofficial bloc of reactionary Southern Democrats and the old guard of the Republicans..."³³⁴

In other words, according to Novikov, the Soviet Union was concerned about the economic strength of the United States following the war and the ascension of the political power that opposed the Roosevelt administration during the war. Truman replaced Byrnes after U.S. elections of 1946. However, the die was cast. After the Soviet Union had refused to ratify the Bretton Woods Agreement, the United States adjusted the terms for the United Kingdom and due to Soviet espionage in Canada and events in Iran, Soviet concerns addressed in Kennan's *Bretton Woods Telegram* were not adequately pursued through diplomatic channels. Further political developments in the United States entrenched conflicting relations between the Soviet Union and the United States.

After the elections of 1946, as the new Congress took office in early 1947, Joseph Martins Jr.'s opening address as the Massachusetts Republican Speaker of the House recapitulated the Republican agenda and iterated the ideological conflict between private and public investment/regulation. The rhetorical domestic argument between private and public reverberated internationally. Martins described war-torn Europe: "Millions of men and women—and little children—are still displaced, far from their native homes; they are still hungry; they are still dazed by the enormity of the horrible disaster which has wrecked their lives, laid waste to their native lands, left them without homes and, in many cases, bereft of loved ones." He argued that those "war-stricken peoples" turned to the "beacon of freedom." With sentimentality, the Speaker failed to address the economic complexity of reconstruction. Instead, he used imagery of American freedom

³³⁴ Jensen, ed, *Origins of the Cold War*, 6.

and implied that the symbol of freedom would suffice to restore the “world of civilization.” The conflict, as he described it, was that freedom was at risk by grave problems at home. He argued that the nation had been “plunged” into debt that could not “be paid off in more than a century,” and that the American people were “bowed down under a burden of taxation.”³³⁵ The government, he argued, was one of the causes that inhibited production. Martins’ speech was significant because it demonstrated the ideology that expressed rivalry between private and public. The reconstruction of Europe demanded an infusion of American public capital, while private capital demanded that the American government sell assets back to venture capitalists. For example, in *The Organic Machine*, historian Richard White stated, “World War II had forced a shotgun wedding that united the public and private power sources into a single integrated supply system...A strong public-power culture remained within the Bonneville Power Administration, but a preference for public development yielded to the political necessity of compromise with the investor owned utilities to meet the everyday demands of managing the river.”³³⁶ Martins articulated the mandate of the congressional election, which epitomized the political necessity to privatize public industry that was “forced [into] a shotgun wedding.”

Speaker Martins’ speech not only demonstrated the ideological difference between private and public, which framed the argument that the government hampered production, but it used imagery of patriotism and freedom—with the backdrop of the Second World War. World peace rested on the shoulders of the American way of life, Martins said. “All true Americans love and are loyal to our constitutional system and the

³³⁵ Joseph Martins, “Text of Speaker Martin’s Address Opening House Session,” *The Historical New York Times*, January 4, 1947, 2.

³³⁶ Richard White, *The Organic Machine: The Remaking of the Columbia River* (New York, NY: Hill and Wang, 1995), 73.

Bill of Rights....There is no room in the Government of the United States for any who prefer the communistic system, or any other form of absolutism, to our American system.” In other words, he constructed an argument for freedom by limiting freedom: “freedom of speech, of assembly, and of press does not, and must not be permitted to mean that enemies of this country and of our people...shall have license so to conspire under the protection of the Constitution.” Within this framework, Martins used symbolism like “the beacon of freedom” to assimilate economic theories of capitalism into the American way of life—and framed government regulation and bureaucrats as obstacles to that way of life. He said, “No sound economist can deny...that competition is a better regulator of prices and quality than all Governmental bureau and departmental regulations.”³³⁷ In other words, Martins criticized the national debt and burden of taxes without recognizing the government’s capital investment. Historian Pete Daniel has written in *Toxic Drift* that “DDT arrived in the United States in August 1942; by the summer of 1945, production for military purposes reached 3 million pounds per month. Even during the war, chemical companies realized its vast postwar potential.”³³⁸ Thus, government capital was invested in chemical companies and, with the conclusion of the war, the companies “aimed production at domestic markets.” As companies advocated privatization, they emphasized deregulation.³³⁹ Martins advocated on behalf of industry. Many of the government’s investments made during the Great Depression and Second World War needed to be sold to private capital, while government leaders abdicated regulatory

³³⁷ Martins, “Text of Speaker Martin’s Address Opening House Session,” *The Historical New York Times* Jan 4, 1947. 2.

³³⁸ Pete Daniel, *Toxic Drift: Pesticides and Health in the Post-World War II South* (Baton Rouge, LA: Louisiana State University Press, 2005), 1.

³³⁹ Pete Daniel documented that local governments in Southern States declared war on fire-ants and coupled with deregulation, chemical companies continued the profitable sell of DDT. Pete Daniel’s work is within the tradition of Rachel Carson, *Silent Spring* (Boston, MA: Houghton Mifflin, 1962).

authority. After all, according to politicians such as Martins, it was the economic freedom of America that had won the war. It was time to balance the budget, cut taxes, and re-privatize industry. More important, Martins articulated that communist sympathies and views domestic or abroad were not to be considered by the U.S. government. Any idea or dissent of this view that could be labeled as Marxist, Socialist, and/or Communist were “enemies of the country...” and should not be afforded the “protection of the Constitution.” In other words, as the Soviet Union was concerned about the political ascension of Roosevelt’s critics, the left flank of Roosevelt’s administration was politically subdued, which contributed to international friction between the Soviet Union and United States.

The day of Martins’ speech, President Truman wrote in his diary that he “spent the day working on the State of the Union, Economic and Budget [sic] messages. Having a terrible time with the Economic one...The awful 79th Congress put me on the spot. Now I’ve a job putting the 80th on the same spot to make us even.”³⁴⁰ He put them on the spot by calling for a balanced budget and debt reduction. On the day of his State of the Union Address, Truman wrote in his diary complaining about the White House that presidents “who had Boswells and New England historians are too busy trying to control heaven and hell to come back here so the tortured souls who were and are misrepresented in history are the ones who come back. It’s a hell of a place. Read my annual message. It was good if I do say it myself.”³⁴¹ Truman was concerned about the economic sections of his speech.

Truman dedicated the majority of his Annual Message to the Congress on the State of the Union on January 6, 1947, to labor/management conflicts during the previous

³⁴⁰ Harry S. Truman, *Diary and Manual of the Real Estate Board of New York, Inc. 1947*. Transcribed by Raymond H. Geselbracht, Education and Academic Coordinator of the *Harry S. Truman Library & Museum* (January 4, 1947) <http://www.trumanlibrary.org/diary/index>.

³⁴¹ Truman, *Diary*, January 6, 1947.

year and outlined five major economic policies that he hoped to implement. First, he advocated for greater harmony between labor and management. Second, he wanted to restrict monopolies and unfair business practices and provide assistance to small business and better promote a free competitive system of enterprise. Third, he argued for the continuation of an aggressive program to promote home construction. Fourth, he supported legislation to balance the budget and promote a surplus to reduce public debt. Finally, he wanted protection for a fair level of return to farmers in postwar agriculture.³⁴² As he explained his economic policies, he made clear that the “production of food reached record heights” in the past year and he cautioned that though the grains could be sold abroad, farmers would “face the same dangers” of the previous generation if the nation “failed to provide means to protect the farmer while he adjusted his acreage to peacetime demands.”³⁴³ In foreign affairs, Truman stated that the “delay in arriving at the first peace settlements is due partly to the difficulty of reaching agreement with the Soviet Union.” Truman chose uncritical language of the Soviet Union and stated that “the fact that the basic interest of both nations lie in the early making of a peace...The major concern of each of us should be the promotion of collective security, not the advancement of individual security.”³⁴⁴ Although, Truman’s speech assimilated political

³⁴² Harry S. Truman, “Annual Message to the Congress on the State of the Union, January 6, 1947,” *Harry S. Truman Library and Museum*.
<http://www.trumanlibrary.org/whistlestop/tap/1647.htm>

³⁴³ Ibid. Donald Worster documented the price of wheat due to the Turks cutting off supply lines from Russia during the First World War, the Food Control Act of 1917, and the impact of price controls on wheat that led to market speculation in the U.S. Southern Plains. Combined with new technology and industrialized farming, the increase in the wheat supply did not increase labor demand, which caused a labor surplus (high unemployment). The increased production of wheat in the Southern Plains led to the man-made environmental catastrophe *The Dust Bowl*. Combined with price declines when Russian wheat returned to the European markets, the drought, debt accumulated to speculate on land and purchase machinery, and high unemployment, the economic consequences from international trade of a single commodity became catastrophic to the Southern Plains. See: Donald Worster, *The Dust Bowl: The Southern Plains in the 1930s* (Oxford: Oxford University Press 1979, 2004), 89.

³⁴⁴ Truman, Harry S. “Annual Message to the Congress on the State of the Union, January 6, 1947.”

compromise, it echoed the Republican agenda of promoting a free competitive system of private enterprise, balancing the budget, and reducing public debt. It also replicated economic ideology that was being constructed as anti-Soviet. In other words, as Truman chose not to direct the public's attention on the issue of postwar reconstruction, he framed a domestic narrative that also concerned the Soviet government. Since the war overseas had ended, the emphasis was domestic economic concerns and domestic prosperity was not directly tied to European reconstruction.

Necessity for postwar reconstruction accelerated as problems in Greece continued to deteriorate. The Greek government urgently requested aid from the United States in November of 1946. Officials of Division of Research for Near East and Africa had concluded "...a disturbing situation existed along the Greek frontiers which might well constitute a threat to international peace and security."³⁴⁵ Since these memoranda were classified, neither Truman nor Martins addressed them explicitly in their speeches. Although it was a back page story, *The New York Times* published, "Broader Cabinet Seen for Greece" the day prior to the President's address. The article reported that "fresh attempts will be made to broaden the Government to include parliamentary opposition." The situation in Greece was that the communists blamed the Greek government of intentional delays to "cover up evidence of help to 'Fascist' forces inside the Slavic bloc." According to the article, the "allegation" was a "rebuttal to an assertion made by the [Greek] Government...that the Slavs already begun to dismantling depots and Greek guerrilla training centers on their territory."³⁴⁶ On the front page of the same issue of the *New York Times*, the headline read: "World's Great Empires Suffer Internal Blows: Independence Movements and Revolts Disturb British, French and Dutch." The

³⁴⁵ *FRUS*, "Greece," *The Near East and Africa*, Vol. VII (December 9, 1946): 277.

³⁴⁶ "Broader Cabinet Seen for Greece," *The Historical New York Times* Jan 5, 1947. 28.

front page article claimed that the United States and British Prime Minister Clement Attlee specifically, were “in the paradoxical position of trying to maintain all possible imperial contacts—at least from an economic view—without adhering to pre-war imperial concepts.” It continued, “Impelled by Soviet Russia—which is propagandizing in vigorous fashion colonial independence in other people’s overseas empires—Moscow has none—intellectual Communist cores are taking the lead to sever the ties of the French colonies.”³⁴⁷ Were the “internal blows [independence movements]” the result of deteriorating economies of the “World’s Great Empires” or did they result from Soviet propaganda? Economists risked becoming “enemies of this country and our people” if they considered Marxist economic theory to interpret contemporary threats of Marxist revolutions in the former colonies. The threat of Soviet expansion necessitated anti-Marxist rhetoric, which also deconstructed economic materialism.

A year after Kennan’s Long Telegram, in a Top Secret memorandum, the Deputy Director of the Office of European Affairs wrote to his superior, “Actions of the Soviet Government in the field of foreign affairs leave us no alternative other than to assume that the USSR has aggressive intentions.”³⁴⁸ Furthering the concern, Robert P. Patterson, Secretary of War, issued a memorandum to John Henry Hildring, Assistant Secretary of State for Occupied Areas. The memorandum was to outline War Department views on the minimum U.S. forces that would be needed to accomplish “occupation missions in Europe” between July 1947 and July 1948. Patterson said that the primary problem was the number of armed forces on foreign soil in Europe. He listed

³⁴⁷ “World’s Great Empires Suffer Internal Blows: Independence Movements and Revolts Disturb British, French and Dutch,” *The Historical New York Times* Jan 5, 1947. E5.

³⁴⁸ *Foreign Relations of the United States (FRUS)*, “National Security Policy,” *FRUS diplomatic papers, 1947. General: The United Nations I*. UW-Madison Libraries: *Digital Collections* (2000): 715. <http://digital.library.wisc.edu/1711.dl/FRUS.FRUS1947v01>.

the United States with 202,000; Britain 247,000; French 80,000; and finally, the U.S.S.R had 1,110,000.³⁴⁹ The vast difference between Soviet armed forces and European forces on foreign soil could not be understated. With the Slavic rebellion in Northern Greece, diplomatic fears that the Soviet Union was positioning for strategic advantage materialized. A million man army with “aggressive intentions” located throughout Europe created urgency.

The president, briefed on the aggressive intentions of the Soviet Union and the Slavic rebellion in Northern Greece, needed to educate the public, while also requesting hundreds of millions of dollars in aid. In the *Long Telegram*, Kennan argued that “World communism is like malignant parasite which feeds only on diseased tissue. This is point where domestic and foreign policies meet,” and he continued, “It is not enough to urge people to develop political processes similar to our own. Many foreign peoples, in Europe at least, are tired and frightened by experiences of past...” and he concluded that if the United States did not provide the guidance these peoples sought, the “Russians certainly will.”³⁵⁰ In other words, within a couple of months of celebrating the New Year, reconstruction of Europe emerged as urgent. The president needed to find a way to ask Congress to approve hundreds of millions in aid, including \$400,000,000 in immediate aid for Greece, when, in fact, Congress had been elected by a public concerned with domestic economic issues and calling for tax cuts, deficit reductions, and balancing the budget. After the electorate voted for a mandate against the progressive forces of the Roosevelt administration, to argue for an international New Deal would not be politically palatable.

³⁴⁹ *FRUS*, “National Security Policy,” 718.

³⁵⁰ Kennan, *Long Telegram*, 19.

In an effort to minimize dissent and secure credibility for foreign aid, Truman needed to alter his Cabinet. Since Kennan's telegram in early 1946, Truman had expressed doubts that Byrnes adequately advised him on the Soviet threat.³⁵¹ Truman needed to make an appointment that would garner enough support for ratification by the Republican Congress. He chose the well-respected General George C. Marshall. In his diary, Truman wrote on January 3, 1947 that "Some of the crackpots will in all probability yell their heads off—but let 'em yell! Marshall is the ablest man in the whole gallery."³⁵² In *A Preponderance of Power*, historian Melvyn Leffler claimed "Faced with a set of daunting problems abroad and the need to secure congressional support at home, Truman turned to General Marshall for help...Marshall had a marvelous capacity to inspire loyalty in his subordinates, make decisions, and think long term." Leffler continued, "Marshall sought to reassure Republican leaders that he had no political ambitions of his own and would not use foreign policy for the partisan advantage of the Democratic Party." As Secretary of State, Marshall "clarified the chain of command within the State Department," appointed Kennan to lead a new think tank, the Policy Planning Staff, and "insisted that all divisional recommendations go through the office of the undersecretary of state" headed by Dean Acheson.³⁵³ Truman hoped to outflank his political opposition. However, as the political rhetoric shifted toward anti-Marxist and anti-Soviet, the Department of State was led by a general who needed to negotiate economic stimulus for contracting economies abroad to avert "internal blows" and "independence movements" in former colonies and imperial territories.

³⁵¹ Truman, "Draft Letter—Chastising Byrnes lack of communication, January 5, 1946."

³⁵² Truman, *Diary*, January 3, 1947.

³⁵³ Melvyn P. Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford, CA: Stanford University Press, 1992), 142.

In the *Long Telegram*, Kennan argued that the public needed to be “educated to realities of Russian situation.”³⁵⁴ With the urgency of financial aid for Europe, specifically Greece, the matter was urgent. In his *Memoirs*, Kennan recalled that on February 24, 1947, Dean Acheson, Under Secretary of State, “summoned me to his office, told me of the crisis of policy that had arisen for us as a result of the decision of the British government to abandon its special support for Greece.”³⁵⁵ With the British withdrawal from Greece, the United States needed to provide further aid. Kennan claimed that the decision of whether or not to aid Greece and Turkey was already determined: at least, “so far as the Department of State was concerned.” He wrote that “the task of the committee was to outline in more detail the course of action that should be recommended to the President and General Marshall and to make suggestions as to how it should be explained and justified to other governmental departments, to the Congress...and to the public.”³⁵⁶ The explanation to justify aid framed the contours of the Cold War. Kennan relied on documentation from a war planning exercise from the War College, and he concluded that the United States should aid Greece—“if nothing were done to stiffen the backs of non-Communist elements in Greece...Communist elements would soon succeed in seizing power.”³⁵⁷ Kennan argued that aiding Greece would assist Turkey, but Turkey was not under communist threat. He believed that his objection to the final draft of the President’s speech was because “the Pentagon had exploited a favorable set of circumstances in order to infiltrate a military aid program for Turkey into what was supposed to be primarily a political and economic program for Greece.”³⁵⁸ The dichotomous nature of Kennan’s retrospective criticism of the Truman Doctrine was

³⁵⁴ Kennan, *Long Telegram*, 18.

³⁵⁵ Kennan, *Memoirs 1925-1950*, 313.

³⁵⁶ Kennan, *Memoirs 1925-1950*, 314.

³⁵⁷ Kennan, *Memoirs 1925-1950*, 316.

³⁵⁸ Kennan, *Memoirs 1925-1950*, 317.

critically important. The author of the strategy of containment, Kennan, considered political and economic aid superior to military aid to contain the Soviet Union. Without the ability to articulate the theoretical mechanism of stimulus for the purpose of restoring economic prosperity to promote the welfare of the state the narrative evolved into charity versus protection.³⁵⁹ The self-interest of aid to prevent domestic “independence movements” was not articulated in economic terms.³⁶⁰

Truman delivered the Truman Doctrine speech to a joint session of Congress convened on March 12, 1947, which proved to be the initial policy declaration of the Marshall Plan. Truman noted, “The gravity of the situation which confronts the world today necessitates my appearance before a joint session of the Congress. The foreign policy and the national security of this country are involved...The United States has received from the Greek Government an urgent appeal for financial and economic assistance.” The President appealed to good-will by describing Greece as “not a rich country” and evoked moral conscience when he described the nation as villages and victims of occupation during the war. To counter Soviet arguments against imperialism, and with the knowledge that the crisis in Greece was precipitated when the United Kingdom withdrew following the war, Truman articulated the struggles in Greece by framing the crisis as a need to protect national self-determination. In other words, domestic insurrection prevented the formation of a stable Greek Government. He said, that “The very existence of the Greek state is today threatened by the terrorist activities of several thousand armed men, led by Communists, who defy the government’s authority....” Since the Greek government requested aid, it was necessary for the United States to prevent Communist insurrection. He called the situation “urgent” and noted that

³⁵⁹ For example, consider the Preamble to the U.S. Constitution within an international context. The phrase “insure domestic tranquility” should be considered within the context of revolution.

³⁶⁰ “Broader Cabinet Seen for Greece,” *The Historical New York Times* January 5, 1947. 28.

the United Nations “is not in a position to extend help of the kind that is required.” There were two critical components: first, aid should suppress communist insurrections for self-determination; and second, the United Nations could not render the aid. This is important because in September of 1946, the Soviet Union vetoed the U.S. recommendations to the Security Council.³⁶¹ Without articulating the Soviet threat as a nation-state, Truman underscored communism as a threat.

After developing the argument for Greek aid, Truman expanded the logic globally. “The peoples of a number of countries of the world have recently had totalitarian regimes forced upon them against their will. The government of the United States has made frequent protest against coercion and intimidation, in violation of the Yalta agreement, in Poland, Rumania, and Bulgaria. I must also state that in a number of other countries there have been similar developments.” He declared “...every nation must choose between alternate ways of life. The choice is often not a free one.” It was also important to communicate that the economic success or failure of one nation would determine the fate of other nations. It was important to tie Greece to Turkey. If the Greek economy failed, so would the economy of Turkey. Truman stressed that aid should be “economic and financial,” by emphasizing the destruction of Greek infrastructure.

The paradox of the speech was that Truman’s call for immediate government aid juxtaposed free market capitalism, which would organize the priority of reconstruction through supply and demand and private investment. Truman stated, “This is an investment in world freedom and world peace,” and he continued, “The free people of the world look to us for support in maintaining their freedoms.” In other words, freedom

³⁶¹ *FRUS*, “Greece,” *The Near East and Africa*, Vol. VII (December 9, 1946): 260.

would be secured with government investment. The investment to maintain freedom included regulatory requirements. He added, as if to appease skeptics, that “It is of the utmost importance that we supervise the use of any funds made available to Greece, in such a manner that each dollar spent will count toward making Greece self-supporting, and will help build an economy in which a healthy democracy can flourish.”³⁶² Truman rhetorically abandoned the internationalism of Keynes in exchange for an ideological construction of national self-determination, by arguing for economic stimulus for Greek stabilization to prevent communist insurrections thereby promoting free people and democracy, which ironically required foreign intervention to counter and suppress foreign intervention. The success of Greece was rooted in international conflict. Furthermore, the structure of the speech was counter-intuitive to the electorate mandate in the U.S. elections of 1946.

Although Truman argued for governmental capital investment in Greece’s infrastructure, represented by the election results, the majority of the people in the United States opposed government ownership of assets and government controls. Prior to Truman’s speech, Martins noted, “...a large remnant of governmental controls, still hamper production” in the United States.³⁶³ In other words, policymakers were caught in a paradox that required a rhetorical remedy. They constructed an argument to help the oppressed while they recognized the need to counter Soviet claims of imperialism or colonialism, which inherently meant that the United States needed to develop policy to encourage private investment as opposed to state ownership of assets, but to encourage investment, it required capital risk controls. The reality and the rhetoric diverged.

³⁶² Harry S. Truman, “Recommendation for Assistance to Greece and Turkey [Truman Doctrine], March 12, 1947,” *House of Representatives Document No. 171*. *Truman Library and Museum*. http://www.trumanlibrary.org/whistlestop/study_collections/doctrine/large/documents/pdfs/5-9.pdf

³⁶³ Martins, “Text of Speaker Martins’ Address Opening House Session,” *The Historical New York Times* Jan 4, 1947. 2.

Politically, they could not construct an argument of bureaucratic partnerships with corporations to reconstruct Europe because to do so would contradict pontificated economic theories of free market capitalism espoused by elected officials, who would ultimately be required to fund any aid to Europe with a congressional vote. The rhetorical paradox significantly altered American views of socialism and capitalism. Although, at the time, a majority of Americans favored private ownership, a significant percentage favored government ownership. For example, a poll in 1946 asked veterans of the Second World War whether they thought the government or private industry should build airplanes for the armed forces, and just over 50 percent favored private ownership due to more efficient and economical production. More than 60 percent of surveyed employees (veterans and otherwise) preferred to work for private business.³⁶⁴ When asked if the government should own electric companies, banks, railroads and coal mines, a strong minority responded in favor of government ownership 40, 36, 30, and 27 percent respectively.³⁶⁵ In other words, although the majority of American people opposed government ownership, a significant minority favored government ownership. The election results of 1946, however, gave Congress a mandate to deregulate and sell government assets. Since Congressional approval was necessary to provide foreign aid, it was necessary to construct an argument that appeased the political sensibilities of the opposition party.

Despite the rhetorical arrangement of the Truman Doctrine, it created immediate opposition from a skeptical press corps that was concerned with the potential cost and scope of the policy. Although Truman stated, "We must take immediate and resolute action," the *New York Times* printed on March 14, that "Bewildered Congress Faces

³⁶⁴ "The Quarter's Polls," 146.

³⁶⁵ "The Quarter's Polls," *The Public Opinion Quarterly* 11, no. 2 (1947): 289.
<http://www.jstor.org.ezproxy.uta.edu/stable/2745479>.

World Leadership Decision: Resents Truman Failure to Provide Full Data, Bemoans Need to take a Stand.” The editorial criticized Truman’s failure to estimate the overall cost of the broad policy proposal: “...Congress is confronted with an arduous task in trying to meet its deadline. The Administration has not presented it with any over-all estimate of the cost of implementing the broad policy proposed by the President in countries other than Greece and Turkey.”³⁶⁶ It is noteworthy that the overwhelming concerns of the new policy were associated with cost and sacrifice of the American people without proper economic consideration of the multiplier effect and international trade. Neither the president’s speech nor the press corps response attempted to stress the potential economic benefit to the United States by providing aid to Europe. For example, in another article printed two days later, the *New York Times* wrote that the plan contained “fundamental disadvantages.” It asked, “The Big Question: What will Our World Role Be?” It continued, “The President can always say...that Greece and Turkey were only ‘one aspect’ of the problem, and...we had to help not only [them] but, as he said, all ‘free people’ who ‘are resisting attempted subjugation.”³⁶⁷ In other words, the good-will or moral capital argument failed. The cost of aid also concerned legislatures. As Martins articulated, the United States faced “grave” problems at home; i.e. debt, taxes, and bureaucracy. To promote spending abroad when the U.S. government needed to reduce spending and balance the budget was politically unpalatable. Therefore the public and more importantly Congress needed to be presented with the over-all cost estimate before good-will abroad could be considered.

³⁶⁶ “Bewildered Congress Faces World Leadership Decision: Resents Truman Failure to Provide Full Data, Bemoans Need to Take a Stand,” *The Historical New York Times* March 14, 1947.

³⁶⁷ “The Big Question: What will Our World Role Be?” *The Historical New York Times* March 16, 1947.

Internal memoranda from the Department of State indicated that concerns about the scope as well as the cost of the Truman Doctrine also existed at the highest levels of government. Acting in the official capacity as Secretary of State, Dean Acheson wrote on March 5 to Secretary of War Robert P. Patterson that, "In the course of our discussions on the Greek and Turkish problem, frequent reference was made to the fact that this is only part of a much larger problem growing out of the change in Great Britain's strength and other circumstances not directly related to this development."³⁶⁸ The memorandum from Acheson was seven days prior to the Truman Doctrine. The day before Truman delivered his speech, the "State-War-Navy Coordinating Committee (SWNCC)...agreed to appoint an *ad hoc* Committee to study and report on the problems incident to possible requests which might be made to the United States by foreign governments for substantial economic, financial or technical assistance, or for military equipment."³⁶⁹ Historian Michael Hogan has written, "The SWNCC had been established on March 11th, following Under Secretary Acheson's request for a study of additional aid needs in various countries."³⁷⁰ The scope and cost of the Truman Doctrine was not fully developed when Truman delivered the speech. The urgency required for immediate aid to Greece, presupposed the editorial criticism printed in *The New York Times*. Truman did not provide congress with overall cost estimates nor scope of the Doctrine because at the time of the speech, it was unknown. In his *Memoirs*, Kennan recalled that he was summoned by Acheson "during the first weeks of 1947" and informed that Marshall, the newly appointed Secretary of State, would likely establish "some sort of planning unit"

³⁶⁸ *Foreign Relations of the United States (FRUS)*, "The Political and Economic Crisis in Europe and the United States Response (The Marshall Plan)," *FRUS diplomatic papers, 1947. The British Commonwealth; Europe III. UW-Madison Libraries: Digital Collections* (2000): 197. <http://digital.library.wisc.edu/1711.dl/FRUS.FRUS1947v03>

³⁶⁹ *FRUS*, "The Marshall Plan," *British Commonwealth*, Vol. III (March 17, 1947): 198.

³⁷⁰ Hogan, *The Marshall Plan*, 40.

and asked him to lead it. Kennan was asked on February 24, 1947, to participate on the deliberations concerning Greece and Turkey, and although he was concerned with the broad language and the inclusion of Turkey based on military aid, he was asked to lead the planning committee to implement the President's doctrine. In his *Memoirs*, he was critical and objected to the universal language that "it must be the policy of the United States to support free peoples who are resisting subjugation by armed minorities or by outside pressures;" and the "American urge to the universalization or generalization of decision."³⁷¹ Although, Kennan favored individual consideration for contested areas, following the President's speech, the "planning unit" became official with Kennan as director of the Policy Planning Staff. Hogan wrote, "Early Planning for European recovery centered in George Kennan's Policy Planning Staff and in a special agency of the State-War-Navy Coordinating Committee (SWNCC)."³⁷² The initial task of the committees was to define the scope of the doctrine. Since it was tied with the State-War-Navy Coordinating Committee, the strategy of containment became a shotgun wedding between economic aid and military spending.

A juggernaut developed within the strategy of containment in the early months of 1947. The foundation of the strategy was to prevent the Soviet Union from expanding influence; however, the United States needed to integrate foreign economies to perpetuate economic growth. During the Second World War, international currency stabilization was sought to avert trade conflicts, territorial expansion, and currency manipulation for trade advantage or uneven distribution of commodities. When the Soviet government declined to join the Bretton Woods Agreement, two economic spheres of influence emerged. Without a global currency weighted by economic productivity and

³⁷¹ Kennan, *Memoirs 1925-1950*, 323.

³⁷² *Ibid.*

indexed to commodities, national self-interest required that outside nations organize around one of the two spheres, which significantly retarded economies that relied on Soviet and Western trade. Prewar economies subjugated by colonialization also relied on foreign capital. The United States needed to structure aid to integrate new markets and sources of raw materials, while promoting self-determination for nation state organization. In the *Long Telegram*, Kennan argued, "Toward colonial areas and backward or dependent peoples, Soviet policy, even on official plane, will be directed toward weakening of power and influence and contacts of advanced Western nations."³⁷³ In other words, without an international economic order such as a World Bank, the Soviet Union and United States needed to compete for economic influence. If Keynes and Marx were correct in their underlying economic theories, then ideology was irrelevant to economic reality. However, due to the rhetorical construction developed after the Soviet Union failed to join the World Bank, economic theory diverged into serious contradictions that disrupted economic solutions implemented during the Great Depression prior to the Second World War. For example, not only was there an international threat posed by the Soviet government "toward colonial areas and backward or dependent peoples," there was also a domestic threat. Kennan elaborated on subversive communist methods that generally "are used to penetrate, and to influence or dominate...other organizations less likely to be suspected of being tools of Soviet Government." He listed such organizations as "labor unions, youth leagues, women's organizations, racial societies, religious societies, social organizations, cultural groups, liberal magazines, publishing houses, etc."³⁷⁴ In other words, theoretical economic debate transformed into a nationalist narrative thwarting internationalism. Kennan's *Long Telegram* was the origin of the policy

³⁷³ Kennan, *Long Telegram*, 9.

³⁷⁴ Kennan, *Long Telegram*, 12.

of containment and the Truman Doctrine made it public policy. The ideological construction of containment and integration, which assimilated internal and external logical contradictions, converged in March 1947. The United States needed to expand foreign markets, while appearing to promote benevolent humanitarian aid as opposed to appearing imperialistic and deregulate industry for private capital benefit while providing massive aid to Europe for economic and political reconstruction, which would promote capitalism as economically superior to socialism while also developing capital risk controls to encourage private investment.

The situation in Greece offered Truman the opportunity to request aid, contain communism, and argue against imperialism and colonialism because the catalyst of the crisis was, as Kennan reflected in his *Memoirs*, “the decision of the British government to abandon its special support for Greece.”³⁷⁵ The distinction between imperialism and colonialism was not made.³⁷⁶ Although debated within the government, the American people believed that the conflict with the Soviet Union was merely a “misunderstanding” as demonstrated by the polls.³⁷⁷ Speaker of the House Joseph Martins said “...for the sake of those millions who have been crushed under the juggernaut of war—for the sake of our own future—we must keep the torch of freedom and progress alight in America.”³⁷⁸ Americans, concerned with the domestic economy, were not as concerned with the strategy of containment. Aiding Europe was not a priority. In simple terms, they believed, “we must help ourselves to help others.” It is also worth noting that labor strikes

³⁷⁵ Kennan, *Memoirs 1925-1950*, 311.

³⁷⁶ With the distinction between colonialism and imperialism being unclear, historical interpretation of the “Age of Atlantic Revolutions” was thwarted by theories of nation-state self-determination resting on the 1776 publication of Gibbon’s *The Decline and Fall of the Roman Empire*. This is important because as a historian, Karl Marx emphasized the French Revolution and disputed Hegel’s *Philosophy of Right* and *Philosophy of History*, which constructed the ideology of State.

³⁷⁷ “The Quarter’s Polls,” *The Public Opinion Quarterly* 11, no. 1 (1947): 149.

³⁷⁸ Martins, “Text of Speaker Martins’ Address Opening House Session,” 2.

disrupted the U.S. economy in 1946 and, as Kennan suggested, labor unions were susceptible to penetration or domination by subversive elements of the Soviet Union.³⁷⁹ Furthermore, the Republican agenda sought to remove “any who prefer the communistic system” from the government of the United States.³⁸⁰ In other words, the American people needed to awaken to the real or imagined dangers of the Soviet Union. Following President Truman’s speech, *Life* magazine printed two editorials that focused on shifting arguments from cost concerns about the doctrine to purpose. The first editorial stated that American foreign policy lacked “idealism,” while the latter printed a photograph of children standing in a bombed out school and proclaimed, “Threat to Greece: Wretched and strife-torn, it will fall to Russia unless U.S. help.”³⁸¹ The contours of foreign aid shifted the domestic discourse concerning government stimulus as an economic theory such as the New Deal, to an anti-socialist doctrine to prevent Soviet intervention. The reverberation of the rhetoric was tremendous and further disrupted subsequent historical interpretation by subverting domestic opposition to the rhetorical contradictions.

To contain Soviet expansion abroad, it became important to first eliminate Marxist influences within the United States. Executive Order 9835, the first domestic directive of the policy of containment, sought to remove communist threats from the U.S. government.³⁸² The executive order implemented a key piece of the Republican agenda. The order called for a “loyalty investigation” of all employees of the executive branch of government; placed the responsibility of an “effective program” to “assure that

³⁷⁹ Kennan, *Long Telegram*, 12.

³⁸⁰ Martins, “Text of Speaker Martins’ Address Opening House Session,” 2.

³⁸¹ “Threat to Greece: Wretched and strife-torn, it will fall to Russia unless U.S. helps,” *Life*, March 17, 1947. 38, 32.

³⁸² Harry S. Truman, “Prescribing Procedures for the Administration of an Employees Loyalty Program in the Executive Branch of the Government—Executive Order 9835,” *Executive Orders Harry S. Truman 1945-1953. Harry S. Truman Library & Museum.*
<http://www.trumanlibrary.org/executiveorders/index.php?pid=502&st=&st1=>

disloyal...employees are not retained” on directors; and called for an ongoing review board. The significance of the executive order should not be understated. An economic argument that favored socialism could be interpreted as disloyal because, as Kennan declared in the *Long Telegram*, there would be two spheres of influence dominating the world: capitalism and socialism. Further, if it was argued that aiding Greece prevented the spread of communism, then it could be implied that opposing aid favored communism. Truman’s Executive Order, which became known as the Federal Employee Loyalty Program, was issued shortly after the Truman Doctrine. It was designed to remove “suspected communist and sympathizers from the federal civil service and prompted similar action at every level of government.”³⁸³ The implications were far reaching. This executive order led to creating the House Committee on Un-American Activities. The publication of lists that supposedly contained the names of subversive organizations obliterated organized dissent. For example, “These actions quickly winnowed the ranks of the Popular Front and decimated its institutional infrastructure.”³⁸⁴ Simply put, left domestic organizations lost much of their ability to criticize domestic economic policy. Most important, understanding the Bretton Woods Agreement in relation to the origin of the Cold War was complicated because shortly after the Soviet Union refused to sign the agreement, the FBI notified Truman that the lead representative for the United States at Bretton Woods, Harry Dexter White, Deputy Secretary of the U.S. Treasury, was under investigation for “subversive activities” and possible “espionage” for the Soviet Union.³⁸⁵ In *Cold War Civil Rights*, historian Mary Dudziak wrote: “In this atmosphere, many other government policies were evaluated in terms of whether they

³⁸³ Klein, *Cold War Orientalism*, 33.

³⁸⁴ *Ibid.*

³⁸⁵ Steil, *The Battle of Bretton Woods*, 351. The investigation of Harry Dexter White began in late 1945 and in August of 1947, he testified before the F.B.I. He was questioned by the House of Un-American Activities in August 13, 1948.

served or undercut the more central U.S. mission of fighting communism.”³⁸⁶ Truman appointed White to be the American executive director at the International Monetary Fund on January 23, 1946. J. Edgar Hoover, Director of the Federal Bureau of Investigation, opposed the appointment and issued a report that White was a Soviet spy.³⁸⁷ Klein documented how the executive order reached the public imagination. She reproduced the map drawn by James Burnham and published by *Life* magazine on March 31 depicting the world where the Soviet Union and America were located at the center of the world with arrows illustrating their spheres of influence.³⁸⁸ A poll taken on April 18, 1947, indicated 61 percent of respondents proclaimed that “American citizens who belong to the Communist Party” were loyal to the Soviet Union.³⁸⁹ The American people awoke, while the F.B.I. investigated the activities of the U.S. architect of the World Bank and International Monetary Fund.

Forrest C. Pogue, official biographer of George C. Marshall, explained that Kennan “thought it was too broad and that it invited almost every country with problems to turn to the United States for support.” The Senate passed the bill to aid Greece and Turkey 67-23 on April 12, 1947. Presumably coupled with Executive Order 9835, Pogue argued that the bill passed because the Truman Doctrine frightened Congress.³⁹⁰ The author of the Long Telegram and creator of the policy of containment, George Kennan, who now headed the Policy Planning Staff, felt Pandora’s Box erupted and containment was misunderstood. In his *Memoirs 1925-1950*, published in 1967, he critiqued the telegram and compared it to congressional committees: “I read it over today with horrified

³⁸⁶ Mary Dudziak, *Cold War Civil Rights: Race and the Image of American Democracy* (Princeton, NJ: Princeton University Press, 2000), 28.

³⁸⁷ Steil, *The Battle of Bretton Woods*, 297.

³⁸⁸ Klein, *Cold War Orientalism*, 35.

³⁸⁹ “The Quarter’s Polls,” *The Public Opinion Quarterly* 11, no. 2 (1947): 281.

³⁹⁰ Forrest C. Pogue, *George C. Marshall Statesman 1945-1959* (New York, NY: Viking Penguin Inc. 1987), Vol. 4, 167.

amusement. Much of it reads exactly like one of those primers put out by alarmed congressional committees or by the Daughters of the American Revolution, designed to arouse the citizenry to the dangers of the Communist conspiracy.” He continued, “The effect produced in Washington by this elaborate pedagogical effort was nothing less than sensational.”³⁹¹ When Kennan published his *Memoirs*, the *Bretton Woods Telegram* remained classified. The dogma of the Soviet Union expressed in the *Long Telegram* was based primarily on “traditional Russian feelings of deep insecurity, onto which had been grafted the ‘truculent and intolerant’ Marxism-Leninism...Kennan might imply that Marxism was discreetly used to hide the nakedness of Soviet power.”³⁹² Without the material understanding of the economic consequences for the Soviet Union had they joined the World Bank, the historical narrative emphasized U.S. exaggerations of free market capitalism weighed against Soviet exaggerations of Marxist-socialism. Lost in translation was the middle-ground of Keynes’ economic theory.

As director of the Policy Planning Staff, which was established on May 5, 1947, Kennan attempted to thwart the “exaggerated threat” of communism—distinguishing it from the “real threat” of communism—and argued that the focus of aid should be economic and social. Kennan “called for the assembling of documents on current economic trends” throughout Europe and wanted “an overall assessment” of what aid various areas would require to “(a) by way of relief, in order to keep human life going in case no programs of rehabilitation are undertaken beyond those already in existence, and (b) to effect complete rehabilitation [of the] economy and render it self-supporting.”³⁹³ In response to Kennan’s request a Top Secret “Report of the Special ‘*Ad Hoc*’ Committee

³⁹¹ Kennan, *Memoirs*. 294.

³⁹² Greenwood, “Frank Roberts and the ‘other’ Long Telegram: The View from the British Embassy in Moscow, March 1946,” 107.

³⁹³ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 16, 1947): 220.

of the State-War-Navy Coordinating Committee, "General Economic Program," reported on April 21, 1947, that the crux of the problem was that "In 1947 the economy of the United States will thus be supplying to the world \$7.5 billion of goods and services more than it receives. Only about \$450 million of this \$7.5 billion will be financed by private long-term loans and private and government short-term credits. Most of the balance will be financed by the United States Government." Striking in this assessment was that only \$500,000 of the \$4.8 billion was "the cost of U.S. Army financing of occupied areas."³⁹⁴ It must be emphasized that private capital would not fund reconstruction. In other words, without the U.S. government's financing, Europeans lacked the resources to continue purchasing U.S. goods and services. Furthermore, 20 percent of Americans thought there would be a depression in 1947 or 1948. The President's economic advisers concurred. The report continued, "The President's Council of Economic Advisers has indicated a slight business recession may be anticipated sometime within the next twelve months. A substantial decline in export surplus would have a depressing effect on business activity and employment." It is important to emphasize that the pending "slight" recession and declining exports were independent of each other. If exports declined in tandem with the recession, "the net effect would depend on the direction and strength of other economic forces, but, if the export decline happened to coincide with weakness in the domestic economy, the effect on production, prices, and employment might be most serious." The report emphasized this significance by restating, "The implications of these preliminary conclusions are most serious both for world recovery and stability and possibly for employment and business activity in the United States."³⁹⁵ Because of the significant threat of declining exports, the United States effectively needed to *prime the*

³⁹⁴ FRUS, "The Marshall Plan," *British Commonwealth*, Vol. III (April 21, 1947): 210.

³⁹⁵ FRUS, "The Marshall Plan," *British Commonwealth*, Vol. III (April 21, 1947): 211.

pump to stimulate European economies to purchase U.S. goods. Kennan wrote a memorandum on May 16 that “The most important and urgent element in foreign policy planning is the question of restoration of hope and confidence in Western Europe and the early rehabilitation of the economies of that area.”³⁹⁶ In other words, Kennan believed that integration to restore economies was the most urgent need without emphasis on containment as defense spending.

The American public continued to express concern about the potential cost of aid. *The New York Times* on May 19 printed, “U.S. To Study Need of New Aid Abroad: Marshall to Call on Economic Staff to Re-examine World Demands for Support.” The article alluded to an enormous price for future aid. The *Times* quoted Alben Barkley, Democratic Senator from Kentucky: “The United States cannot stop with the \$400,000,000 of aid to Greece and Turkey, but may have to provide ‘millions, even billions’ to countries it has helped financially before.” The article presented official concerns and constructed the aid package to the public in terms of cost: “...official informants maintained it was too early to say what form future American economic help would take. It is necessary for the planners to assemble the facts, they said, before any conclusions can be reached.”³⁹⁷ Cost was presented as one half of the Keynesian model without assessing the benefit in terms of the multiplier effect and economic stimulus. The prewar domestic economic debates during the depression in the 1930s resurfaced with the opposition party of Roosevelt in control of Congress.

Kennan dispatched the first recommendation of the Policy Planning Staff, which was classified, to Under Secretary of State Dean Acheson on May 23 and elaborated on economic aid to Europe and what the staff considered priorities. He wrote, “American

³⁹⁶ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 16, 1947): 220.

³⁹⁷ “U.S. To Study Need of New Aid Abroad: Marshall to Call on Economic Staff to Re-examine World Demands for Support,” *The Historical New York Times* Jan 4, 1947.

effort in aid to Europe should be directed not to the combating of communism as such but to the restoration of economic health and vigor of European society.” Aid should not be designed as a direct affront to communism. It should prevent the “economic maladjustment which makes European society vulnerable to exploitation by any and all totalitarian movements and which Russian communism is now exploiting. The Planning Staff believes that American Plans should be drawn to this purpose and that this should be frankly stated to the American public.”³⁹⁸ Kennan emphasized that the economic situation in Europe created an environment susceptible to revolutions, which the Soviet government exploited. Furthermore, private capital would not suffice to thwart an economic depression in the United States due to declining exports. The U.S. government needed to provide funding to Europeans to purchase American goods and services, which was also provided and delivered by private American business enterprises. Kennan continued: “The Policy Planning Staff feels that there is some misconception in the mind of the American people as to the objectives of the Truman Doctrine and of our aid to foreign countries and recommends that immediate action be taken to correct this misunderstanding.”³⁹⁹ Kennan argued that the economic reconstruction of Europe was difficult and that “it cannot be predetermined by us.” He wanted an Economic Commission for Europe. Although he believed the United States should not predetermine reconstruction, he argued that the proposal should be designed so that “Russian satellite countries would either exclude themselves by unwillingness to accept the proposed conditions or agree to abandon the exclusive orientation of their economies.”⁴⁰⁰ He wanted to see which, if any, Russian satellite countries would “abandon” their theories of economics to benefit from U.S. aid and thereby submit to the

³⁹⁸ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 23, 1947): 225.

³⁹⁹ *Ibid.*

⁴⁰⁰ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 23, 1947): 228.

Economic Commission for Europe. The problem was, of course, currency considerations and trade. Satellite countries predominantly traded with the Soviet Union and the Marshall Plan was designed to address U.S. economic problems of imminent declining exports coupled with a "slight recession." By the Soviet refusal to join the World Bank, other countries effectively had to consider currency exchange in determining the sphere of influence in which they would participate.

Kennan concluded his report to "Clarify implications of 'Truman Doctrine.'" He believed that the media mischaracterized the doctrine. He wrote that "steps should be taken to clarify...the 'Truman Doctrine' and to remove...two damaging impressions which are current in large sections of American public opinion."⁴⁰¹ He summarized the mischaracterizations as follows: first, "The United States approach to world problems is a defensive reaction to communist pressure and that the effort to restore sound economic conditions in other countries is only a by-product of this reaction...;" and second, "the Truman Doctrine is a blank check to give economic and military aid to any area in the world where the communists show signs of being successful." Kennan emphasized that "it must be made clear that the extension of American aid is essentially a question of political economy in the literal sense of that term...."⁴⁰² He wanted to clarify economic theory and explicate the necessity of aid to Europe to the American people. Thus, an irreconcilable rhetorical trap was created. To prevent "economic maladjustment which makes European society vulnerable to exploitation by any and all totalitarian movements and which Russian communism is now exploiting," it was necessary to explicate Marxist theory and Keynes' approach to prevent Marxist revolutions; however, officials inclined to the theories were susceptible to the Federal Employee Loyalty Program, which created

⁴⁰¹ *FRUS*, "The Marshall Plan," *British Commonwealth*, Vol. III (May 23, 1947): 229.

⁴⁰² *Ibid.*

an environment in which it was necessary to segregate Keynesian theory from Marxism. Furthermore, political opposition within the United States failed to recognize the success of *pump priming* as economic stimulus. Although Marshall assured Republican leaders that he did not wish to make foreign policy a political issue, they did not reciprocate. After the death of Keynes, the British government collaborated with the United States without the international advocacy and public discourse thoroughly executed by Keynes between the Great Wars. The architect of the U.S. Plan for the World Bank, Harry Dexter White, was under investigation as a Soviet spy; and therefore, his influence was also diminished. Internationalism, therefore, became nation-state coordination within the conflicting paradigm of capitalism and socialism.

Without the implementation of the Keynes plan for currency stabilization, the surplus of American exports of \$7.5 billion was denominated in U.S. dollars (backed by gold). As the European's accumulated trade deficits with the United States, their currencies lost value, which exacerbated the European economic crisis. William L. Clayton, Under Secretary for Economic Affairs, wrote to Under Secretary Acheson on May 27 that "the modern system of division of labor has almost broken down in Europe." He continued, "Europe's current annual balance of payments deficit (is) \$5 billion." He bluntly wrote "The above represents the absolute minimum standard of living. If it should be lowered, there will be revolution." He used italics for emphasis and wrote, "*Only until the end of this year* can England and France meet the above deficits out of their fast dwindling reserves of gold and dollars. Italy can't go that long."⁴⁰³ Clayton argued for the United States to issue grants as opposed to loans to reduce the deficits, but, the Republican controlled 80th Congress had been elected to reduce spending and cut taxes.

⁴⁰³ FRUS, "The Marshall Plan," *British Commonwealth*, Vol. III (May 27, 1947): 230.

House Speaker Martins had argued in his opening address that government regulation hindered economic growth and Americans were burdened by debt. Clayton, however, wanted the American people to forgive the debt of Europeans, otherwise revolutions would result. As the United States was undergoing privatization, Clayton wanted to expand government ownership abroad. For example, Clayton addressed the shipping industry in his memorandum. As Americans were exporting goods and services to Europe, private industry reaped millions in profits. Clayton thought it essential that Europe rebuild its shipping industry. He noted, "To do it, we will have to lick the shipping lobby, fattening as it is off the U.S. Treasury."⁴⁰⁴ Clayton believed U.S. resources and productive capacity were "ample to provide all the help necessary." He wrote, "The problem is to organize our fiscal policy and our own consumption so that sufficient surpluses of the necessary goods are made available out of our enormous production, and so that these surpluses are paid for out of taxation and not by addition to debt."⁴⁰⁵ Thus, Clayton argued for regulation, taxes, credits and/or grants to be made for Europe. The election of 1946 and the 80th Congress demonstrated little desire for any of the proposed solutions. Aware of the political opposition, Dean Acheson dispatched a memorandum to George Marshall on May 28, 1947, describing the political opposition. He noted a luncheon he had with a dozen senators, where Senator Brien McMahon (Dem. CT) had said, "If confronted with a *fait accompli*, he would refuse to go along and vote against any credits or grants." Acheson continued, "This means we ought to begin talks with Vandenberg (Rep. MI) almost at once, not about solutions but about the growing seriousness of the problem." He then suggested to the Secretary that "within the next two or three weeks you make a speech which would not undertake to lay down any

⁴⁰⁴ FRUS, "The Marshall Plan," *British Commonwealth*, Vol. III (May 27, 1947): 231.

⁴⁰⁵ *Ibid.*

solution but would state the problem and that the great immediate problem is not an ideological one, but a material one.”⁴⁰⁶ Acheson wanted to pressure Democrats by courting the Republican leadership, and he wanted the Secretary to emphasize the necessity of aid as “material” to avert revolutions in Europe, which would be imminent without the U. S. Treasury.

In retrospect, Keynes proved to be correct when he explained that bad loans were disguised by issuing new loans to finance the war, but though this mechanism worked in the short-term, the same mechanism in postwar reconstruction of tying loan repayment “directly or indirectly with exports” and the balance of payments between nations would be an error.⁴⁰⁷ As Keynes had forewarned, the crux of the crisis rested on trade deficits and currency valuations. The crisis was imminent. C. C. S. Newton summarized it in “The Sterling Crisis of 1947 and the British Response to the Marshall Plan” published in the *Economic History Society*. “The central problem facing any nation in deficit with the United States was how to finance all the essential goods it could obtain...without experiencing a severe fall in living standards in the circumstances of what became known as the ‘dollar shortage.’”⁴⁰⁸ He argued that U.S. export markets “worth at least \$14 billion a year” needed to be secured. The International Bank only had the capacity to lend \$2.3 billion and the International Monetary Fund (IMF) was “never intended...to be used for reconstruction purposes.”⁴⁰⁹ With \$14 billion in export capacity and European accounts deficits at \$5.4 billion (projected to rise to over \$7 billion), the United States risked the complete breakdown of multilateralism and trade, which would have created over-production and surplus in the United States. Newton argued,

⁴⁰⁶ FRUS, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 28, 1947): 233.

⁴⁰⁷ FRUS, “Postwar Financial Arrangements,” *General* (January 9, 1943): 1092-6.

⁴⁰⁸ C.C.S. Newton, “The Sterling Crisis of 1947 and the British Response to the Marshall Plan,” *The Economic History Review* 37, No. 3 (1984): 394. DOI: 10.2307/2597288

⁴⁰⁹ Ibid.

“European recovery being a prerequisite for the world’s return to multilateralism, [which] proved to be achievable only by the conquest of the dollar shortage.”⁴¹⁰ The only reasonable method that would fill the gap would be to grant European countries dollars. Loans proved to be counter-productive because they devalued the foreign currency. This created what historian Thomas J. McCormick referred to as a “paradox...steeped in irony.” In *America’s Half-Century* he argued, “World capitalism seemed to require a hegemonic center...to insure that the various parts of the system would act in ways that would produce the greatest health of the whole...American economic supremacy nearly undermined its hegemonic function. The shorthand expression of this postwar paradox was graphic as well as cryptic; it was called the dollar gap crisis.”⁴¹¹ The American government needed to print money to give to Europe to buy American goods, which created trade imbalances. This secured America’s export industry to avert depression in the United States, while it would fail to stabilize foreign currencies. Therefore, in economic terms, the United States needed to cause domestic inflation to devalue the U.S. dollar, which would stabilize currencies abroad. America would maintain economic supremacy because the dollars would be used to sustain the \$14 billion export industry; thus, investing in American manufacturing and production. In other words, the American government needed to stimulate the European economy to sustain its own, which would create social stability to avert European revolutions and susceptibility to communist influence.

The risk associated with this economic policy was that it could lead to uncontrollable inflation, unless the currencies were backed by real commodities. The

⁴¹⁰ Newton, “The Sterling Crisis,” 408.

⁴¹¹ Thomas J. McCormick, *America’s Half-Century: United States Foreign Policy in the Cold War and After* (Baltimore, MD: The Johns Hopkins University Press, 1989), Second Edition, 73.

United States and Europe needed to secure commodities to sustain the value of long-term bonds, which would maintain investor confidence to refinance short term debt with longer term maturities. The essential commodities to promote this confidence were located in Germany, specifically in the Ruhr.⁴¹² Since the world's currency was U.S. dollars backed by gold as opposed to indexed commodities as Keynes proposed, conflicts for control of commodities facilitated the Cold War and escalated after the proclamation of the Marshall Plan. As Acheson said to Marshall, it was time for the Secretary to make a speech that would "state the great immediate problem" to awaken the public conscience.⁴¹³

Marshall delivered the speech at Harvard on June 5, 1947. The speech was widely disseminated by a Press Release issued by the Department of State on June 4. The *New York Times* published the contents of the entire speech.⁴¹⁴ Marshall began the speech with candor. He stated that the problem was serious and so complex that it was not understood by the American people:

I need not tell you gentlemen that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisal of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world....⁴¹⁵

⁴¹² John Gillingham, *Coal, steel, and the rebirth of Europe, 1945-1955: The Germans and French from Ruhr conflict to economic community* (Cambridge, MA: Cambridge University Press, 1991).

⁴¹³ *FRUS*, "The Marshall Plan," *British Commonwealth*, Vol. III (May 28, 1947): 233

⁴¹⁴ "The Address of Secretary Marshall at Harvard," *The Historical New York Times*, June 6, 1947. 2.

⁴¹⁵ *FRUS*, "The Marshall Plan," *British Commonwealth*, Vol. III (June 4, 1947): 237.

Marshall stated frankly “the truth of the matter,” that the Europeans needed more than their ability to pay. Europe’s economic failure would destabilize the world. He tied European reconstruction to the economy of the United States: “aside from the demoralizing effect on the world at large...the consequences to the economy of the United States should be apparent to all.”⁴¹⁶ As Kennan had argued, the speech constructed the argument so that American aid was a question of political economy—literally.⁴¹⁷ Marshall declared that aid should be provided for the “revival of a working economy” and offered it to “any government that is willing to assist in the task of recovery.”⁴¹⁸ This latter point was contentious. As previously stated, Kennan argued that the aid should be structured so communist governments would not accept it. The aid was intended for Russian satellite countries if they would “abandon” their theories of economics.⁴¹⁹ Furthermore, for the “dollar gap” to be filled, long-term commodities needed to be secured to ensure investor confidence so that short-term debt would be refinanced with long-term bonds, preferably corporate. Liquidity needed to be provided to spur capital markets.

The American people were unaware, as Marshall understood, of the enormous economic complexity needed to finance the reconstruction of Europe, which would secure their own economic self-interest. They needed to be educated without informing the rest of the world of the long-term economic intentions of the aid. In other words, how would the United States convince Europeans that long-term securitization of their assets—commodities—by private capital investment would benefit them by strengthening the American export industry, which would make foreign countries dependent on the U.S.

⁴¹⁶ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (June 4, 1947): 238.

⁴¹⁷ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (June 4, 1947): 237.

⁴¹⁸ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (June 4, 1947): 238.

⁴¹⁹ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (May 23, 1947): 228.

dollar, which was the currency of the World Bank? Unlike the Europeans, U.S. manufacturing and productivity had averted devastation from bombing raids during the Second World War, and America sought economic long-term superiority from this advantage, which concerned the Soviet Union. Economic historian, C.C.S. Newton argued, "...throughout the war the postwar objective of both American commercial and financial policy had been to secure international agreement to the dismantling of all discriminatory trade practices."⁴²⁰ Multilateralism and free trade would exploit the advantage of U.S. manufacturing not stifled but expanded during the war effort with government capital. The American people could not be informed of the enormous economic complexity because to inform them would have been to expose America's capitalist intentions to securitize European assets or worse strengthen Soviet opposition to the United States and Europe. European governments were not unaware of the intentions, but confronted with the possibility of domestic revolutions and certain economic catastrophe, they were in a weaker position to negotiate. The White plan secured during the Bretton Woods negotiations proved insufficient as to its stated goal of global currency stabilization. The causality dilemma was that the Soviet decision not to join the World Bank and IMF started the Cold War and the economic stimulus required to *prime the pump* of European economies due to the failure of the Bretton Woods Agreements were designed to contain Soviet expansion.

Although Marshall's speech at Harvard constructed the necessity of aid, he downplayed the enormous complexity. He needed to court the 80th Congress and seek funding support from key Republican senators such as Michigan's Arthur Vandenberg. Out of international political necessity, Marshall did not clearly state the need to raise

⁴²⁰ Newton, "The Sterling Crisis," 392.

capital from the U.S. Treasury to structure capital markets in a way that would make the U.S. dollar the superior currency for global multilateralism reinforced by the World Bank and International Monetary Fund. As a result of his omission, the politicians and their constituents were weary to write a blank check, especially one valued in the billions solely as humanitarian aid to Europe.

The Marshall Plan began with the Truman Doctrine, which became necessary when England announced its withdrawal from Greece. In the *Long Telegram*, George Kennan stated that from the Soviet point of view, “Capitalist world is beset with internal conflicts, inherent in nature of capitalist society. These conflicts are insoluble by means of peaceful compromise. Greatest of them is that between England and US [sic].”⁴²¹ The English lacked the resources to stabilize Greece and needed to retreat to secure long-term commodities to preserve their economic dominance in the world as a result of the White plan prevailing over the Keynes plan at Bretton Woods. Therefore, the reconstruction of Europe rested on the industrial capabilities of the Ruhr due to coal production—while satisfying French concerns that a “revived Germany” would not “overwhelm Europe economically and politically.”⁴²² As was the case when Keynes wrote the *Economic Consequences of the Peace*, the heart of Europe was Germany. Unlike post First World War, Germany was divided among the allied victors of the Second World War. The *Dallas Morning News* reported in April 1947 that the “Soviets Jolt Treaty Plan,” and asserted, “The United States asked the Council of Foreign Ministers Monday night to appoint a committee to negotiate a four-power pact on German demilitarization, but Russia immediately proposed amendments, which would virtually rewrite the American

⁴²¹ Kennan, *Long Telegram*, 2. This division between the United States and England was observed by the Soviets during the Bretton Woods negotiations.

⁴²² Gillingham, *Coal, steel, and the rebirth of Europe*, 266.

draft of such a treaty.”⁴²³ With French concerns of integrating Germany into the European recovery, and Soviet vetoes in the United Nations, the United States needed to develop a strategy to enable the securitization of Germany’s commodities and industrialization, which was necessary to secure long-term capital investment by refinancing short-term loans into long-term debt obligations.⁴²⁴ The United States needed to reconstruct Europe to integrate foreign markets into their economy, which would stimulate domestic economic expansion, placate French concerns, and satisfy American dissent over the cost (or reframe the argument).

In *Pravda*, the Soviet Union summarized the American dilemma with grandiose language. The U.S. Ambassador in the Soviet Union and former General Walter Bedell Smith sent an article printed June 11, 1947 to Marshall. The article surmised the intent of the Truman Doctrine and Marshall Plan following Marshall’s address at Harvard. The Soviet paper denounced conditions tied to aid and highlighted Marshall’s “full approval to Italian reaction’s exclusion from government of representatives of workers parties” and “For those powers which don’t wish to barter their independence for American dollars” the U.S. Department of State actively repressed and undermined their economy. As examples, the article summarized the developments in Hungary and Greece: “Fact that young Hungarian democracy succeeded in warding off attack, which reactionary plotters had prepared against it that it unmasked and neutralized agents of Horthy, arouses righteous anger in Washington. State Department by way of repression cancelled American loan to Hungary and is preparing cancel considerable credit granted Hungary

⁴²³ “Soviets Jolt Treaty Plan: Amendments Aimed at American Draft,” April 15, 1947 *The Historical Dallas Morning news, 1885-1977*. Web. <libproxy.uta.edu>

⁴²⁴ This process would be similar to Quantitative Easing. Short-term debt needed to be refinanced as long-term bonds. The capital created by the loans could thus be reinvested in capital projects to stimulate economic growth.

by Exim Bank.”⁴²⁵ The Soviet view was that by cancelling loans to Hungary, the United States exposed the intentions of reconstruction aid. According to the paper, “sinister results of the Truman Doctrine...are felt with greater force each day by people of Europe. This doctrine is spread in bloodstains on slopes of Thessalian mountains where Greek Government troops, equipped by British and Americans obliterate from face of earth insurgent villages; this doctrine has contributed to bitter economic conflicts in France and threatens French finances and whole French economy with confusion.” The Doctrine also “called into action black forces of reaction and oppression in Italy and other lands.” Alluding to Marshall’s speech at Harvard, the article expressed concern that the Truman Doctrine was to be expanded and “demanded quick formation of notorious western bloc but under unconditional and absolute leadership of American imperialism” Ironically, the ascension of political power in the United States of the Southern Democrats and Republicans that concerned the Soviet Union in 1946 also offered the Soviet government reprieve from what they considered imperialist expansion of the United States. The cost debates of the Truman Doctrine and Marshall Plan within the United States supported Soviet views that the plan would fail. The article continued, “It is fact dissatisfaction is growing in Congress with policy of squandering billions on financing other countries...limitation by Congress of budgetary expenses by billion dollars was signal for Congressmen to start finding Truman policy too unprofitable ‘business.’” The U.S. Ambassador in the Soviet Union wrote on June 26, 1947, that the article “carries belated but most extensive comment on Secretary’s Harvard address...” and disseminated the article through the Department of State.⁴²⁶ The foreign policy of the United States was caught in a rhetorical trap. On the one hand, unfettered capitalism (absolute free-

⁴²⁵ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (June 26, 1947): 294.

⁴²⁶ *FRUS*, “The Marshall Plan,” *British Commonwealth*, Vol. III (June 26, 1947): 294.

markets) is a zero sum game, which the Soviet Union detested and argued against because of the dangerous competition between the United States and Great Britain exposed during the currency stabilization debate at Bretton Woods, while on the other hand, a U.S. rhetorical argument for a well-regulated economy of integration facilitated by U.S. dollars backed by gold, which failed to stabilize currencies and therefore required international debt relief was not politically palatable based on the elections and congressional fretting over cost. To articulate economic stimulus as *pump priming* for U.S. allies to purchase U.S. goods and services would expose economic self-interest. Furthermore, U.S. aid designed to prevent revolutions by promoting welfare and tranquility of foreign populations to avert Marxist revolutions would also rhetorically reinforce Marxist ideology that “hid the nakedness of Soviet power.”

It is within this context that diplomats reduced economic theory to the polarized extremes of capitalism and socialism. The Soviet Union needed to be contained to preserve American capitalism. Kennan defined containment. Although Kennan’s telegram circulated throughout the Department of State in February of 1946, it remained classified and its contents were unknown to the general public. After the press reactions to the potential cost of the Marshall Plan, articulated in the Harvard speech, and the Soviet reaction to the speech, the time had arrived to explicate the full terms of containment to the public.

Foreign Affairs published an anonymous article in July of 1947 with the title, “The Sources of Soviet Conduct,” which described the policy of containment to the American public. *The New York Times* summarized the article on July 8, 1947 with the headline, “A Guide to Official Thinking about Russia.”⁴²⁷ *Life* reprinted parts of it on July 28, 1947.

⁴²⁷ “A Guide to Official Thinking about Russia,” *The Historical New York Times* July 8, 1947.

Whether coordinated or not, the article first appeared in a legitimate journal publication concerning foreign affairs, and then circulated through newspaper and magazine publications. *The New York Times* wrote, "In the current quarterly issue of *Foreign Affairs* there appears an article signed 'X' which has not come in for public discussion, but should for several reasons, the most important is that the undisclosed author has stated and analyzed 'The Sources of Soviet Conduct.'" *The New York Times* constructed the Soviet Union as the direct opposition to the Marshall Plan. It stated, "There 'X' has painted a picture of despots trapped by their own ideology and propaganda, unable to admit good in a Marshall Plan, for example, without undermining their own harsh regime."⁴²⁸ *Life* further legitimized the policy of containment by naming the source of Mr. X. The title read, "The Sources of Soviet Conduct: Magazine article is causing a sensation because it is believed that it expresses the official U.S. view of why the Russians act as they do." Located in the center of the article was a picture of George F. Kennan, which also credited the article to him. "Although Kennan will not confirm or deny this, most people in Washington are sure he is responsible. He is the State Department's top policy planner on world affairs and can speak with authority."⁴²⁹

The article and the reprints echoed the sentiment of the *Long Telegram*, but with a key and vital difference—they do not reproduce the Soviet criticism of capitalism and the inherent conflicts within capitalist societies, such as the Soviet belief that the competition between England and the United States was a threat to communism. The articles reduced criticisms to simple ideological form lacking economic theoretical substance. For example, the *Life* article printed, "the innate antagonism between

⁴²⁸ "A Guide to Official Thinking about Russia," *The Historical New York Times* July 8, 1947.

⁴²⁹ George F. Kennan, "The Sources of Soviet Conduct: Magazine article is causing a sensation because it is believed that it expresses the official U.S. view of why the Russians act as they do. By X," *Life*, July 28, 1947, 53.

capitalism and socialism...We have seen how deeply that concept has become imbedded in foundations of Soviet Power.”⁴³⁰ It is worth reading Kennan’s recollections in his *Memoirs*, where he wrote that the article was written from a speech he delivered in early January of 1947. He submitted the paper to the Committee on Unofficial Publication for permission to print it on March 13, which granted permission on April 8. He said, “I knew it would be some weeks before it would appear. I did not know how my position would be changed in the course of those weeks or how this would affect the interpretations that would be placed upon the article when it was published.”⁴³¹ According to Kennan, he was credited to the Mr. X article by haphazard circumstance.⁴³² The effect was wide and immediate.

Coupled with Executive Order 9835, the “Sources of Soviet Conduct” had a dramatic impact on domestic policy as well as foreign policy debates. Fiscal conservatives opposed the potential cost, while progressives detested the anti-socialism rhetoric. *The Midwest Sociologist* published an analysis of editorials between October 1, 1947 to April 5, 1948 to access the percentage of “Pro-Marshall” themes contrasted with “Left-Anti-Marshall” and “Right-Anti-Marshall.” Three newspapers were analyzed as representations of the three themes; *The New York Times* (Pro-Marshall), the *Chicago Tribune* (Right-Anti-Marshall), and the *Daily Worker* (Left-Anti-Marshall). *The New York Times* argued that the Marshall Plan would “stop communism, aid in the economic reconstruction of Europe, and contribute to world peace.” The *Chicago Tribune* argued that the Marshall Plan was “inflationary, [would] pay for social experiments in Europe, and maintain high taxes and will even cause their rise.” The *Daily Worker* expressed concern that the Marshall Plan would endanger the sovereignty of European nations, it was an

⁴³⁰ Kennan, “Sources of Soviet Conduct,” 54.

⁴³¹ Kennan, *Memoirs 1925-1950*, 355.

⁴³² *Ibid.*

“imperialistic device of American capitalism,” and “it would lead to war.”⁴³³ The result of the “Sources of Soviet Conduct” considered within the context of the dissenting view of the “right” and the “left” created an *ad hominem* paradoxical validity. When the conflict between socialism and capitalism was linked to Kennan and views were expressed favorable to “stopping communism,” the Soviet Union counteracted and created a real military threat as opposed to an ideological dispute of economic theory. Republicans like Senator Vandenberg and former President Herbert Hoover minimized the debate of cost by bringing Republican support for the Marshall Plan.⁴³⁴ Containing communism prevailed as the objective of the Marshall plan. As rhetoric escalated between the spheres of influence a slippery slope was intellectually validated. Keynesian internationalism and theoretical economic debate concerning global currency stabilization died.

The Marshall Plan became the ideological implementation of containment. A key component of the political process is to legitimize an argument. “Sources of Soviet Conduct” was legitimized by leaking the name of the source. In *Butter and Guns*, historian Diane B. Kunz stated that after the publication of *The Sources of Soviet Conduct*, “Few Americans seemed immune from the sense of peril. Harold Stassen, a putative Republican presidential candidate in 1948, called the confrontation between the United States and the Soviet Union “the greatest competition of systems in all history.”⁴³⁵ Kennan’s concerns about the Soviet Union became a self-fulfilling prophecy and the Cold War escalated. The race to acquire territory and commodity resources soared. In

⁴³³ Kimball Young, “Content Analysis of the Treatment of the Marshall Plan in Certain Representative American Newspapers,” *The Midwest Sociologist* 11, no. 1 (1948): 7, <http://www.jstor.org.ezproxy.uta.edu/stable/25514752>

⁴³⁴ “Sharp Turn from the Political to Economic Road,” *The Historical New York Times* June 16, 1947.

⁴³⁵ Diane B. Kunz, *Butter and Guns: America’s Cold War Economic Diplomacy* (New York, NY: The Free Press, 1997), 40.

February 1948, “a communist government took control in Czechoslovakia...As Marshall informed the cabinet on March 5: ‘the strategic and political situation in Europe makes it imperative that the European Recovery Program [official name of the Marshall Plan] legislation be enacted without crippling amendments.’⁴³⁶Congress continued to debate the exact sums of money. Then, “On a day when *The New York Times* headline read ‘U.S. Flies Food into Berlin as Russians Block Traffic,’ The House passed the final version 318 to 75. The next day, a proud President signed the legislation into law.”⁴³⁷ The U.S. government ran a surplus in 1947, 1948, and 1949. The pending “slight recession” and potential depression were averted. Economic reality was replaced by simplistic ideology. The economic reality was that the American way was, as Michael Hogan described it, complex bureaucratic partnerships between “cooperating public and private elites, nourished by limited but positive government power, and geared to an economic growth in which all could share.”⁴³⁸ The over-simplified anti-Soviet rhetoric constructed socialism as communism—the enemy of freedom.

⁴³⁶ Kunz, *Butter and Guns*, 46.

⁴³⁷ Kunz, *Butter and Guns*, 47. See also: “U.S. Flies Food into Berlin as Russians Block Traffic; British Foil Soviet Sally,” *The Historical New York Times* April 2, 1948.

⁴³⁸ Michael J. Hogan, and Thomas G. Paterson, eds., *Explaining the History of American Foreign Relations* (Cambridge, MA: Cambridge University Press, 2004), 3.

Conclusion

A NEW RELIGION OR SCIENTIFIC METHOD

The Marshall Plan became law on April 3, 1948, partly because of American anti-Soviet rhetoric, and consequently the rhetoric caused the American people to lose an opportunity to understand the positive impact of bureaucratic partnerships between Central Banks, investment firms, and corporations for overall economic and social prosperity. Instead, as the Soviet Union blocked traffic and impeded foreign aid to Berlin, on April 2, 1948, Congress authorized the Marshall Plan, which included U.S. military training abroad to contain the Soviet threat of expansion.⁴³⁹ In his definitive work, *The Marshall Plan*, historian Michael Hogan studied the Marshall Plan within America's twentieth-century search for a new economic order and did so by incorporating the three decades after 1919 into an interpretative framework that in 1987 was new in the study of American diplomacy. His new framework established "a variant of...what some have called an associative state, others a corporative neo-capitalism."⁴⁴⁰ Hogan defined *corporatism* as "an American political economy founded on self-governing economic groups, integrated by institutional coordinators and normal market mechanisms, led by cooperating public and private elites, nourished by limited but positive government power, and geared to an economic growth in which all could share."⁴⁴¹ Hogan's approach is important because it developed "a comprehensive design for American foreign policy, which conceptualized the whole period from the First World War through the Marshall Plan in terms of a single process, bracketed at either end by major efforts to rebuild the devastated economies of war-torn Europe."⁴⁴² With or without considering the merits or

⁴³⁹ Kunz, *Butter and Guns*, 47.

⁴⁴⁰ Hogan, *The Marshall Plan*, 2.

⁴⁴¹ Hogan, *The Marshall Plan*, 3.

⁴⁴² *Ibid.*

successes of the Marshall Plan, it is important to understand how it was politically implemented and its overall dual political purposes as it organized two competing economic spheres of influence, which ultimately undermined Keynesian internationalism.

Hogan has described the economic system of integration as a stem of regulation and coordination between government officials and business elites. After the First World War, American leaders sought to coordinate a new world order that would rely on experts with a scientific understanding of economics to stabilize Europe. Government officials attempted to “join forces with the financial community to regulate foreign loans, tried to reconcile the differences between private groups with a stake in foreign trade, and sought to bring bankers and manufacturers together in collective programs to expand the world economy.”⁴⁴³ Critical to implementation of this system of integration would be the coordination of central banks. Republican leaders tried to integrate banks “without destabilizing competition or excessive intervention by the State... [They] tried to forge a new order in which market forces and cooperating private groups worked in tandem to regulate the global economy.”⁴⁴⁴ The economic policy goals failed to materialize because policy makers underestimated the social aspects of economics by emphasizing monetary policy and trade. The United States rejected The League of Nations and foreign policy of integration. Republican leaders failed to control public opinion and diplomats failed to negotiate “trade and tariff disputes, debt funding agreements, loan policies, and collective security arrangements.”⁴⁴⁵ Across the Atlantic, the theorist who fought for international economic integration, Keynes, resigned in protest when his plan titled, “Scheme for the Rehabilitation of European Credit and Financing Relief and Reconstruction,” failed as

⁴⁴³ Michael J. Hogan, and Thomas G. Paterson, eds. “Corporatism,” *Explaining the History of American Foreign Relations* (Cambridge, MA: Cambridge University Press, 2004), 141.

⁴⁴⁴ *Ibid.*

⁴⁴⁵ *Ibid.*

victors of the war sought reparations from their defeated enemies.⁴⁴⁶ The consequences of these failures contributed to the outbreak of the Second World War.

Following the Second World War, global economic integration was again sought as a solution to economic instability. The reconstruction of Europe through integrated central banks, currency trade policies, and export/import trade regulations would restore the European economy while averting the impending depression in the United States. Implementation of coordinated integration rested on the creation and authority of the World Bank and International Monetary Fund. The historical question confronting the U.S. Treasury and State Department was two-fold: Why did the Soviet Union reject this centralized banking regulation and how would the American public be convinced to fund the European recovery with billions of dollars? Kennan answered the questions in the *Bretton Woods Telegram* and in the *Long Telegram* revealed as “Sources of Soviet Conduct.” The former remained classified while the latter became public policy. Shortly after Congress ratified the Marshall Plan, in August of 1948, Harry Dexter White was forced to testify at the House of Un-American activities.⁴⁴⁷

Integration was most evident with the mutual fund industry. The Investment Advisor Act of 1940 regulated mutual funds so that no fund could own more than five percent of a corporation to avoid concentrated risk and meet a statutory requirement for diversification. In an article for the *University of Pennsylvania Law Review*, Mark Roe made a compelling case to explain the “Political Elements in the Creation of the Mutual

⁴⁴⁶ Eric Rauchway, *The Money Makers*, 10.

⁴⁴⁷ Truman, “Text of Address by Truman Explaining to Nation His Actions in the White Case,” *The Historical New York Times* November 17, 1953, 1. See also: Steil, *The Battle of Bretton Woods*, 351. Truman acknowledge, “In late 1945, the FI was engaged in a secret investigation of subversive activities in this country. In this investigation, the FBI was making an intensive effort to verify and corroborate certain accusations of espionage made by confidential informants. A lengthy report on this matter was sent to the White House in December, 1945....Among the names mentioned, I now find, was that of Harry Deter White, who had been in the Treasury Department for many years and who was at that time an Assistant Secretary of the Treasury.”

Fund Industry.” The significance of five percent rule should not be understated. As Roe argued, following the Second World War, “capital and resources were abundant in America,” while labor and skilled management were scarce. In Germany and Japan, skilled labor and management were abundant but capital was scarce.⁴⁴⁸ His argument should be extrapolated to include Western Europe with his interpretation of “meta economy.” Mutual funds pooled investor money into a trust that would be invested by Wall Street elites commingling government and corporate debt. As defined by law, the fund companies could not own more than five percent of any company; thus capital would be dispersed. Investment opportunity had to be sought abroad to maximize potential returns. In the late 1940s through the early 1950s, the mutual fund industry grew at a tremendous pace, and by 1954 financial markets passed the highs of 1929. Wall Street crossed Main Street. The coordination between private capital and public capital created through the Marshall Plan brought prosperity to investors.

The Marshall Plan was an over-whelming success. The United States averted depression and economic growth reached beyond prewar levels in Europe and the United States. As Kunz stated, “These funds laid the basis for the prosperity that would characterize the 1950s, at home and abroad.”⁴⁴⁹ The public never understood these relationships. The rhetoric of the Marshall Plan led to unprecedented short-term success while it undermined the long term coordination of bureaucratic partnerships. However, the significance of global currency stabilization and the arguments of Keynes and White diminished and grandiose theories of free-markets and anti-socialism prevailed.

⁴⁴⁸ Mark J. Roe, “Elements in the Creation of a Mutual Fund Industry,” *University of Pennsylvania Law Review* 139, no. 6 (1991): 1500. DOI: 10.2307/3312388 Note: Labor concerns of high unemployment dissipated in the United States following the Second World War due to the European Recovery Act.

⁴⁴⁹ Kunz, *Butter and Guns*, 56.

Historians are the keepers of the keys to interpreting the past. The oversimplified anti-Soviet rhetoric changed history. Whether sincerity, fear, or censorship altered historical interpretation, it should not be understated that exceptionalists and consensus historians pushed aside progressive interpretations of the prewar years simultaneously while neoclassical economic theory developed at the University of Chicago. Historian Francis G. Couvares wrote that “younger historians...found the Progressive historians’ psychology shallow, their social analysis predictable, and their moral judgments superficial.” He continued, “More...historians were insisting that, for better and worse, consensus rather than conflict marked American political history... under the influence of the Cold War, it led toward what came to be called ‘consensus history.’”⁴⁵⁰ Historians who were hired as part of the Works Projects Administration would be labeled biased and over scrutinized (if not dismissed) by future historians, many of whom would work in public buildings erected by the WPA. In other words, criticism of capitalism and/or arguments for regulation would be confused for communism, socialism, or Marxism. For consensus historical arguments to be pervasive, they needed to be reduced to the lowest common denominator to find majority agreement. If history was political consensus, then popular ideology prevailed as historical reality. History would be more palatable because if that is what most people wanted to remember as happening, then it must have happened. Kennan was a realist historian. According to Michael Hogan, “Led by George F. Kennan, Hans J. Morgenthau, and others, realist historians, much like the nationalist school of an earlier day, were concerned primarily with the state, with state policymaking elites, and with the use of state power to advance the national interest.”⁴⁵¹

⁴⁵⁰ Francis G. Couvares, ed., et al., *Interpretations of American History: Volume One Through Reconstruction* (Boston, MA: Bedford/St. Martin’s, 2009), 10.

⁴⁵¹ Hogan and Thomas, eds., *Explaining the History of American Foreign Relations*, 2.

The national interest of the United States was advanced by the Marshall Plan. The urgent necessity of aid to Europe required rhetoric to be reduced to over-simplified terms. The irony was this: George F. Kennan would be labeled as a dove and spend the rest of his life attempting to clarify *the strategy of containment*. John Maynard Keynes would be labeled as a staunch anti-Marxist (though his opposition was more anti-Leninism and anti-Bolshevism than anti-Marx). Even the first celebrated five-star general and Secretary of the State, George C. Marshall, would later be vilified by Wisconsin senator, Joseph R. McCarthy, who published his attack in *America's Retreat from Victory: The Story of George Catlett Marshall*. Socialism evolved into an anti-American idea, and the men who publically constructed and promoted the Marshall Plan would later be considered too left by the political right that originally fretted over high taxes, deficits, cost, and regulation. As Keynesian theory was severed from Marxism, the argument he lost at Bretton Woods, which might have prevented the Cold War, rested in a classified file or hid in the dustbins of *Morgenthau's Diaries* and within the footnotes of the *Foreign Relations of the United States* series.

With the global financial crisis of 2008, neoliberalism (or, as Hogan wrote, neo-capitalism) failed. The consequences remains undetermined; however, the rising tides of fascism (or extreme nationalism) on the right and progressivisms (a variant of socialism) on the left on both sides of the Atlantic have politically disrupted the world order. At the heart of the disruption lies the debate on the future role of Central Banks whether in the United States, the European Union, Japan, or the World Bank. The world's *reserve currency* is projected to include the Chinese yuan by the fourth quarter of 2016. If as Marx coined the phrase, history repeats itself, then it is of utmost importance to re-

evaluate the consequences of the peace and the origin of macroeconomics and the historiography of economic interpretations of the Great Wars.

In an interview with the *History News Network*, historian Eric Rauchway argued against the traditional view of Roosevelt's understanding of monetary policy. According to Rauchway, traditional historians rely too much on the diaries of the American political economist Raymond Moley, and the banker and financial advisor to Roosevelt, James Warburg, "Both of them said Roosevelt had an erratic understanding of economics—which, if you read their diaries carefully, seems to mean that when he agreed with them, he understood it fine, and when he disagreed, he failed to understand." This is extremely important because as Rauchway explained: "And the earliest historians—Richard Hofstadter in 1948, and Arthur Schlesinger in 1957—repeated what these early sources said—that Roosevelt was inconsistent and unreliable on economics, and particularly currency."⁴⁵² The reliance on established interpretations fails to fully comprehend the immediate impact of the Cold War on the historical interpretation of the most significant monetary debates in the age of modernity.

The established interpretations failed to recognize new evidence such as Kennan's *Bretton Woods Telegram*, declassified in 1986, and Novikov's telegram, released to western historians in 1990. In the introduction to the revised edition of *Origins of the Cold War* (1993), Richard H. Solomon, President of The United States Institute of Peace, wrote, "The ultimate significance of the Novikov 'Long Telegram' is yet to be determined. Historian John Lewis Gaddis, introducing the *Diplomatic History* symposium in the fall of 1991, welcomed the publication of the Novikov document but lamented that it provided 'a woefully inadequate basis for beginning the daunting exercise

⁴⁵² Eric Rauchway, "How Hofstadter and Schlesinger Mised Us about FDR: An interview with Eric Rauchway," *Historical News Network*, November 15, 2015. <http://historynewsnetwork.org/article/161031>.

of writing *the other side* of Cold War history.⁴⁵³ By framing the narrative within the Cold War paradigm of two sides, presumably the United States and the Soviet Union, Gaddis neglected the economic reality of Bretton Woods, which was negotiated by the four super powers, the United States, Great Britain, China, and observed by the Soviet Union. Following the war, the Soviet Union failed to join the agreement, China subsequently had a communist revolution and, as a result, was not recognized by the United Nations until 1971, Great Britain submitted to the will of the United States, and Harry Dexter White, the architect of the U.S. plan was accused of being a Soviet spy. By not recognizing the economic consequences of Bretton Woods, Gaddis, therefore, dismissed the *Bretton Woods Telegram*. In the authorized biography *George F. Kennan: An American Life* (2011), Gaddis wrote:

Like most legends, the Kennan “long telegram” of February 22, 1946, has become encrusted with certain inaccuracies, two of which originated with the author himself. The telegram was not, as he described it in his memoirs, “some eight thousand words in length: the actual total was just over five thousand. Nor was it a response to “an anguished cry of bewilderment” from the Treasury Department over the U.S.S.R.’s refusal to join the World Bank and the International Monetary Fund, despite having participated in the wartime Bretton Woods conference that designed them. Kennan’s explanation of that development had gone out early in January, with the pointed reminder that the Kremlin leadership considered “ultimate conflict between Soviet and Capitalist systems [to be] inevitable.”⁴⁵⁴

Gaddis boldly dismissed the explanation offered by the author of the *Long Telegram* as to its origin and distinctly summarized the *Bretton Woods Telegram* as a perfunctory explanation similar to the more substantial *Long Telegram*. The biographer failed to adequately address the simple fact that “an anguished cry of bewilderment” from Treasury was a summation of a document that took more than forty years to be

⁴⁵³ Jensen, ed., *Origins of the Cold War*, X.

⁴⁵⁴ Gaddis, *George F. Kennan*, 216. It was from this passage that I ultimately tracked down the *Bretton Woods Telegram*.

declassified. The only other reference to Bretton Woods made by Gaddis in the biography of Kennan was on the following page: “Byrnes quickly swung back to his tougher line from the previous fall. Stalin’s repudiation of Bretton Woods had ended whatever chance there might have been for American economic assistance to the U.S.S.R., and there was now evidence—soon to be public—that Soviet intelligence had been running espionage operations in the United States and Canada aimed at stealing information on the atomic bomb.”⁴⁵⁵ Gaddis returned to the narrative of the usual suspects for the origin of the Cold War and framed it as though the Soviet decision harmed their ability to secure necessary aid from the United States without careful consideration that the Soviet decision not to join precipitated that the United States renegotiate new loans for Great Britain. This is extremely important because with the release of new documents decades after the origin of the Cold War, a leading authority on the history of the Cold War, Gaddis, did not reconsider previous conclusions.

Furthermore, another leading authority on the history of the Cold War, Melvyn P. Leffler, dismissed the Novikov telegram as “a tease,” and only took it seriously when “viewed as part of an internal debate.”⁴⁵⁶ Leffler assumed that the Soviet telegram released in 1990, did not represent official Soviet views despite the fact it was collaborated by Kennan’s *Bretton Woods Telegram*. Most alarming was Leffler’s insidious description of the telegram:

Another conspicuous aspect of Novikov’s telegram is the shallow, distorted image it provides of U.S. goals and motivations. The examination is warped by ideology, which rather than being used to provide a systematic and potentially useful framework for interpreting what is going on, serves here as a substitute for thoughtful analysis. The superficial allusions to ‘imperialistic tendencies,’ ‘American monopolistic capital,’ ‘ruling classes,’ ‘reactionary circles,’ and ‘world supremacy’ are

⁴⁵⁵ Gaddis, *George F. Kennan*, 217.

⁴⁵⁶ Jensen, ed. *Origins of the Cold War*, 81.

pathetic, not because they are unworthy of consideration, but because they receive no serious consideration.⁴⁵⁷

It is alarming that Leffler's critique of the Novikov telegram could objectively be applied to Kennan's *Long Telegram* and sentences such as: "Much depends on health and vigor of our own society. World communism is like a malignant parasite which feeds only on diseased tissue." The Soviet analysis within the telegram of political developments in the United States received no consideration. He failed to recognize the internal debate within the United States and the subsequent influence of the Federal Employee Loyalty Program. Narratives provided by historians like Leffler and Gaddis contributed to the social construction of nation state ideology and failed to recognize the material consequences of international globalization, and more importantly, the significance of the Keynes plan advocated at Bretton Woods. Furthermore, they completely dismissed the international contours of political debate within nations and their implications abroad, such as the Soviet concern with the new direction of the Truman administration. Ideological construction such as Leffler's valuation of the Novikov telegram contributed to the moralization of competing economic social influences without recognizing the scientific nature of economic materialism. At the time the Novikov telegram was released, there was some opportunity during the Soviet Presidency of Mikhail Gorbachev to better understand the Cold War and the historical significance of the international currency stabilization debates. However, established historians dismissed it. And, later with the ascension of President Vladimir Putin, the opportunity dissipated.

The rhetoric used to solidify the implementation of the Marshall Plan corroded understanding of economic materialism, so much so, that even pillars of the left such as Michael Walzer, co-editor of *Dissent* wrote:

⁴⁵⁷ Melvyn P. Leffler, "Commentary," printed in Jensen, ed. *Origins of the Cold War*, 82.

The Marshall Plan is another example of democratic, though in this case anti-revolutionary, politics abroad. One of its purposes was to strengthen democracy of Western Europe against the perceived threat of a communist takeover. The plan was adopted by a Republican Congress, but it had strong support on what we might think of as the near-left...Irving Howe [CIO of Americans for Democratic Action] writes in his autobiography that 'only the most doctrinaire Marxists' could dismiss the Marshall Plan as an imperialist scheme.⁴⁵⁸

In other words, the Marshall Plan became understood and researched within the context of the Cold War, with little attention to the actual cause of the Cold War, which was the failure to implement the Keynes plan at Bretton Woods. Despite the overwhelming criticism of McCarthyism in academic circles, the House Un-American Activities Committee, the Federal Employee Loyalty Program, and the rise of neoclassical economic theory, continued to influence the overall Cold War narrative. Progressive language was usurped and incorporated into the paradigm of a "malignant parasite," or "only the most doctrinaire Marxists."

As Keynes wrote in the *Economic Consequences of the Peace*, economic calamity would lead to tyranny, the Secretary of State, George C. Marshall, testified to the Committee on Foreign Affairs on January 12, 1948, that "The situation in Europe has not yet developed to the point where the grim progression from economic uncertainty to tyranny is probable. But without United States support of European self-help this progression may well become inevitable...We are faced with the necessity of making a historic decision."⁴⁵⁹ In other words, Marshall recognized the threat of revolutions, which would unfortunately be explained with anti-Marxist rhetoric. The theories of John

⁴⁵⁸ Michael Walzer, "A Foreign Policy for the Left," *Dissent* (2014).

<https://www.dissentmagazine.org/article/a-foreign-policy-for-the-left>

⁴⁵⁹ "Marshall Testimony of January 12, 1948, United States Foreign Policy for a Post-War Recovery Program," *United States Foreign Policy for a Post-War Recovery Program 1. The George C. Marshall Foundation* (January 12, 1948). *Collection: 1948 80th Congress, 2nd Session, Congressional Testimonies*. <http://marshallfoundation.org/library/united-states-foreign-policy-post-war-recovery-program-2/>

Maynard Keynes were devoted to regulate capital to promote full employment of labor to economically stabilize society. The hierarchy of Keynes' *General Theory* was dedicated to labor (employment), and then capital (interest and money). The purpose of Keynesian monetary and fiscal policy was to promote employment (labor) to secure the tranquility of the state. Without a complete understanding of the implicit Marxism embedded in Keynesian theory, neoliberals deregulated international clearing unions, so that private equity dramatically increased ownership in sovereign debt. The financial crisis was the transformation of private debt to public ledgers. Although scores of neoclassical economic theories such as the *Push-Pull Model* are written about migration of labor and other social histories devote attention to acculturation, microeconomic networks, and diasporas, there is little attention devoted to free migration of capital and serious contemplation of the international currency stabilization debates that were forefront during and following the political and economic crises that fanned the fires of the two Great Wars. The result is a neo-Gilded Age.

As the International Monetary Fund, World Bank, European Bank, Bank of Japan, and the Federal Reserve of the United States contemplate employment rates, interest rates, the supply of money, and commodity devaluation, it is important to reconsider the fundamental disagreement between Keynes and White. Keynes believed the plan did not give enough consideration to the debtor-creditor position of countries. White argued that the purpose of the Bank "was not a device to bring equilibrium into the balance of payments, but in so far as it stimulated private capital." Keynes reportedly did not agree with that purpose. The financial crisis of 2008 revealed the excesses of private capital that facilitated sovereign loans, which Central Banks were required to transfer back to public ledgers. It is neither ironic nor coincidence that the U.S. Deputy Secretary of Defense and architect of the National Security Strategy of the United States

in 2002, Paul Wolfowitz, was later appointed in 2005 with little ado to be the President of the World Bank. “Yielding to demands from governments around the world that he leave to end the ethics controversy that has consumed the institution,” Wolfowitz resigned on June 30, 2007, months prior to the onslaught of the Financial Crisis of 2008, which was caused by ill-advised leverage throughout the global economy.⁴⁶⁰

Harry Dexter White disagreed with Keynes, and he articulated provisions in the plan that was established to mitigate the risk. Keynes warned “this feature is mitigated by several jokers.” Keynes objected to a provision in the plan and insisted that the reality was that the “borrower instead gets his bills paid.” He spelled out that the mechanism in which money is borrowed to pay interest and principal of current loans. He adamantly argued that bad loans were disguised by issuing new loans. He demonstrated that this mechanism worked in the short-term; however, using the same mechanism in postwar reconstruction tying loan repayment “directly or indirectly with exports” and the balance of payments between nations would be an error. White rebutted that the relationship between the import and export nations would facilitate the gradual balance of payments, and Keynes “interjected that there would be a third gain, namely the accumulation of funds for an emergency; that such accumulation at compound interest would provide a country with a valuable asset.” Keynes was concerned that equilibrium would not be achieved because creditor nations could accumulate profits while demanding interest payments from debtor nations; therefore, increased productivity in debtor nations would not necessarily result in further domestic spending to stimulate local economies. White “referred to the provision that a competent committee was to consider whether a loan

⁴⁶⁰ Peter S. Goodman, “Ending Battle, Wolfowitz Resigns from World Bank,” *Washington Post Business*, May 18, 2007, <http://www.washingtonpost.com/wp-dyn/content/article/2007/05/17/AR2007051700216.html>. The article did not warrant front page publication but was relegated to the business section.

would raise the productivity of the borrower, and whether the balance of payments prospects of the borrowing country were favorable to servicing the loan.” In other words, the White plan created a competent committee to determine whether new proceeds from economic growth should be used to pay down debts accrued from loans or to be allocated to further investments within the debtor country. Keynes “remarked that an incompetent committee might come to more useful conclusions.”⁴⁶¹ This exchange between White and Keynes in 1943 is not only relevant but entirely applicable to the ongoing crisis in Greece since 2010 and generally to the European Union. The International Monetary Fund, in support of creditor nations, specifically Germany, effectively created a political coup d’état of the democratically elected government of Alex Tsipras and forced the resignation of his finance minister Yanis Varoufakis. Subsequently, the Chancellor Angela Merkel of Germany warned that Europe faces the threat of Balkanization of Europe. To secure re-election, British Prime Minister David Cameron agreed to support a referendum on the United Kingdom European Union membership in 2017.⁴⁶²

When Keynes politically lost his argument at Bretton Woods, the Soviet government failed to join the World Bank because it was not in their economic interest to do so. The Cold War erupted. Subsequent ideological constructions disrupted scientific material understanding of economic theory and its consequences. In the neo-Gilded Age of vast income inequality, questions remain concerning the role of an international currency stabilization fund.⁴⁶³ Will the debate be in earnest to prevent global

⁴⁶¹ *FRUS*, “Postwar Financial Arrangements,” *General* (October 11, 1943): 1092-1096.

⁴⁶² The referendum has been subsequently moved to the summer of 2016.

⁴⁶³ For further reading on income inequality: Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: The Belknap Press of Harvard University Press. 2014).

conflagration or between “madmen in authority, who hear voices in the air?” Oil trades in dollars.

After the U.S. decision to invade Iraq in 2003, the balance of power in the Middle-East was disrupted. Today, there is an ongoing realignment between Persian, Arabic, Turkish, and Kurdish influences disrupted by decades of the Cold War. On September 28, 2015, President Vladimir Putin addressed the United Nations. He reminded the world that the U.N was established in Crimea during the Yalta agreements after the Nazis were defeated:

We all know that after the end of the Cold War, a single center of domination emerged in the world. And then those who found themselves at the top of that pyramid were tempted to think that if we are so strong and exceptional then we know better than anyone what to do and why at all should we reckon with the UN, which instead of automatically authorizing and legitimizing necessary decisions often creates obstacles or, in other words, ‘stands in the way.’

It has now become commonplace to say that in its original form the Organization has become obsolete and completed its historical mission.

Of course, the world is changing and the UN must be consistent with this natural transformation. Russia is ready to work together with all partners on the basis of broad consensus, but we consider the attempts to undermine the authority and legitimacy of the United Nations as extremely dangerous. They can lead to a collapse of the entire architecture of international relations. Then, indeed, we would be left with no other rules than the rule of force...⁴⁶⁴

Although, I am not a scholar of Soviet or Russian history, as a former paratrooper for U.S. Military Intelligence, an employee of Wall Street, and an American historian, I must conclude that his position prevails over the bombastic idealism and rhetoric of the American Right. The new-era of globalization should not be an argument between socialism and capitalism wrapped in the ideology of competing spheres of economic

⁴⁶⁴ Vladimir Putin. “Statement,” *President of the Russian Federation, at the 70th session of the UN General Assembly*. September 28, 2015.
https://www.scribd.com/fullscreen/283010015?access_key=key-iYZQ6clcxTWO6E7DAooC&allow_share=true&escape=false&view_mode=scroll

influence. It is, as it has always been, “the history of all hitherto existing society is the history of class struggles.” John Maynard Keynes proposed international capital regulations and domestic fiscal policies to mitigate the struggles.

Oligarchs are internationalists who promote free movement of capital to create international monopolies and suppress global labor by dividing peoples with nationalist rhetoric. When oligarchs contributed hundreds of millions of dollars to support tax cuts and a reduction of government spending on social works, the fabric of democracy tore. When neoliberalism subscribed to neoclassical economic theory and advocated austerity during a global financial crisis that required fiscal stimulus, political crises erupted throughout the globe. When an election for the Governor of Michigan cost more money than providing safe drinking water for a city in excess of 100,000 people, then it is time for academics to reconsider the core dispute between Keynes and Hayek, the cause of revolutions, the rise of totalitarian governments, and the meaning of a welfare state.

In his essay, “Soviet Russia,” Keynes compared Leninism to a new religion and warned that as a religion, many people would identify with it because of the economic conditions in Europe. He wrote: “Leninism is a combination of two things which Europeans have kept for some centuries in different compartments of the soul—religion and business. We are shocked because the religion is new and contemptuous because the business, being subordinated to the religion instead of the other way round, is highly inefficient.”⁴⁶⁵ Has a new religion emerged—a clever disguise of the golden calf? Are the gods “no longer seen in yellow panoply walking the earth,” so that “we begin to rationalize them” and “it is not long before there is nothing left...”⁴⁶⁶

⁴⁶⁵ Keynes, “Soviet Russia,” 53.

⁴⁶⁶ Keynes, *Treatise Vol. II*, 291.

In summary, there are four methods of belief: tenacity, authority, *a priori*, and the scientific method. To delineate the methods it is necessary to reconsider the writings of Charles S. Peirce.⁴⁶⁷ Of the methods, tenacity requires that I “shut myself out from all influences, whatever I think necessary to this, is necessary according to that method.” The presupposition of tenacity is that it is a belief that feels right. It requires neither doubt nor inquiry but an adolescent impulse. The belief that the invisible hand articulated by Adam Smith is the economic manifestation of God is an example of tenacity, and it requires that one not read the *Inquiry into the Nature and Causes of the Wealth of Nations* because to do so a reader would learn otherwise.

Authority is defined by the state and establishment: “the state may try to put down heresy by means which, from a scientific point of view, seem very ill-calculated to accomplish its purposes; but the only test *on that method* is what the state thinks; so that it cannot pursue the method wrongly.” The ill-calculation of the state, at its worst, is the catalyst for revolution.

A priori requires that one “think as one is inclined to think. All metaphysicians will be sure to do that, however they may be inclined to judge each other perversely wrong.” An example of *a priori* in economic context is the belief that the gold standard is not an artificial fiat currency. The contours of the debate concerning the gold standard predate the Great Wars and continue to reverberate throughout the global economy. During the Financial Crisis of 2008, speculators hoarded gold and politicians praised its value. When a novel such as *Atlas Shrugged* dictates economic theory and libertarian views succumb to the belief of the gold standard, it is important to recollect the warnings from Keynes. He argued that the gold standard was illusionary and fiat currency (which is

⁴⁶⁷ Charles S. Peirce, “The Fixation of Belief,” *Popular Science Monthly* (November 1877) 1-15. <http://www.peirce.org/writings/p107.html>

inconvertible paper money) existed because gold was buried in vaults and not in circulation: “Gold is out of sight—gone back again into the soil...Thus, the long age of Commodity Money has at last past finally away before the age of Representative Money.”⁴⁶⁸ When the warnings of Keynes are heeded, it is recognized that Truth Sayers of tenacity and *a priori* seek authority. “The method of authority will always govern the mass of mankind; and those who wield the various forms of organized force in the state will never be convinced that dangerous reasoning ought not to be suppressed in some way.”

The scientific reasoning of Marx and Keynes sought to explain the nature of economics and the cause of revolutions. In the age of scientific reasoning, Marx called for workers of the world to unite after the First Great War and Bolshevik revolution, Keynes called for the elites to give workers good jobs, economic prosperity, and a social safety-net if, for no other reason, it was in their interest to do so. The Cold War, in many ways, precipitated a misunderstanding of the Great Wars and led to a neo-Gilded Age. Peirce wrote, “Thus, the greatest intellectual benefactors of mankind have never dared, and dare not now, to utter the whole of their thought; and thus a shade of *prima facie* doubt is cast upon every proposition which is considered essential to the security of society.” The Financial Crisis of 2008 and subsequent global economic crises compel us to re-examine those doubts.

⁴⁶⁸ Keynes, *Treatise Vol. II*, 291.

Appendix A

Kennan: Telegram on Price of Gold

In Soviet Union, January 2, 1946

~~RESTRICTED~~

cc/Amb
MA-NA
Dist
Chrono

Russia

TELEGRAM SENT

TO: SECSTATE
CODE: ~~RESTRICTED~~ - OTS
(NEED NOT PARAPHRASE)

DATE: Jan. 2, 1946

NO: 13

ROUTINE

DEPARTMENT OF STATE

Retain classification Change/classify to _____
 With concurrence of _____
 Declassify in part and excise as shown
EO 12858, Sec. 1.4, (a) _____
ACDCISR by *gpl* 3 24 86

SECSTATE, WASHINGTON

13, Jan. 2, 7:00 p.m.

Prices of gold jewelry and items and also silver sharply reduced in Moscow jewelry stores during December. Sale or retail price in these outlets of simple gold items unengraved 58.3 percent fine dropped from 178 rubles per gram to 136. Fine gold jewelry prices similarly reduced. (FROM KENNAN) Silver which sold at maximum of 7 rubles per gram now at 2.36 as compared with prewar price of 1.40 rubles per gram.

Price of gold changed only by government decree and implies that price paid by government for gold purchased from population also sharply reduced. Reduction reflects in part increased supplies of precious metals now in hands of population as result of seizure of "personal" booty by Russians in portions of Russian-occupied Europe. As result, state apparently feels that persons can be induced to sell gold to state either for resale or for conversion to bullion for much less than previously.

Even after this price reduction, price of gold in Moscow jewelry stores shows extent to which present rates charged for ruble in foreign exchange are absurdly high. For simple gold items in which cost of workmanship is almost negligible these stores charge at rate of 238 rubles per gram of pure gold. At this rate the US dollar should be able to purchase about 40 times as many rubles as it actually purchased at existing official non-diplomatic rate of exchange and over 17 times as many rubles as it purchases at diplomatic rate at the present time.

KENNAN
(CFK)

TW/ajs:edf

850.1 Monetary Values

Appendix B

Kennan: Bretton Woods Telegram

January 2, 1946

~~RESTRICTED~~

DEPARTMENT OF STATE

Retain class'n Change/classify to _____
 With concurrence of _____
 Declassify in part and excise as shown
EO 12958, Sec. 1.2 (a) (1)
A/CDC/SR by *gal* 4, 26, 18, 10 *6/11*
TVCS

cc: Amb ✓
MA-N A
Distr
Chron

TELEGRAM SENT

TO: SECSTATE DATE: January 2, 1945
CODE: RESTRICTED NO: 14
(NEED NOT PARAPHRASE)

SECSTATE WASHINGTON

PRIORITY

14, January 2, 8 p.m.

In connection with Soviet refusal to sign Bretton Woods agreements, following comments may prove helpful to Department (from Kennan REEMBS 4335, December 31).

1. A careful examination of Bretton Woods agreements in relation to basic Soviet concepts and objectives goes far to explain present Soviet unwillingness to enter into these agreements. The agreements are replete with provisions which clearly could be viewed in Soviet circles only with greatest misgivings. Following will serve as examples:

(A) General effect of ^{final} ~~particular~~ agreement would be to prevent Soviet Union from utilizing ruble at any future date for bilateral trade bargaining purposes with countries of eastern and central Europe. Soviet Government has plainly embarked upon program of tying economies of these countries in with that of Soviet Union. Whether it has decided to use Soviet currency as one of means whereby this process is accomplished, is not known. But instincts of Soviet statesmen would rebel at acceptance of obligations which would prevent them from doing this in future in case they found it to Soviet advantage.

(B) By signing documents Soviets would apparently accept an obligation either to abolish their exchange restrictions within a reasonable time or to give explanations as to their failure to do so. To abolish these exchange restrictions at this time or in the near future is practically unthinkable. Gold is now being sold by Soviet Government in state stores at rate of over 200 rubles to dollar and finds takers. If free exchange were permitted and gold or foreign currencies equivalent could be freely acquired at rate of 5.3 rubles to dollar, it is

easy

551 Bretton Woods

easy to imagine what a stampede there would be. On other hand, to give explanations for this situation would involve making admissions damaging, in Soviet eyes, to prestige of Soviet State.

(C) Adherence to agreements would appear to oblige Soviet Union to give information to outsiders on following points: gold and foreign exchange holdings, gold production, gold exports and imports, total exports and imports of merchandise, international balance of payments, investments abroad, national income, and price indices. To do this would involve a change of almost revolutionary dimensions in basic Soviet policy.

Amount of gold and foreign exchange holdings of Soviet Government has been a carefully guarded state secret for twenty years. Only recently Deputy Commissar of Foreign Trade, when interviewed by House Committee on Economic Planning, declined to give information on this point and referred to it as "very delicate matter".

Same applies to gold production and gold exports and imports. We know that in past years Soviet Government has taken pains to conceal movements of gold in and out of Soviet Union. Soviet leaders will also have prominently in mind possibility that in future, as in past, they may have occasion to make large-scale expenditures abroad for purposes which could not conveniently be publicly admitted and that attendant movements of exchange will have to be concealed.

Statistics on exports and imports of merchandise have not been published since September 1938. Only once or twice in history of Soviet regime have data been published on international balance of payments for individual years. These were, however, not complete.

To give information on investments abroad might entail taking outside world into confidence about Soviet economic relations with such areas as Poland, Hungary, Rumania, and northern Iran. Soviets are clearly reluctant to do this.

Data on national income in Soviet Union have not been published for any period later than 1940. Even prior to that date, figures were published not in present day rubles but in ruble prices of 1926-7.

Price

Price indices have not been published for many years; not, indeed, since first five-year plan led to tremendous rise in prices which Government was forced to try to conceal by various means. To start publishing actual price indices today would again involve revelations of Soviet reality damaging to prestige and possibly to interest of Soviet State.

(D) Both in Fund and in Bank decisions are to be taken by majority of votes cast. It is not practice of Soviet Government to enter international bodies with power to influence Soviet actions in international affairs unless voting is based on unanimity principle and gives USSR effective veto power.

(E) Principal attraction to Soviet Government in adhering to these agreements would be possibility of borrowing from bank. However, if we interpret agreements correctly, Soviet Government could not obtain such credit from Bank without subjecting itself to scrutiny as credit risk. This would again involve giving information on subjects such as those listed above and would admit possibility of findings contrary to Soviet interest and prestige being reached by investigating organs. Furthermore, Soviet Government would apparently have to submit to supervision of purposes and manner in which money was spent and would be under obligation not to permit political or other un-economic influences or considerations to effect expenditure of funds. Such supervision would be offensive to Soviet tradition and contrary to most deeply ingrained Soviet feelings about national security. Furthermore, there is in this country no form of activity of human beings in general, and above all of Soviet Government, which is not regarded as political. It is utterly impossible to separate political and economic motives in conduct by Soviet Government of economic life or any other form of state activity.

(F) As Department will note, many of possible Soviet reactions listed above arise from security considerations. Disturbing as this may seem to persons animated by western hopes for a peaceful postwar world, I am afraid we cannot understand Soviet reactions in these matters if we fail to recognize the Soviets, whatever their intentions, conduct foreign policy on working hypothesis that ultimate conflict between Soviet and Capitalist systems is inevitable. They would undoubtedly wish to see this conflict resolved in their favor by means other than clash of national military forces. But in all matters affecting their own security they reckon with the most unfavorable

possibilities.

possibilities. Against this background obligations to divulge what have heretofore been state secrets or to permit representatives of the western world to investigate Soviet conditions at first hand assume special significance. This set of circumstances has no doubt been given particular pungency by existing situation with respect to atomic energy.

2. In view of above, question arises as to why Soviet Government agreed to participate in negotiating these agreements in first place. Answer to this will be found, perhaps, in statement which Molotov made to Ambassador Harriman on April 20, 1944 (reference Embassy's 1380, April 20, 1944, 10 p.m. for Secretary Morgenthau). In this statement, Molotov made it plain that Soviet Government was by no means sure that it could come in on international monetary fund such as that proposed and that, indeed, the majority of Soviet experts were against it, but indicated with a frankness unusual in Soviet diplomatic practice that if our Government felt it necessary to have Soviet assent for purposes of its propaganda effect on outside world, the Soviet Government would be willing to have its experts participate in discussions along these lines. When pressed as to exactly what this meant, Molotov stated that it merely was the "present" attitude of Soviet Government. (In estimating this statement we must recall the war situation which then existed.) I am sure that in Molotov's eyes the statement was as clear a warning as he could give that Soviet Government, while willing to go along with us in preliminary negotiations at that time for sake of maintaining outward appearance of tripartite collaboration, had not yet seen its way to acceptance of principle of Soviet association with such an international fund.

This attitude was reflected in scanty and reserved publicity given to Bretton Woods agreement in Soviet press, which stressed agreements reached at Bretton Woods as demonstration of stability and success of tripartite collaboration but made it clear that actual execution of Bretton Woods "recommendations" would be "an extremely complicated matter" (War and Working Class No. 19, October 1, 1944). Fact that our Government had been pressing Soviet Government in vain since August 10 for indication of its plans with respect to approving Bretton Woods agreements was also significant.

3. Prospect of remaining outside Bretton Woods arrangements is perhaps made easier for Soviet Government by fact of membership of Poland and Yugoslavia. Moscow leaders still presumably have effective influence over

fiscal

fiscal policies and actions of Polish Government through membership of prominent members of Polish Government (including particularly Minz, Minister of Economy) in Polish Workers' Party which in turn is in relationship of straight disciplinary subordination to Central Committee of All-Union Communist Party in Moscow. Same must be generally true in Yugoslavia. Representatives of these countries can thus act as eyes and ears of Moscow in administrations of both fund and bank, and through them Moscow can make its own views heard, all without direct commitment or responsibility on Soviet part. In this way Moscow will be able in the initial period to observe actual workings of fund and bank in light of experience of these countries, without endangering Soviet economic security.

4. Although I cannot conceive that any amount of argument not backed with practical pressure could persuade Soviets to alter decision they have announced with respect to non-participation in agreements at this time, I question whether Molotov should not be asked for a fuller explanation of what he means by "those new conditions of the economic development of the world which are forming themselves in the postwar period". Since international economic developments affecting Russia subsequent to conclusion of hostilities have been marked principally (1) by formation by Russia of an exclusive economic sphere in central and eastern Europe, (2) by delivery to that sphere of many millions of dollars worth of commodities from western nations in form of UNRRA aid and carry-over Lend Lease, and (3) by simultaneous Soviet unwillingness to permit any appreciable deliveries to be made out of that sphere to aid in general problems of world rehabilitation, I find it difficult to see what new conditions Molotov could have in mind which would specifically justify Soviet withdrawal from Bretton Woods arrangements.

G.F.K.

GFK:rw

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J. Eric Copeland graduated from Texas Tech University with a Bachelor of Arts degree in History on May 11, 1996. His professor of philosophy encouraged him to enlist in the United States Army. Eric graduated from the Defense Language Institute with honors on November 27, 1996, with certification as a Portuguese linguist. The National Security Agency of the United States certified completion of Principles of Collection Management, and he successfully completed the Apprentice Cryptologic Linguist course. He was assigned to 3rd Special Forces (Airborne) at Fort Bragg, North Carolina in January 1997. On April 4, 1997, Eric completed the Airborne Course from the United States Arms Infantry School at Fort Benning, Georgia. Eric was attached to a Special Operations Detachment Team for a Humanitarian Demining Operation in Mozambique, July 31 to October 18, 1998. He was awarded The Army Commendation Medal “during the height of hostilities in Mozambique following the Embassy bombing in Tanzania and Kenya.” The República de Moçambique certified Eric as an instructor for Demining in October of 1998.

J. Eric Copeland received Group I, Series 7, and Series 66 licenses by March of 2000, which authorized him to advise and conduct transactions with registered securities and insurance products. He successfully completed the education requirement and certification exam for the Certified Financial Planner Board of Standards, Inc. effective January 6, 2006. After nearly a decade of experience representing Wall Street and with the perspective of Military Intelligence, he returned to Academia in 2009. He earned a Master of Arts in History May 13, 2016. Eric maintains his career as an agent for a registered investment advisor while pursuing historical studies on the role of Central Banks and economic consequences that address international conflict with regard to fiscal and monetary policy with perspective from the ongoing financial crisis of 2008.