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COMMUNICATION

THE ORIGINS OF THE COLD WAR: SOME NEW DOCUMENTS*

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Between the last days of 1945 and February 1946, relations between the world's two most powerful states deteriorated sharply. The foreign ministers' conference, meeting in the Spiridovka Palace, Moscow from 16 to 27 December 1945 had dealt relatively unproblematically with the issue of peace treaties to be concluded with the defeated German satellite states. The U.S. secretary of state James Byrnes was quoted as saying at the end that the mood had been 'very constructive'.¹ Stalin went out of his way to appear a good host. But in the course of a few weeks, by February 1946, the tone of Stalin's public statements changed dramatically. The United States now also began to reassess the nature of Soviet policy. The telegram prepared by the U.S. chargé d'affaires in Moscow, George Kennan, soon came to be regarded as the beginning of the Cold War. It was 'the most important cable in the history of the American Foreign Service'.²

The immediate occasion of Kennan's cable lay in an inquiry of the U.S. state department and the treasury as to why the U.S.S.R. had not ratified the Bretton Woods agreements, negotiated over a year earlier, in July 1944, at an international conference attended by forty-five national delegations, including one from the U.S.S.R. The conference held in July 1944 at Bretton Woods aimed at creating a new and universal international economic order. Indeed the articles of agreement reflected in a number of respects the need to accommodate centrally planned economies as members of the institutions created by the articles, the International Monetary Fund and the International Bank for Reconstruction and Development.³ The clauses regarding the activation of the Fund included the provision that the articles required ratification by countries representing at least 65 per cent of the total quotas allocated at Bretton Woods by the end of December 1945; otherwise the initial deposits on subscriptions to the Fund would be returned.

In both the United States and Britain congressional or parliamentary ratification of the Bretton Woods agreements was accompanied by a vigorous debate, in which opponents of the new institutions claimed them to be harmful to national interest. Both

* The research for this paper was in part supported by the International Monetary Fund; but the opinions expressed here are solely those of the authors. We should like to thank Mr Vladimir V. Sokolov of the History and Records Department, Ministry of Foreign Affairs of the Russian Federation, for his help.

¹ *Keesings Contemporary Archives* (1946), p. 7631.

² Walter Isaacson and Evan Thomas, *The Wise men: Six friends and the world they made: Acheson, Bohlen, Harriman, Kennan, Lovett, McCloy* (New York, 1986), p. 352.

³ In particular article IV, section 5(e), which permits countries to change their par values 'if the change does not affect the international transactions of members of the Fund', was included at the Soviet insistence.

countries, as well as twenty-seven others, eventually agreed the terms within this time frame, and on 27 December 1945 the U.S. state department organized a ceremony in Washington, in which the ratifications were formally deposited. The U.S.S.R., however, did not take part in this ceremony. Up to the last moment, the question of Soviet agreement was undecided.

In the past, the reasons why the Soviet Union chose not to subscribe to the articles by December 1945 have been the subject of speculation.⁴ Only recently have documents from the personal papers of Molotov been made available by the Russian foreign ministry which show that Soviet officials were preparing to join the Bretton Woods institutions until the last moment. The Molotov papers also indicate the reasons for the eventual refusal.

The memoranda prepared in the ministries (the people's commissariat for external trade and the commissariat for external affairs) were overwhelmingly positive about the advantages of membership. Soviet officials prepared the draft legislation required for ratification of the articles of agreement. The main incentive lay in the need for funds for reconstruction after the physical devastation of the war. Not only would the Fund and the Bank provide resources themselves; but membership in the international system would also bring access to official sources of credit in the United States, and perhaps also eventually to private sources. (This is the significance of the references in the documents to the Johnson Act of 1934, forbidding Americans from engaging in financial transactions, i.e. lending with countries that had defaulted on war debt from the First World War. The Bretton Woods legislation passed by the U.S. congress repealed this act with regard to signatories of the Bretton Woods treaties.)⁵ The Soviet officials pointed out that the U.S. \$3.75 billion loan to the United Kingdom had been dependent on British acceptance of the Bretton Woods agreements, and of the principles of an open economy that underlay them.

The United States wanted a Soviet membership. The Americans, who had drawn up the proposals for the new system, had originally also been completely convinced of the need for a universal economic system. For the chief U.S. architect of the Bretton Woods agreements, Harry Dexter White, one of the appeals of a truly universal institution was that it reduced the sterling-dollar problem – which was at the heart of some of the most bitter international policy disputes of the first four post-war years – down to proper size. Did the world not have more serious problems than the power pretensions of Great Britain? 'It matters little', White wrote in 1945, 'what our political relationships with England become or what happens in the Balkans or the Far East if the problems between the United States and Russia can be solved.'⁶ White's desire to make Bretton Woods work in a truly universal sense may well have led him to attempt too intensively and too intimately to cooperate with the U.S.S.R. Already in early 1944 he had proposed a 'large credit to the U.S.S.R. in exchange for needed strategic materials', as 'the sound basis for continued collaboration between the two governments in the post-war period.'⁷ As a result, he pushed very heavily, in the same direction as the

⁴ For instance, Raymond F. Mikesell, 'Negotiating at Bretton Woods', in Raymond Dennett and Joseph E. Johnson (eds.), *Negotiating with the Russians* (Boston, 1951), pp. 101–16.

⁵ U.S. 73rd congress, session II, chapter 112, 13 April 1934; 'To prohibit financial transactions with any foreign government in default on its obligations to the United States' (*United States Statutes at Large*, 48, 1, 574); U.S. 79th congress, session I, chapter 339, 13 July 1945, Bretton Woods Act, section 9 (*United States Statutes at Large*, 59 1, 516).

⁶ Princeton University Manuscript Archive, Harry Dexter White papers 7/23d, 30 Nov. 1945 'Note of H. D. White'.

⁷ White papers 7/23a, 7 Mar. 1944, 'Proposed U.S. loan to the U.S.S.R.'.

Soviet officials, for a generous provision of American loans for the U.S.S.R. At the beginning of 1945 he proposed a \$10 billion reconstruction credit (the total amount of the capital of the I.B.R.D.) at an interest rate of 2 per cent.⁸ White's initiatives were later held against him, even in the absence of conclusive evidence to support the accusation that his contacts with Soviet officials had been treasonable.⁹ In the course of 1946, stories of White's involvement with the Soviet cause did little to increase the confidence of the U.S. administration in White's creation, the International Monetary Fund.

The events of December 1945 changed the perspectives dramatically in both countries. The Soviet position altered at the last moment. No one would have drawn up a memorandum similar to that of 26 December in the knowledge that general secretary Stalin disapproved the course recommended. Between 26 and 29 December, however, foreign minister Vyacheslav Molotov almost certainly talked with Stalin, and the tone of the Soviet discussion now changed. Stalin's brutally realistic mind could never see any purpose in an institution whose function lay in fostering international cooperation: it could only be a disguised instrument for specific national interests. If the United States was interested in promoting some cause, that by itself indicated that the U.S.S.R. would be likely to be harmed. Joining the I.M.F. would only give a signal of weakness. It might be used, however, as a bargaining tool for obtaining larger foreign assistance. Only a large governmental credit (as had been given to the U.K.) would be an adequate compensation for Soviet membership. As White had foreseen, the sticking point lay in the size of the U.S. loan offered to the U.S.S.R. The new Soviet position suggested that a postponement of the membership decision might represent a valuable bargaining lever to prise greater financial assistance out of the U.S.

There may have been additional considerations. Stalin had invested a substantial amount of his time in preparing, in great secrecy, a currency reform of his own. In the autumn of 1945 he brought to his vacation home in the Crimea the Soviet finance minister to discuss a plan for reducing the value of the rouble. Membership in an international institution might interfere with changes in the external and internal value of the rouble. Furthermore, the secrecy of economic information was becoming one of Stalin's major obsessions, and a basis for accusations of disloyalty and treason.¹⁰ The Fund's article VIII, section 5, had required the supply of economic information, including gold production, exports and imports, data on clearing arrangements, on national income, and price statistics. All these were both highly sensitive politically and difficult for the Soviet bureaucracy to obtain.

As a result, the memorandum prepared in the foreign ministry on 29 December 1945 took a much more sceptical stance about the Fund and the Bank, and recommended the postponement of the membership decision. Accordingly, Molotov notified George Kennan, that for the amount the U.S.S.R. would not subscribe to the articles.

The Soviet postponement of a decision on membership of the Bretton Woods institutions and the subsequent American reaction in fact meant the end, and not the beginning, of bargaining about American loans for reconstruction. The U.S. Treasury let out an 'anguished cry of bewilderment' at Soviet policy.¹¹ George Kennan's cable to Washington explaining the motives for the Soviet action, which subsequently

⁸ White papers 7/23c, 10 Jan. 1945, 'Memorandum for the president'.

⁹ The recent book by Christopher Andrew and Oleg Gordievsky, *KGB: The inside story of its foreign operations from Lenin to Gorbachev* (New York, 1990), pp. 278, 282 and 370 repeats but cannot prove these allegations conclusively.

¹⁰ Alan Bullock, *Hitler and Stalin: Parallel lives* (New York, 1992), pp. 912-13, 917.

¹¹ George F. Kennan, *Memoirs 1925-1950* (Boston, 1967), p. 293.

became known as the 'long telegram', was a lucid analysis of the changing mood in Moscow but also became the first major formulation of the new mood of superpower confrontation. 'In international economic matters, Soviet policy will really be dominated by pursuit of autarky for Soviet Union and Soviet-dominated adjacent areas taken together.' One of the rationales for the Soviet stance, Kennan thought, was the Soviet belief that the 'capitalist world is beset with internal conflicts inherent in the nature of capitalist society. These conflicts are insoluble by means of peaceful compromise. Greatest of them is between England and U.S.'¹²

The Soviet calculation, if this account was right, was also based on the behaviour of the parties which had actually expressed their assent to the Bretton Woods Agreements. The extended debates about ratification that had taken place both in the U.K. and the U.S. were read in Moscow as evidence of the quick disintegration of the wartime alliance. In this way conflicts and disappointed hopes about the function and practice of international economic institutions played a major part in changing the switches in international politics, and in launching what became known as the 'Cold War'.

The Documents¹³

From: the collection of Molotov

About the International Monetary Fund and the International Bank for Reconstruction and Development

Positive sides of a possible participation of the U.S.S.R. in the Fund and the Bank

1. Participation of the U.S.S.R. in the Fund and the Bank would give us the possibility to have some influence upon credits in the post-war period, and to keep an eye on what happens in these organizations.

2. Being a participant in the Fund and the Bank, the U.S.S.R. can receive credit from these organizations in the case of need. The U.S.S.R. may receive from the Fund relatively cheap short-term balance of payments credit up to \$300 m. within a period of a year. Credit from the Bank, the charge on which still has not been determined, may be somewhat more expensive than governmental credit.

3. Through participation in the Fund and the Bank, we eliminate possible difficulties in the way of (a) selling our gold on the global market, and (b) in receiving American credits.

It is known that Americans made credits to Britain conditional on joining the Fund. In addition the U.S. Congress repealed the law (Johnson Act: Law of 1934 regarding Settlement of Inter-Allied Debt), for the benefit of all countries joining the Fund and the Bank.

Along with these considerations there are adverse sides of participation in the Fund and the Bank. These are:

1. The Fund may give recommendations to member countries about currency and economic conditions affecting balance of payments. In reference to the U.S.S.R. the Fund has the possibility of giving recommendations concerned with the disparities between domestic and export prices and prices on the global market, and also in reference to the disparity between the internal purchasing power of the rouble and its gold parity.

2. The U.S.S.R. as a participant in the Bank is liable for borrowings given by

¹² Ibid. pp. 553, 547; telegraphic message from Moscow, 22 Feb. 1946.

¹³ Translated from Russian by Marzenna James.

capitalist nations under the guarantee of the Bank. If some capitalist countries are unable to repay the Bank, the U.S.S.R. with other shareholders will be liable under the terms of the guarantee.

3. Gold which the U.S.S.R. brings into the Fund and the Bank may be carried out of this country on the order of the Fund or the Bank for the implementation of technical operations practised by these organizations.

In addition, our participation in the Fund and the Bank at this time may give an impression that we are interested in the creation of the Fund and the Bank because of our need for credit. In practice our participation in these institutions would increase their authority, and our membership would also mean a serious political support for the initiative of the U.S.A. The English, who gave their agreement, received a large long-term credit (\$4,400 m.). France also recently received a credit of \$550 m. and is in a dialogue about an additional \$2,000 m. credit. In dealing with the U.S.S.R. the Americans do not show a wish to offer credit, even though from our side we have made appropriate submissions to the government of the U.S.A. Our membership in the Fund and the Bank in this light seems pointless. We can return to this question after we agree with the U.S.A. about the provision of governmental credit on conditions convenient to us.

22/12 [1945] [V] Gerashchenko



About the International Monetary Fund and the International Bank for Reconstruction and Development

In the case of our participation in the Fund and the Bank there may be one important meaning: the participation of the U.S.S.R. in these organizations gives the possibility of watching what kind of work will be carried out there, keeping an eye mainly on the importance of that work for the economic and political situation in member-countries of the Fund and the Bank, and also having some influence in these matters.

However, in this matter there are more political and economic *minuses*.

1. As is known, as the government of the U.S.A. did not offer the U.S.S.R. a credit and in this situation our membership in these organizations could be read as our weakness, as a forced step taken under the pressure of the U.S.A. Our negative attitude toward membership in the Fund and the Bank would show our independent position in this matter.

2. The U.S.S.R. as a member of the Bank would assume liability for borrowings of other states, and in the case of inability or unwillingness to repay (as was the case after the First World War) then the U.S.S.R. and other shareholders would carry the burden of other countries' failure to pay.

3. The gold which the U.S.S.R. would bring into the Fund and the Bank can be taken out of the U.S.S.R. for technical operations carried out by the Fund and the Bank.

4. We should wait some time and see how the work of the I.M.F. and the I.B.R.D. develops, so that in the case of necessity we can choose the most convenient moment for subsequent entry in the Fund and the Bank. In this matter we can expect that if there is an interest in our participation, then the main Allied Powers will themselves take measures towards additional invitation of the U.S.S.R. to participate in these organizations.

29/XII [Signature]



Materials from the collection of the Economic Section of the Ministry of International Affairs

To: Comrade V. M. Molotov

Secret

We are sending a draft of a memorandum about the question of the International Monetary Fund and the International Bank for Reconstruction and Development, and a draft decision on this matter.

V. Gerashchenko (Finance Ministry)

A. Arutunian (External Trade Ministry)

26 December 1945

Draft: About International Monetary Fund and International Bank for Reconstruction and Development

26 December 1945

At the Currency conference of July 1944 the International Monetary Fund and the International Bank for Reconstruction and Development were established. The main task of the International Monetary Fund was the provision of short-term credits for balance of payments assistance so as to assist the growth of global trade... The Bank is to guarantee long-term credits, and also provide credits from its own capital... Members of the Bank must be members of the Fund... The agreements are to be signed by the participants of the Bretton Woods Conference by 31 December 1945. All countries who wish to join the Fund and the Bank after this date may be accepted under the conditions of the agreements at a time that will be established by these organizations. The U.S.A. has invited the participants in the Bretton Woods Conference to sign the articles in Washington on 27 December 1945...

The high percentages of U.S. participation in the capital of the Fund and the Bank gives the U.S.A. the possibility to effectively control the activities of these organizations, the more so if the U.S.A. is supported by its economic dependents in the capitalist countries (Latin American Republics, etc.). Due to these circumstances we are not interested in the creation of the Fund and the Bank, but we have no possibility of hindering them because many capitalist countries, interested in obtaining American credits and American goods, support the creation of the Fund and the Bank (England, France, China and others). However, given that the Fund and the Bank have been credited, is it purposeful for us to stand on the side? What negative and positive sides are there to our possible participation or non-participation in the Fund and the Bank?

In the case of our non-participation in the Fund and the Bank the U.S.S.R. may become isolated from the major international project, which will affect the conditions of international credit in the postwar period. That may bring economic difficulties in relations with some of our external markets, in particular with the U.S.A., which is particularly interested in the Fund and the Bank. We can meet such difficulties through the sale of our gold on the international market, through obtaining credits, etc. It is known that credit to Great Britain was made conditional by the U.S.A. on entrance into the Fund. Participation in the Fund gives its members the right to introduce limitations in their currency transactions against non-members. The Act passed by Congress accepting Bretton Woods abolished the 1934 Johnson Act with regard to members of the Fund and the Bank but left it in the case of non-members.

The U.S.S.R. cannot receive credits in case of need from these organizations if it is

not a member. As a member of the Fund the U.S.S.R. may receive relatively cheap balance of payments credit of up to \$300 m. in the period of one year. Credit from the Bank, the charge on which still has not been determined, may be somewhat more expensive than governmental credit.

Participation of the U.S.S.R. in the Fund and the Bank gives us the possibility of knowing better what happens inside these organizations and support our interests there and also support the interests of our most friendly powers (Yugoslavia and others).

The U.S.S.R. would have together with U.S.A., U.K., China and France a place on the directorate of the Fund and the Bank...

The Fund and the Bank are special organizations in accordance with the rules of the United Nations and which will be connected with the Economic and Social Council. Occupying one of the leading positions in the United Nations, it will be difficult for the U.S.S.R. to stand on the side as far as the Fund and the Bank are concerned.

Finally we have to list the serious negative aspects of membership in the Fund and the Bank. The Fund has the right at any time to give its views unofficially to any member-country on any question connected with the functioning of the Fund. In the case of the U.S.S.R. these views of the Fund may refer to currency and economic affairs, which according to the Fund affect payments balances of member-countries of the Fund, in particular the disparity of domestic with export prices and prices on the global market, and the disparity of the domestic purchasing power of the rouble with the external parity.

At the Bretton Woods Conference at our insistence there were recorded certain points limiting the capacity of the Fund and the Bank to meddle in our internal affairs. The main points are:

1. *Change of parity of the Soviet rouble.* A member may change parity without consulting the Fund if the change does not affect international transactions of Fund members.

2. *The Fund's recommendations.* The Fund has the right to publish only such reports which concern the economic and currency affairs of the member-countries if these threaten to cause a major breach of the general balance of payments of member countries. With this exception, the representative of the country that is the subject of a report will be called to participate in the preparation of the Fund report. The Fund shall not produce reports which recommend major changes in the economic structure and organization of member-countries. However, these limitations do not exclude the possibility that the Fund may ask or make observations about our currency and economic policies. Much will depend on our relations with the U.S.A.

A negative side of the activity of the Bank from the view of the U.S.S.R. is its function as a guarantor of loans...

The question of the storage of gold in Moscow brought as a contribution to the Bank and the Fund is of importance to us...

In the case of need the U.S.S.R. (and any other member) may leave the Fund or the Bank. In that case the contributions are returned.

On joining the Fund and the Bank the U.S.S.R. incurs the following obligations: contribute to the Fund not less than 10 per cent of its official gold reserves; pay \$24 m. for its share in the Bank in gold (\$18 m and \$6 m. after five years); there is also a need to open an account in Gosbank on behalf of the Fund and the Bank in Soviet currency, of \$1,100 m. in roubles (5,830 m. roubles according to the parity at the present rate) on account of the International Monetary Fund and \$216 m. (1,150 m) on account of the International Bank for Reconstruction and Development.

Members of the Fund are obliged to submit information required for its activities,

at a minimum about the following issues: reserves of gold and foreign currency; gold mining and export and import; balance of payments; investments; national income; price indexes; clearing account balances. The rules of the Fund require that the Fund take into account the varied capacities of member countries to submit information. The Soviet delegation at the Conference had the order from Moscow to submit a list of information to be provided to the Fund. In the case of a positive decision about the question of joining the Fund and the Bank there is a need to adopt the attached draft decision.

Draft: Decision on the USSR Joining the International Monetary Fund and the International Bank for Reconstruction and Development

1. Enter into membership in the International Monetary Fund and International Bank for Reconstruction and Development.

2. Establish the parity of the rouble at entry of U.S.S.R. into the Fund in gold, and through gold in other foreign currency, including U.S. dollars.

3. Establish 1 rouble = 0.1676735 gram of fine gold (from a value of 5.30 rouble = 1 U.S. dollar). A second variant of point three (Narkomvneshtorg: Ministry or National Committee of International Trade): 1 rouble = 0.0740555 gram of fine gold (equivalent to a value of 12 roubles = 1 U.S. dollar).

4. In the document which Narkomindiel (Foreign Ministry) should in the name of SNK (Soviet Government) U.S.S.R. deposit with the government of the U.S.A. in connection with the Articles of Agreement about the Fund and the Bank establish that the Soviet Government signs the agreement concerning the Fund and the Bank with the proviso that the gold subscribed by the U.S.S.R. as the capital of the Fund and the Bank remains in the U.S.S.R. In the aforementioned document, Soviet representatives in the managing organs of the Fund and the Bank will have the directive to secure the gold in Moscow in the aforementioned quantity.

5. In connection with the necessity to communicate to the Fund the data about gold reserves in the U.S.S.R., ask Narkomfin (Finance Ministry) and Gosbank U.S.S.R. to submit to SNK of U.S.S.R. by 15 January 1946 suggestions about the official reserves of gold of the U.S.S.R.

6. Assign to Gosbank all dealings with the Fund and the Bank.

7. Entrust Gosbank, Narkomfin and Narkomvneshtorg with the compilation of information required by the Fund and the Bank. Establish that only Gosbank should provide the information to the Fund and the Bank. Information communicated by Gosbank to the Fund and the Bank should in every single case be confirmed with the Soviet Government.

8. Order Gosbank and Narkomvneshtorg to organize special courses for the preparation of Soviet citizens to work in the International Monetary Fund and International Bank for Reconstruction and Development.

9. Oblige Narkomfin of U.S.S.R. to release to Gosbank for the paying of subscription of U.S. \$120,000 to International Monetary Fund and U.S. \$120,000 to International Bank for Reconstruction and Development.

10. Authorize the chargé d'affaires of the U.S.S.R. in Washington, Comrade N. V. Novikov, to sign the agreements about the founding of the International Monetary Fund and the International Bank for Reconstruction and Development and deposit the corresponding document with the government of the U.S.A., in accordance with article xx, section 2 of the Fund agreement and article xi, section 2 of the Bank agreement.