

THE FIBERS OF AMERICAN ORDER: TRADE POLITICS AND THE PURSUIT OF
COTTON SUPREMACY, 1933-1947

by

ROBERT ALEXANDER FERGUSON

(Under the Direction of Scott Reynolds Nelson)

ABSTRACT

Between 1933 and 1947, Southern politicians and officials tied to the cotton sector significantly reshaped the American state to benefit American cotton interests. By employing Elizabeth Sanders' model of core and periphery, this dissertation argues that Southerners used their political power in the Roosevelt and Truman Administrations to use the state to prioritize the interests of the cotton periphery over the manufacturing core that had dominated the American political economy since 1865. They did this by drastically reshaping American agricultural policy, trade policy, and diplomacy to ensure that, during the New Deal, white American cotton interests were given the tools to survive a hostile global trade environment. By the 1940s, as the Second World War drew to a close, these same cotton interests used the American state to create and dominate global cotton markets.

INDEX WORDS: American South, Cotton, New Deal, Cold War, Internationalism, Depression, Politics, Exports, Credit, Geopolitics, Democratic Party.

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B.A., Dalhousie University, Canada, 2009

M.A., University of Alberta, Canada, 2019

A Dissertation Submitted to the Graduate Faculty of the University of Georgia in Partial
Fulfillment of the Requirements for the Degree.

DOCTOR OF PHILOSOPHY

Athens, Georgia

2025

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DEDICATION

I dedicate this to Hillary, my loving wife and best friend.

ACKNOWLEDGMENTS

This dissertation would not have been possible without the dedication and support of a number of individuals. Firstly, I would like to thank my supervisor, Scott Nelson. His eagerness to encourage me to pursue idiosyncratic ideas before harnessing them allowed this dissertation to take shape. Whatever value emerges from this work is primarily a result of his guidance. I would also like to thank the rest of my committee, Stephen Mihm, Laura Phillips-Sawyer, and Joshua Massey, for their encouragement and assistance.

Several individuals and groups supported this project's research, for which I am eternally grateful. I want to thank the Gregory and Gallis families, whose personal and financial contributions to the UGA History department, faculty, and graduate students are probably unparalleled at any equivalent institution. I think I speak for all graduate students in the University of Georgia History Department when I say our work is only possible because of your assistance. In addition, I would like to thank the Society for Historians of American Foreign Policy, Nate Saunders at the Library of South Caroliniana at the University of South Carolina, Dr. Anne Marshall and Amanda Carlock with Special Collections at Mississippi State University, Lisa Sullivan and the entire staff at the Truman Library Institute, the wonderfully helpful associates at the National Archives in College Park, and the staff at the Hargrett and Richard B. Russell Special Collections at the University of Georgia.

I would also like to thank many individuals who took a personal interest in my professional growth, particularly Cindy Hahamovitch, Brian Drake, Keith Dougherty, Peter Hoffer, Bob Kaminski, Ashton Merck, Steven Soper, Heather Coleman, and Gerhard Ens.

This project took six years to complete, a year and a half of which was spent during a global pandemic. Accordingly, such a project can only be endured with friends. I am afraid to mention names, as I will inevitably accidentally omit some. You know who you are, and I am eternally grateful.

I cannot thank Nathanael Mickelson enough for his assistance with this project. He allowed me to look at much of his research, saving me at least one trip, while much of the analysis and conclusions in this study are products of conversations with him. More importantly, he is a very good friend, even if he is wrong about LA sports teams and the utility of European sports.

Writing a dissertation is, in many respects, a selfish endeavor. I took research trips, worked late hours, and made little money. All of this took a toll on my family. I cannot thank my wife, Hillary Vaughan, for being a fantastic partner and Mom who never resented, criticized, or questioned the time I took to work on this. I would also like to thank my parents, Sandra Stone and Alex Ferguson, for their unwavering support. None of this is possible without you. Lastly, I would like to thank my children: Alexandra, Patrick, and Edgar. You have given me perspective, purpose, and unwavering love. I love you all more than you can ever imagine.

TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	
CHAPTER	
<u>SECTION 1: INTRODUCTION</u>	
1 CORDELL HULL AND THE TARIFF WARS.....	1
2 LITERATURE REVIEW.....	38
<u>SECTION 2: SOLVING THE COTTON PROBLEM</u>	
3 SURPLUSES AND EXPANSION IN THE NEW DEAL	63
4 THE EXPORT-IMPORT BANK, GEORGE PEEK’S BILATERAL TOOL.....	99
<u>SECTION 3: THE PURSUIT OF COTTON SUPREMACY:</u>	
5 OF CARTELS AND TRADE WARS	122
6 PERFIDIOUS ALBION AND UNCLE SUCKER.....	161
7 THE EXPORT-IMPORT BANK AND GLOBAL COTTON SUPREMACY...	205
8 CONCLUSIONS – THE IRONIES OF COTTON SUPREMACY.....	236
BIBLIOGRAPHY.....	248

Section 1: Introduction

Chapter 1: Cordell Hull and The Tariff Wars

The American state's adoption of an export-oriented foreign policy during the 1930s and 1940s, including the establishment of an open and cooperative global trade network, was most prominently supported and led by Southern cotton interests seeking to raise the price American cotton farmers received for their crops. This argument builds on Elizabeth Sanders's claim that "When the American national state began, in the late nineteenth century, to acquire the legal authority and the administrative capability to regulate a mature industrial economy...it did so in response to the demands of politically mobilized farmers."¹ Sanders's book concludes in 1917, with America's entry into the First World War, when five years of the Democratic Woodrow Wilson Administration had substantially reformed the state in farmers' interests. However, while impressive, the farmers' victory was hardly total. Despite the success of the pre-1917 period in instigating major permanent reforms on behalf of farmers, such as the Clayton Antitrust Act, the Federal Reserve Act, the Interstate Commerce Commission, and the Income Tax Act, cotton farmers remained vulnerable to price collapses. Cotton farmers blamed the Republicans, who dominated national politics between the Civil War and the Great Depression, for imposing a

¹ Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State 1877-1917* (Chicago, IL: University of Chicago Press, 1999), 1.

protective tariff on manufacturing that reduced global demand for American raw cotton and raised farmers' input costs. While Democrats would reduce the tariff when they briefly controlled the White House and Congress, Republicans would reinstate protection shortly after returning to power. It would take a great depression and an apocalyptic war for Democrats to gain enough political power and credibility to impose a trade policy not subject to immediate reversal.

The Core-Periphery Model and the Wisconsin School:

This study extends Elizabeth Sanders's division of the United States into two political zones after Reconstruction, core and periphery, into the 1930s and 1940s. These zones would develop separate political economies that competed for national political prominence and eagerly sought, through their political elites, to use state power to promote their interests at the expense of the other. These divisions would imperfectly overlay the distinctions between the two major national parties after the Civil War. The Republicans were the party of the core, while the Democrats were the party of the periphery.

The manufacturing core began as an industrial line between southern Maine and Baltimore around the turn of the 19th century. It expanded westward by creating roads, canals, steamships, and railroads. By the mid-19th century, it encompassed the cities of the Great Lakes, which, through the Erie Canal and later railroads, could quickly transport goods processed from western raw materials for sale in eastern cities. As railroads and credit facilities expanded, the cities in the core specialized, and their factories drained the population of the countryside. According to Sanders, "Beginning in the 1880s, the completion of a national railroad and telegraph network and the development of coal and oil fuel technologies made possible the

emergence of huge corporations with established national and budding international markets.”² Examples included Quaker Oats, Kodak, DuPont, and Standard Oil. While these major companies were spread throughout the core, their need for significant volumes of capital meant that much of their activity was concentrated in New York, the country's finance and logistics hub. As wealth concentrated in New York, it became the nation's credit center, allowing it to set the rules of the game for the American economy in the postbellum period. While the core had agricultural regions, these farms existed to provide the laboring population of the core cities with perishable foodstuffs, such as dairy and poultry.

Meanwhile, the periphery saw no such dynamism. There, the primary industry was the cultivation of cash crops for external consumption.³ The two most significant peripheral regions were the Great Plains, which produced grain, and the South, which cultivated cotton. Although other crops, like tobacco, sugar, and rice, were grown in parts of these regions, wheat and cotton were the two most valuable American cash crops and dominated the periphery's two most important regions. The periphery's reliance on monocrops for export created an economic dependence on volatile global commodity prices, which hindered access to credit and currency. This kept these regions highly rural and dependent on the manufacturing core for goods and credit. Whereas farming in the core supplied the laboring population of industrial centers with food, the peripheral cities, such as Kansas City and Atlanta, existed to provide the services necessary to produce cash crops for export. Thus, to Sanders, the regions were distinguished by their relationship between cities and farming. In the core, farms existed to support the productive towns, while in the periphery, cities supported productive farms.

² Sanders, 17.

³ In the case of cotton, mostly export. In the case of wheat, it was more of a balance between American and foreign consumption. However, both cotton and wheat sellers depended on markets that were set globally.

Sanders exempts the corn belt from her core-periphery thesis. She labels the “two-hundred mile strip of rich prairie that stretches from eastern South Dakota and Nebraska through northwestern Missouri, northern Illinois and Indiana, and western Ohio,” as “mixed” instead of core or periphery because while its corn and hog production was tied into the manufacturing core owing to proximity and marketing “this prosperous and productive farm area long ago had exceeded the consuming capacity of proximate urban markets.”⁴ The capital of her mixed zone was Chicago. However, by the 1930s, the corn belt was largely politically connected to the core. And, often, the corn belt would contain some of the most strident critics of the periphery’s agenda.

Aside from Sanders’s core and periphery models of the era’s political economy, this study adopts the key insight from the Wisconsin School of American Foreign Policy. Building off the work of progressive historians like Frederick Jackson Turner and Charles Beard, William Appleman Williams at the University of Wisconsin argued that American commercial policy was the key consideration in American foreign policy, and beginning in the twentieth century, that meant pursuing export markets for surplus American production.⁵ Williams argues that the American Government pursued a global “Open Door,” an open global trading environment with the United States at its center. In the Wisconsinite worldview, it was through the Open Door that the US won reliable access to export markets at a scale no previous empire could have imagined. No region of the country needed a larger market for its produce than the American cotton

⁴ Sanders, 18.

⁵ William Appleman Williams, *The Tragedy of American Diplomacy* (New York: W.W. Norton, 1959); Also, Walter LaFeber, *The New Empire: An Interpretation of American Expansion* (Ithaca, NY: Cornell University Press, 1963).

periphery, which in this period included significant portions of the states of the Old Confederacy and Oklahoma, along with smaller parts of Missouri, Arizona, and California.

While politically and economically ascendant in the decades before the Civil War, the Cotton South was the poorest part of the country between the 1870s and 1940s. In 1935, Miriam S. Farley described the region's peripheral nature, "...over half of their product is normally exported, so their prosperity is peculiarly dependent upon conditions in the world market."⁶ As cotton was sold at volatile world prices, farmers had to brace themselves for wild price swings depending on global conditions. These price swings often led to cotton farmers selling at a price well below profitability, which was insufficient to cover their debts.

Farley notes that, in the 1920s and 1930s, nationalist interests blamed cotton farmers for their own misfortune and recommended they "...adjust their production to only domestic needs..." to avoid "capricious forces beyond the control of the US Government." Cotton farmers, meanwhile, would retort that "...such a program would be fatal to (their) standard of living, the maintenance of which must depend on a free flow of international trade."⁷ While the nationalist confidently claimed that the cotton farmer could restrict his production to ensure profitability, the cotton farmer could respond that his profitability was denied by a protective tariff on manufacturing that blocked the free flow of international trade and artificially suppressed the demand for American raw cotton. A cotton farmer's success in this environment

⁶ Miriam J. Farley, "Japan as a Consumer of American Cotton," *Far Eastern Quarterly* Vol. 4, No. 13 (July 3, 1935): 97.

⁷ Farley, 97.

depended on efficiently producing large volumes of cotton while maintaining liquidity to weather downward price swings. Farmers struggled to access the necessary tools to do that.⁸

Cotton farmers struggled to overcome trade barriers in the global market because they had to cope with the country's most scarce and expensive credit while facing artificially inflated input costs due to tariffs. Of these, credit was probably the most severe. There were few securable assets in the South, meaning that the only asset most farmers could use as security for borrowing was their cotton crop.⁹ This tied farmers to cotton monoculture and ensured that their solvency, as well as that of their creditors, depended on high enough cotton prices to repay debts.¹⁰ Otherwise, panics and monetary shocks were possible. In 1873, 1893, 1920, and 1930, the region endured monetary shocks that took years to recover from. These shocks and subsequent depressions profoundly shaped the South during this period, and the fear of the wolf at the door defined much of its politics. Meanwhile, urban inflation and tariffs raised the price of goods farmers wanted to buy.¹¹ Thus, farm costs were too high, and farm credit was too scarce for farmers to overcome the poor international trade situation.

Southern politicians, who benefited from the structural oppression of Black Southerners and competed in elections that excluded Black voices to perpetuate such a structure, argued that such a market environment was not natural but shaped by the preferences of the industrial core. Northern politicians were blamed for imposing tight monetary policies and tariffs, which cotton

⁸ Claude Leon Benner, *The Federal Intermediate Credit System* (New York: MacMillan and Company, 1926), 40, 43.

⁹ Thomas D. Clark, *Pills, Petticoats, and Plows: The Southern Country Store* (New York: Read Books, 1944).

¹⁰ Harold D. Woodman, *King Cotton and His Retainers: Financing and Marketing the Cotton Crop of the South 1800-1925* (Columbia, S.C.: University of South Carolina Press, 1990).

¹¹ James H. Shideler, *The Farm Crisis, 1919-1923*, 2022 edition (Los Angeles, CA: University of California Press), 34; Lauren Soth, "Henry Wallace and the Farm Crisis of the 1920s and 1930s," *Annals of Iowa* Vol. 47, No. 2 (1983): 197.

farmers believed enriched the core at the South's expense. The South's response was to aggressively wage political campaigns to shape the market environment according to their preferences. Of these, no battle was waged more intensely than the one over a protective tariff.

The Tariff Wars:

Between the end of Reconstruction and the mid-1920s, the tariff question divided Republicans from Democrats, with few exceptions. Republicans generally supported a protective tariff, while Democrats preferred a tariff "for revenue only." The Democrats' power base in the South influenced their preference for a low tariff, as the region's peripheral economy heavily relied on exports. Except for small pockets of industry, southern Louisiana and central Florida sugar production, and a few zones of specialty crop production, the section was economically defined by its tobacco and cotton production for export. While tobacco was grown in Virginia, Kentucky, and North Carolina, cotton was grown across the South. In 1925, 62% of the American crop was exported despite the mature status of the northern and southern domestic textile industries.¹² Thus, American tariffs to protect manufacturing directly threatened Southern cotton farmers. Tariffs raised the price of the goods cotton farmers purchased while making it harder to export, as export markets retaliated against American manufacturing tariffs by imposing tariffs on cotton. Thus, while Republicans endorsed protection to benefit manufacturers who sought to sell domestically, Democrats rejected it on behalf of their constituents who needed access to foreign markets.

¹² A.B. Cox, "Recent Changes in Marketing American Cotton in Europe," *The Southwestern Political and Social Science Quarterly* Vol. 7, No. 2 (September 1926):162.

Whenever a party took control of Congress and the White House in this period, one of their earliest orders of business was to revise the tariff in their favor. For instance, when Democrat Grover Cleveland lost to Republican Benjamin Harrison in the 1888 election, the new Republican Congress would pass the 1890 McKinley Tariff to drastically increase tariff schedules. When Harrison lost in 1892, and Grover Cleveland returned to the White House with a Democratic Congress, the new Congress passed the Wilson Tariff to reduce the tariff schedule again. After winning the 1896 election, the new Republican majorities increased the tariff schedules again through the Dingley Tariff. These schedules would remain in place, although revised horizontally by the Republican Payne-Aldrich Tariff in 1908, until the massive Democratic Victory in 1912 allowed the Democratic Congress to reduce tariffs again through the Underwood-Simmons Tariff. Republicans, returning to power in 1920, increased tariffs through the Fordney-McCumber Tariff Act and then, in 1930, even higher with the Smoot-Hawley Tariff Act. This ping-ponging of the tariff meant that export market access was tied to temporary Democratic political victories.

Southern Political Theory:

The desire to effectively produce and export large volumes of cotton inspired the two distinctive aspects of white Southern political thought in this period: the pursuit of open trade and the power to impose a racial caste system. Low tariffs and a racial caste system that exploited Black southerners' labor were separate practical policy solutions to the problem of raising a labor-intensive crop for export. When Southerners attempted to combine this venality into a coherent philosophy, the result was one reminiscent of anti-imperial elite philosophies around the world. It reinforced the Southern elite's internal power while complaining about the

perceived despotism of the metropole, which in this case was a politically powerful Northeast that had used the South's exile from leadership following the Civil War to create an internal American political economy to its own benefit at the South's expense.

John C. Calhoun, an antebellum Vice President and Senator from South Carolina, was the postbellum South's favorite political theorist. He was the first Southern public intellectual to emerge after Northern industrialization had begun, which created a clear divergence between Northern and Southern economic interests. Calhoun was one of the Southerners who appreciated that this divergence in interests would lead to a political contest over economic policies, and the South might be the weaker section. His philosophy, including his support for free trade and slavery, was from the perspective of someone with a minority stake in the Union. He defended slavery as a tool of liberty. He argued that despotism resulted from unfettered democracy, where the money power and lower classes combined. To Calhoun, a society where classes were not competing, such as a slave society, was a better guarantor of liberty. Calhoun was recorded as saying, "In fact, the defense of human liberty against the aggressions of despotic power had been always the most efficient in States where domestic slavery was found to prevail. He did not admit it to be an evil. Not at all. It was a good—a great good."¹³ Postbellum Southerners adopted aspects of this perspective to justify Jim Crow partly as a purer form of democracy and one free of moneyed influence emanating from the North.¹⁴

His free-trade perspective was similarly anti-Northern. In his posthumously published 1851 *Disquisition on Government*, Calhoun argued that the process of taxation necessarily divided "...the community into two great classes; one consisting of those who, in reality, pay the

¹³ Ross Lence (ed.), *Union and Liberty: The Political Thought and Philosophy of John C. Calhoun* (Indianapolis, IN: Liberty Fund, 1992), "Speech on the Reception of Abolition Petitions," February 6th, 1937.

¹⁴ C. Vann Woodward, *The Strange Career of Jim Crow*, 2nd Ed. (New York: Oxford University Press), 82-93.

taxes, and, of course, bear exclusively the burden of funding the government; and the other, of those who are the recipients of those proceeds, through disbursements, and who are, in fact, supported by the government; or in fewer words to divide it into tax payers and tax consumers.”¹⁵ Most national government revenues were raised by impost until the 1913 passage of the Income Tax Act.¹⁶ Southerners understood that as an export-dependent section that manufactured little, they bore the burden of American taxation. Thus, the distinctive political positions of the American South in this period were anti-Northern, stemming from their belief that Northern economic interests exploited their political influence to undermine and resist Southern economic and political power. Some, however, went further. Although they initially supported a low tariff because of the South’s financial needs, these few would transcend this parochial motivation and become some of the first liberal internationalists.

Southern liberal internationalism more closely resembled classical liberalism than the Calhounite perspective. However, unlike the prominent nineteenth-century classical liberals like Robert Peel, Richard Cobden, and William Graham Sumner, these Southern liberals emerged from an impoverished, subordinated periphery. Thus, their version of liberalism was a blend of the defeated white South’s purported sympathy for self-determination and the agrarian principles prevalent in parts of the region, including skepticism of the gold standard and a willingness to establish public institutions to balance interests and promote social and economic advancement. While similar in form, these principles differed from the better-known Manchester school of classical liberalism, which emphasized currency stability and laissez-faire economics. The

¹⁵ John C. Calhoun, *Disquisitions on Government*, 1851, 21.

¹⁶ Catherine E. Rudder, “The House Committee on Ways and Means,” in *Encyclopedia of the American Legislative System*, ed. Joel H. Silbey (New York: Scribner and Sons, 1994): 1036.

Manchester approach might seem sensible in a credit center but not in a credit-scarce periphery. The most consequential Southern internationalist was Cordell Hull.

The Making of Cordell Hull and American Trade Policy:

Cordell Hull, in his memoirs, admitted to telling State Department employees upon embarking on his new position, “I sometimes think that I would have given all the wealth of this Great Hemisphere – and I am no less patriotic than any of you - if I could have been one of that little band that went out to the field of Runnymede in 1215 and extracted from King John that wonderful collection of human liberties known as Magna Carta. After liberty had been banished from the world for a thousand years, I repeat, if I could have had the privilege of being part of the band that thus took the first step back toward human freedom – the first step in that five-hundred year struggle for Anglo-Saxon liberty – I would have parted with all the wealth of the western hemisphere. And I want to see some of that same spirit that finally culminated in our own country in the Revolution and the structure of our free government revived.”¹⁷ Hull was a true believer, almost a liberal fanatic, and he would be the man who led the return of open trade after it had been banished from the world. He accelerated the slow and agonizing shift in American foreign policy towards commercial freedom that began with John Hay’s “Open Door Notes,” retreated with Roosevelt’s corollary to the Monroe Doctrine and Taft’s dollar diplomacy, recovered with Woodrow Wilson’s later activism, and then advanced more surely with Charles Evans Hughes’ commercial treaties. Hull would cement America’s commitment to what the Wisconsin School called the “Open Door:” a commitment to unconditional Most-Favored-

¹⁷ Cordell Hull, *Memoirs*, Vol. 1 (New York: MacMillan and Company, 1948), 175.

Nation, multilateral trade agreements, national treatment, international institutions, and self-determination.¹⁸ It is worth noting that international legal scholars define “open door” far more narrowly than the Wisconsin School does. In international law, the “Open Door” principle means that every nation receives equal treatment in colonial possessions.¹⁹

Cordell Hull was born in 1871 in the backwoods hills of eastern Tennessee. His father, a Confederate Veteran who traveled hundreds of miles alone to avenge being shot by a “Yankee Guerilla,” made most of his money cutting and selling timber along the Obed and Cumberland Rivers. The family lived in a section consumed by politics, where families continued to be divided along Union and Confederate lines until the end of the nineteenth century. Hull claimed that most of the section’s conversations revolved around politics and shaped his thinking, “The big vital questions of Government came under discussion before, during, and for long years after the Civil War. Many old soldiers knew as much about government as high government officials and college instructors.” He claimed that these old soldiers infused him with “...the doctrine and spirit of individual liberty and freedom...”²⁰ Hull began his political career by delivering stump speeches for Grover Cleveland during the 1888 campaign at the age of 16, during which he argued against the tariff. Hull believed “that campaign has a place in my story because I became even more impressed than before with the importance of the tariff question.”²¹

While Hull’s earnest Tennessee speeches would not be enough to lift the Cleveland forces to victory, the Harrison Administration did not completely abandon the idea of open trade.

¹⁸ This is not to suggest that all of this was perfectly achieved. American Governments have been perfectly willing to backslide on these ideals when it was in their best-interest.

¹⁹ William S. Culbertson, *International Economic Policies: A Survey of the Economics of Diplomacy* (New York: D. Appleton and Company, 1925), 266.

²⁰ Hull, 16,17.

²¹ Hull, 22.

Although they passed a new tariff bill, the McKinley Tariff, in 1890, they inserted a provision that allowed the Executive Branch to negotiate and confirm reciprocity agreements with other governments on a “Conditional Most Favored Nation” basis, at the initiative of Harrison and Secretary of State James Blaine.²² This meant that the Administration could grant another country preferential treatment on imports into the American market if the other country reciprocated by giving the United States preferential treatment into their market. Historian William Appleman Williams argued that the provision was to effect a compromise between the Republican Party’s eastern and western wings.²³ By 1888, Western farm Republicans had become increasingly export-dependent and were growing nervous about tariffs. This emerging wing of the Party would soon become known as the Silver Wing, and some would later split to join the Democrats in 1896. Blaine understood that the old base of the party in the East and Midwest still expected a tariff, but he had to appease the emerging Western wing. Accordingly, he devised a tool to break open international markets for Republican grain and livestock farmers without constant Congressional supervision. He would use this authority to sign dozens of treaties during the next two years.²⁴ This flurry of Reciprocal Trade Treaties resembled Hull’s later work under Franklin Roosevelt.

By the 1896 election, Hull was an established lawyer. He entered politics at the age of twenty-one, pulling off a significant upset in a nomination contest against an established and popular State Legislator. Although not a dogmatic agrarian, he campaigned with William Jennings Bryan in 1896 against the northeastern wing of the Party’s embrace of the Gold

²² William Appleman Williams, *The Roots of the Modern American Empire: A Study of the Growth and Shaping of Social Consciousness in a Marketplace Society* (New York: Random House, 1969), 246.

²³ Williams, *The Roots of the Modern American Empire: A Study of the Growth and Shaping of Social Consciousness in a Marketplace Society*, 332.

²⁴ Williams, *The Roots of the Modern American Empire: A Study of the Growth and Shaping of Social Consciousness in a Marketplace Society*, 332.

Standard. His intellectual formation took shape in this period, as his engagement with the tariff led him to "...familiarize (himself) with the liberal political teachings of Coke, Milton and Locke, Pitt and Burke, and then Gladstone." He also read Jefferson and studied government "...from the Aachen League and the Athenian Democracy to the present." By the late 1890s, he labeled himself a "Gladstone liberal" and afterward "...a Jeffersonian..."²⁵

In his 1906 maiden speech as a Congressman, he connected the existence of trusts, which President Teddy Roosevelt appeared to sincerely oppose, and the Roosevelt Administration's continued support for the tariff, "Under the fostering and protecting wing of the Dingley Law (the tariff) a dozen trust violators spring into existence even while the President is effervescing and threatening to prosecute one. Yes, the President loudly inveighs against the trust evils – the evils of the protective tariff which he champions."²⁶ His first significant policy battle would be for the income tax against the prevailing system of government revenue accruing through "...customs duties on imports and excise taxes on whiskey and tobacco."²⁷ The passage of the 16th Amendment and the subsequent 1913 Income Tax Act ensured that the burden of financing the government would fall on each section, not merely on those who came from sections that relied on exports and imports.

During the First World War, Hull claims to have concluded that increased cooperative trade was the key to peace among nations. His perspective on the matter, as quoted in his *Memoirs*, deserves to be fully quoted: "Then, for the first time, I openly enlarged my views on trade and tariffs from the national to the international theater. Hitherto I had fought hard for lower tariffs, largely because of their immediate domestic effect. I believed that higher tariffs

²⁵ Hull, 37.

²⁶ Hull, 52.

²⁷ Hull, 49.

meant a higher cost of living for American citizens. They assisted in building up monopolies and trusts. By cutting down the sales by other countries to us, they also cut down the purchases by other countries from us. But towards 1916 I embraced the philosophy that...unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war. Though realizing many other factors were involved, I reasoned that, if we could get a freer flow of trade – freer in the sense of fewer discriminations and obstructions- so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for lasting peace.”²⁸

In a wartime speech, Hull claimed, “If I were President of the United States...I should at a later and suitable date, propose to the governments of all commercial nations that, at the close of the present European war an international trade conference be held in the city of Washington for the purpose of establishing a permanent international trade congress.” He hoped that Congress would consider “...all international trade methods, practices, and policies which in their effects are calculated to create destructive commercial controversies or bitter economic wars, and to formulate agreements with respect thereto, designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare, and to promote fair and friendly trade relations among all the nations of the world.”²⁹ Hull claimed that his idea, as articulated above, inspired Woodrow Wilson’s third of the Fourteen Points, which insisted that an Allied commitment to freedom of commerce would protect against future wars. Hull carried this idea into his tenure as Secretary of State. It would form the basis of the fourth article of the

²⁸ Hull, 81.

²⁹ Hull, 82.

Atlantic Charter, and the Truman Administration would carry it through to the failed creation of the International Trade Organization (ITO) and the consolation prize of the GATT.

This was Hull the Southern liberal internationalist, no mere Southern Democrat. Whereas most Southern Democrats opposed the tariffs for sectional reasons, Hull became cosmopolitan. In many ways, he was the first Southern Democrat to offer a coherent sectional philosophy that could overcome Calhoun's elitist one. Whereas Calhoun sought to protect established elites, Hull recognized that institutions were necessary to balance interests in peripheral regions, enabling them to defend themselves. While in 1908 Hull parochially asserted that tariffs led to corrupt trusts; by 1916, he had become a cosmopolitan, arguing that tariffs caused international war. Twenty-five years later, he would be joined by much of the world.

As Woodrow Wilson explained in a letter to Democratic Senator Gilbert Hitchcock of Nebraska, his third point "...leaves every nation free to determine its own economic destiny, except in the one particular that its policy must be the same for all other nations, and not be compounded of hostile discriminations between one nation and another."³⁰ From a specific legal perspective, the Third Point insisted that nations adopt the *unconditional* Most Favored Nation (MFN) as the basis of a postwar trade treaty. Unlike the conditional MFN James Blaine pursued under Benjamin Harrison, the unconditional variety ensures that any concession granted in a trade agreement to one country was immediately bestowed upon all. This principle prevents countries from competing to gain leverage in trade negotiations. Wilson intended for the unconditional MFN to be paired with the "national treatment" principle, which meant that a country could not discriminate within its borders against citizens, firms, or goods from other

³⁰ Culbertson, 295.

nations. Neither unconditional MFN nor national treatment was particularly radical, even though the United States had heretofore preferred conditional to unconditional MFN; however, Wilson's fifth point was. The fifth point promoted self-determination, "A free, open-minded, and absolutely impartial adjustment of all colonial claims, based upon a strict observance of the principle that in determining all such questions of sovereignty the interests of the populations concerned must have equal weight with the equitable claims of the government whose title is to be determined."³¹ These were the key aspects of Southern liberal internationalism: the adoption of unconditional Most-Favored-Nation (MFN) treatment, national treatment, general self-determination, and the establishment of international institutions to adjudicate disputes that were bound to arise.

Wilson's failure to achieve the just peace he sought at Versailles, America's refusal to join the League of Nations, and the harsh terms imposed by the Allies on Germany meant that most did not learn the same lessons from the war that Hull did. However, all was not lost for those who had hoped the First World War's end would usher in a fairer world of cooperative trade. The new Republican Administration adopted some of Hull's principles, even though it was eager to reimpose a protective tariff. Like Blaine and the McKinley tariff, the distinguished Secretary of State Charles Evans Hughes of New York convinced Congress to insert a provision in the 1922 tariff law to allow the administration to pursue trade treaties. However, unlike Blaine and Harrison, who inserted a provision allowing conditional MFN treaties, Hughes and President Warren Harding were empowered to sign treaties with unconditional Most Favored Nation provisions.³² Hughes used this authority to sign significant trade treaties with Brazil and

³¹ Woodrow Wilson, *Address to Congress*, January 8th, 1918, National Archives Website: [President Woodrow Wilson's 14 Points \(1918\) | National Archives](#). First accessed on February 18th, 2025.

³² Culbertson, 142.

Germany.³³ The treaties guaranteed national treatment in both countries and clarified that the tariff reductions were not intended solely for the two parties. It would apply to everyone. At the signing ceremony of the Brazil treaty, Hughes claimed, “The principles of American Foreign Policy are simple and readily stated. We do not covet any territory anywhere on God’s green earth. We are not seeking a sphere of special economic influence and endeavoring to control others for our own aggrandizement. We wish to protect the just and equal rights of Americans everywhere in the world. We wish to maintain equality of commercial opportunity; as we call it ‘the open door.’”³⁴ The 1925 commercial treaty with Germany would include the same provisions. Thus, although Hughes’ demand that countries worldwide recognize Americans’ rights was less ambitious than Wilson’s and Hull’s global vision, Hughes established that the United States would not backslide into the sort of conditional MFN that characterized traditional Republican practice.

However, while the Republican Party was newly committed to the unconditional Most Favored Nation provision, the Democratic Party began rapidly backsliding on its commitment to low tariffs in the latter 1920s. During a decade-long crisis across the periphery, grain-growing Republicans offered cotton growers a life raft with a protective tariff. While initially skeptical, many Southern Democrats eventually endorsed it. This created an opening that allowed urban Democrats to take control of the Party and pursue a high-tariff agenda for themselves.

Low cotton prices throughout the 1920s eventually shattered the traditional Democratic support for a low tariff. In 1924, the Democratic Election Platform reinforced its usual tariff position by denouncing “the Republican tariff laws which are written, in great part, in aid of

³³ Culbertson, 266.

³⁴ Culbertson, 265.

monopolies and thus prevent that reasonable exchange of commodities which would enable foreign countries to buy our surplus agricultural and manufactured products with resultant profit to the toilers and producers of America.” Furthermore, the platform argued that “Trade interchange, on the basis of reciprocal advantages to the countries participating is a time-honored doctrine of democratic faith.”³⁵ By 1928, however, Democratic Presidential Candidate and New York Governor Al Smith campaigned on a protective tariff that would encourage “...legitimate business and a high standard of living for American labor.”³⁶ He only distinguished it from Republican tariffs by declaring that the Democratic tariff would ensure the “equitable distribution of the benefits and burdens of the tariff among all,” as opposed to merely by the many for the few.³⁷

Agrarian Democrats, even Southern ones, were seduced by the siren song of protection through later versions of the McNary-Haugen Bill, which sought to equalize the periphery and the core through massive state intervention. Initially pushed in 1924 by former President of the Moline Tractor Company George N. Peek, the bill would have established a corporation to purchase farm surplus commodities at a set price. The Government was then empowered to impose duties on those agricultural products to ensure that foreign goods were sold at an artificially inflated domestic price, while the Corporation would sell its purchased surpluses abroad at the global price. As economist John D. Black explained, “McNary-Hauganism represents an alignment, running crosswise of established party lines, which more deeply

³⁵ 1924 Democratic Party Election Platform, June 19th, 1924, The American Presidency Project, [1924 Democratic Party Platform | The American Presidency Project](#). First accessed January 18th, 2025.

³⁶ 1928 Democratic Party Election Platform, June 26th, 1928, The American Presidency Project, [1928 Democratic Party Platform | The American Presidency Project](#). First accessed January 18th, 2025.

³⁷ 1928 Democratic Party Election Platform, June 26th, 1928, The American Presidency Project, [1928 Democratic Party Platform | The American Presidency Project](#). First accessed January 18th, 2025.

disrupts these lines than anything since populism.”³⁸ Black called McNary-Haugen “agriculture’s last stand against the domination of its affairs and the affairs of the country by the commercial and industrial interests.”³⁹ Western Democrats eagerly aligned with their Western progressive Republican counterparts in 1924 and abandoned the traditional Democratic anti-protective stance. However, the bill was defeated that year, which future Vice-President Henry A. Wallace vividly described as being “...enthusiastically beaten over the head and dragged out the door of Congress by eastern Republicans and southern Democrats,” the southern Democratic opposition being attributed by Wallace to the understanding that “support there would have implied a recognition of the protective principle...”⁴⁰ However, the bill would return three more times, and the South would, as it were, come around.

The 1926 cotton crop explains why the South got wobbly on the tariff. Cotton cooperatives were starting to become significant market participants, and the size of the 1926 crop concerned the cooperatives because, as Black explained, “Handling only about 10 percent of the crop, they knew that any holding which they might do would benefit non-members more than it would benefit themselves and might easily wreck their organizations. Some system by which all the cotton growers must participate in the holding and share the gains and losses had come to have a strong appeal to them.”⁴¹ By 1926, the revised McNary-Haugen Plan had incorporated a cooperative marketing plan. This Bill would also be defeated in Congress, but it did pick up some support from Southern Representatives. The 1927 version specifically targeted Representatives from cotton districts for a grand encirclement of manufacturing interests. Its

³⁸ John D. Black, “The McNary-Haugen Movement,” *The American Economic Review* 18, No. 3 (September, 1929): 404.

³⁹ Black, 405.

⁴⁰ Henry A. Wallace, “East and South Kill Farm Relief,” *Wallace’s Farmer*, June 13th, 1924, 1. First Accessed through the University of Illinois Digital Library February 11th, 2025.

⁴¹ Black, 407-409.

authors included an equalization fee on cotton with which to "...finance the holding of large crops of cotton...and by providing for loans to cooperatives for purchase and construction of storage facilities."⁴² This was a bill that allowed Southern Democrats to abandon their free-trade principles. Among Mississippi Congressmen, for instance, while none voted for the 1924 version, all except one abstainer voted for it in 1927. However, Cordell Hull voted against it every time and was the only member of the Tennessee delegation to vote against it in 1928.⁴³ The bill was passed twice, in 1927 and 1928, but was vetoed each time by President Calvin Coolidge.

The general endorsement of the protective principle among Southern Democrats meant that the 1928 Al Smith campaign could craft a high-tariff platform without too much consternation from the party. Although he supported the ticket, Hull frequently agitated against the tariffs "...in numerous conferences with leading Democrats, including Governor Smith's Campaign Manager Judge Joseph M. Proskauer, but to no avail."⁴⁴ Hull argued at the time that "the true and logical position of the Democratic Party should be tariff revision downward...coupled with liberal commercial policies calculated constantly to increase our export trade."⁴⁵ Smith struggled more than any other contemporary national Democrat in the South. His support for tariffs made him difficult to distinguish from the Republican Herbert Hoover, who, unlike Smith, was a Protestant dry with rural sensibilities. Many Southerners voted for Hoover, and he carried more Southern states between Reconstruction and Dwight Eisenhower's presidency than any other Republican candidate. Thus, by 1928, there was no low-tariff party; only a Democratic rump of true believers remained, such as Cordell Hull.

⁴² Black, 410.

⁴³ Black, 410.

⁴⁴ Hull, 130.

⁴⁵ Hull, 131.

The Southern Democratic decision to support McNary-Haugen and willingness to tolerate Smith's tariff meant that mainstream Southern Democrats had abandoned any philosophical opposition to protection by 1928. This signaled to high-tariff Republicans that the market for more tariffs was open. Thus, when the Hoover Administration pressed ahead with plans to increase the tariff on farm products in 1929, the entire process was more vulnerable to logrolling than it had ever been in earlier tariff bills, and many succumbed to the temptation of seeking protection for their region's products. Without the Democrats nationally united in opposition to protection, it became a district-level bonanza. Tariff politics became a game of musical chairs, with only enough seats as were necessary to pass the legislation. Accordingly, while some Southerners appreciated the resulting protective duties on textiles, specialized crops like rice, and petroleum in Texas and Oklahoma, cotton was left on the outside looking in.⁴⁶ By abandoning their principled opposition to protective tariffs in the McNary-Haugen bill, the party had no principles to stand on when the supporters of the Smoot-Hawley Tariff pushed through a tariff bill that was all cost and no benefit to Southern cotton growers.

Most Southern Democrats could only complain about being excluded rather than about the notion of protection itself. John Nance Garner of Texas explained the position of most Southern Democrats, now that they had abandoned their free trading ways, "I believe in the principle of protection," Garner claimed, "But I believe protection should be equally distributed; that the farmers of the South and West are as much entitled to the benefits of tariff protection as

⁴⁶ Charles Dollar, "The South and the Fordney-McCumber Tariff: A Study in Regional Politics," *The Journal of Southern History* Vol. 30, No. 1 (Feb., 1973): 45-62, argues that the Fordney-McCumber Tariff marked the beginning of southerners' support for protection. This is an interesting study, and it does show that Southerners were not all knee-jerk anti-tariff, but its cluster analysis treats committee votes and final roll-call votes equally. This is a mistake because a southern Senator might decide, in committee, to vote for an amendment that puts duties on a locally important good into the overall tariff bill to ensure that, if the bill does pass, people in his state are protected. You could still oppose the overall bill, which all but one Southern Senator did on Fordney-McCumber, while trying to help your state.

the manufacturers of New England and Pennsylvania.”⁴⁷ Southern Democrats no longer had a different vision for the American political economy, as they had for much of the previous generation, but merely wanted a seat at the table.

The exception was Hull, who would author the Ways and Means Committee’s minority report, arguing that the Smoot-Hawley Bill should not be delivered to the House. Hull signed it alone, worrying that “the Democrats would split so widely...” if he attempted to find other signers.⁴⁸ His report argued that American “...productive capacity is 25% in excess of our ability to consume.” He warned that, if other countries retaliated against us and cut us off from foreign markets, it would be catastrophic. “If American plants today were unloosed at full production capacity, they would flood all domestic markets within ninety days, and many artificial parts of our economic structure would topple and fall.”⁴⁹ He concluded that it was his “...individual view that these glaring facts and conditions soon will compel America to realize that these ever-increasing surpluses are her key economic problems, and that our neglect to develop foreign markets for surpluses is the one outstanding cause for unemployment.”⁵⁰

As Hull predicted, adopting the Smoot-Hawley tariff had significant international consequences. In June of 1930, the French Chamber of Deputies deemed “...it necessary to adopt French customs duties, as applied to American products, to the regime to which will be submitted French exports to America, and requests the Government to intervene immediately with the President of the United States to obtain such decrease in American customs duties necessary to the maintenance of French exports.” Furthermore, the French threatened that “...in

⁴⁷ Douglas A. Irwin, *Clashing Over Commerce* (Chicago: University of Chicago Press, 2017), 377.

⁴⁸ Hull, 132.

⁴⁹ Hull, 133.

⁵⁰ Hull, 133.

event that such intervention remains without result...” the Chamber of Deputies would insist upon “...suppression of the clause now granting most-favored nation treatment to the United States, deeming it illogical that the United States should benefit by such treatment without the slightest reciprocity such as consented by other nations.”⁵¹ The French were joined by several other nations as the trading environment of the Great Depression began to slam shut.

Happy Days Are Here Again:

As the 1932 election loomed, now-Senator Hull was dismayed at the likelihood of another Al Smith candidacy. While holding, “...the highest regard for Smith...”, he differed from Smith “...on several questions, especially tariff and commercial policy.” Hull worried that while Smith intelligently and earnestly articulated a policy of international cooperation, it was negated by “support for high-tariffs and the economic isolation that went along with it.”⁵² Hull would spend 1932 quietly championing another New Yorker, now-Governor Franklin D. Roosevelt, who he believed agreed with him on “...the necessity for lower tariffs and full cooperation with other nations...” to be the Democratic nominee as opposed to Al Smith.⁵³

The 1932 Chicago Democratic Convention would be tumultuous, as two wings of the Party emerged over the issues of the tariff and prohibition. Both the two leading candidates were cosmopolitans from New York, but Roosevelt had the support of the periphery while Smith’s support came from the core. Surprisingly, given the depths of the depression by 1932, the most significant policy debate was over the degree of support the platform should give to repealing

⁵¹ Cong. Rec., 71st Cong., 2nd sess., 1930 – Senate, Friday, June 20th, 1930, 1127.

⁵² Hull, 140.

⁵³ Hull, 140.

prohibition. The Ultra-Wets, led by Smith's forces, wanted straight-out repeal in the platform, while Hull led the moderate prohibitionists who wanted it to be a state-by-state issue. Hull was in the minority and was "booed when he championed the prohibition cause" from the rostrum.⁵⁴ Although Hull lost on prohibition, he succeeded in inserting a "tariff for revenue" only clause in the platform.⁵⁵ His selection as Roosevelt's Secretary of State indicates how much influence his tireless campaigning on behalf of Roosevelt had bought him with the incoming Administration.

American foreign policy is rarely at the forefront of American voters' minds, and in 1933, it was distinctly low on the priority list. Thus, Secretaries of State usually both benefit and suffer from a sort of benign neglect from the American voter, despite Secretaries of State often being the most prominent person in an Administration aside from the President. Regardless of their notoriety, most of the time they can operate with relative freedom of action because they are not being scrutinized closely by the electorate, especially when it comes to commercial treaties. Thus, becoming Secretary of State in 1933, when the country was engulfed in its worst economic crisis, must have been odd. Who cares about naval treaties when people are starving? As evidence of this, at a Brooklyn Brownstone in 1933, while paying a visit to the President-elect, future southern Secretaries of State Cordell Hull and James Byrnes were confronted with a gang of communist factory workers who shrieked at them, "When do we eat? We want action!"⁵⁶

Things were arguably worse for cotton farmers than they were for factory workers. The scale of depression in the countryside is explored in Chapter 1, but it is worth introducing here. According to contemporary economist Edward T. Pickard, "The value of the cotton crop is the

⁵⁴ W.A. Warn, "Democrats Pledge Party to Repeal of the Dry Law...", *The New York Times*, Thursday, June 30th, 1932, 1.

⁵⁵ Charles R. Michael, "Platform Demands Tariff For Revenue," *New York Times*, Thursday, June 30th, 1932, 1.

⁵⁶ Arthur Schlesinger, Jr., *The Crisis of the Old Order, 1919-1933* (New York: Houghton Mifflin, 1957), 4.

major determining factor in the purchasing power of the people of the Southern States.”⁵⁷ By June of 1932, cotton had dropped to 5 cents per pound in the critical New Orleans spot market. In contrast, eight years earlier, it was trading at 26 cents per pound.⁵⁸ The result was that, by 1934, “the total value of lint (and cottonseed) produced amounted to \$767,772,000...” whereas “in 1928 the combined value of lint and seed was \$1,529,000,000.”⁵⁹ The result was extreme poverty. Although many blamed farmers for their own misfortunes, suggesting that their unwillingness to curtail production was the problem, Hull-ally and Vice-President of the most prominent cotton merchant in the world, Anderson-Clayton Co., William Clayton of Texas, disagreed. In a 1931 article, Clayton suggested, “Before condemning the farmer for producing too much and seeking means of forcing him to curtail, let us carefully examine the highways of international trade to see if the trouble may not be due to obstacles there in the way of a free exchange of goods.” Clayton continued, “Instead of serving an injunction on nature to ‘cease and desist’ from bringing forth her bounties, is it not wise to seek the reason for inability to keep commodities moving in the customary processes of exchange? Why should there be great unmarketable surpluses of wheat and cotton, etc, when many millions of the world’s population are cold and hungry?”⁶⁰ Clayton argued this was because the U.S., in displacing the UK as the “world’s chief banker,” acted with “...gross and stupid incompetence.” He castigated American politicians for not recognizing “...that our new responsibilities placed us in the position of requiring payments from the rest of the world, not only for the goods which we were still expecting them to buy from us – cotton, wheat, automobiles, radios, etc., etc., but in addition that

⁵⁷ Edward T. Pickard, “Current Trends in the Cotton Industry,” *Survey of Current Business*, June 1935, 16.

⁵⁸ Pickard, 17.

⁵⁹ Pickard, 16.

⁶⁰ Frederick J. Dobney, ed., “A Statement on War Debts and Tariffs,” *Selected Papers of William Clayton*, (Baltimore, MD: Johns Hopkins University Press, 1971), 27.

we should have to receive heavy annual payments as interest and amortization on the vast sums of money which we had loaned abroad. We should have known that these payments could only be made in goods.”⁶¹ In an earlier article, Clayton laid out the position of the foreign debtor once the United States curtailed its foreign credit program in the late 1920s, “He is thus in this situation: either he must buy less from us for lack of cash to pay with, or else he must sell us something in exchange for our goods. Congress answers him on this point with a tariff bill which raises barriers against the goods that he might sell us so high as virtually to say, ‘Thou shalt not pay.’”⁶²

Like Cordell Hull, William Clayton was skeptical of any scheme to use tariffs to protect agriculture. He understood the “cotton problem” to be the farmer spending “the proceeds of his unprotected labor for the products of protected industry,” while “his unprotected proceeds command less of these protected products.”⁶³ Clayton clarified the domestic political stakes: “The cotton producer is not asking for protection against foreign competition, but he should demand and receive protection against his exploitation by the capital and labor of other American industries.”⁶⁴ Clayton believed that the only long-term choice was “...the abolition of protective tariffs, so that all exchanges of goods and services will be made on the basis of real values, as opposed to fictitious or ‘protected values.’ Only in this way can the world’s fastest growing population maintain itself.”⁶⁵ Clayton would have the chance to pursue such a long-term plan when he transferred into Government and eventually the State Department during the war. He, a former powerful cotton magnate, would negotiate the Anglo-American Loan, the General

⁶¹ Dobney, “A Statement on War Debts and Tariffs,” 28.

⁶² Dobney, “A Statement on the Problems of the Cotton Farmer,” 23.

⁶³ Dobney, “A Statement on the Problems of the Cotton Farmer,” 25.

⁶⁴ Dobney, “A Statement on the Problems of the Cotton Farmer,” 25.

⁶⁵ Dobney, “A Statement on the Problems of the Cotton Farmer,” 25.

Agreement on Tariffs and Trade, the International Trade Organization, and the Marshall Plan. In 1932, however, he withheld support from Roosevelt and the Democrats until he was confident they would pursue tariff reduction. The appointment of Hull as Secretary of State would go a long way towards convincing him that they were.

Cordell Hull was appointed Secretary of State at a time when, in his words, “the world is in a state of bitter economic war.”⁶⁶ Michael Butler at the College of William and Mary, a former senior State Department official and biographer of Hull, argued that Hull was the only Secretary of State of his era who “thought like an economist, rather than a lawyer.”⁶⁷ Meanwhile, the *New York Times* presented him as a “student of international economics.”⁶⁸ Hull, when laying out his agenda, argued that relieving conditions depended on “reciprocal commercial trade treaties based on mutual tariff concessions and, as nearly as possible, the unconditional favored-nation policy if other governments will agree, would greatly supplement the usual legislative method of tariff readjustment.”⁶⁹ However, he did not initially have the full support of the Roosevelt Administration, which Republican Senator Hiram Johnson of California attributed to him having “more delusions concerning the world than a dog has fleas.”⁷⁰ Roosevelt had cobbled together a delicate coalition and was unwilling to sacrifice it with a full-throated defense of low tariffs. One of Hull’s key obstacles was the younger, northern-based intellectuals, often referred to as the “brain trust,” who believed that protection and controls were necessary for recovery. One of these “brain-trust” advisors, Columbia University Professor Raymond Moley, had been a key voice in the Roosevelt campaign on international trade and had encouraged Roosevelt to avoid

⁶⁶ Bertram D. Hulen, “The Man Who Sits at Roosevelt’s Right,” *New York Times Magazine*, April 9, 1933, 7.

⁶⁷ Author’s Conversation with Dr. Michael Butler, March 3, 2025.

⁶⁸ Hulen, 7.

⁶⁹ Hulen, 7.

⁷⁰ Irwin, 422.

any downward revision of the tariff. As was typical with Roosevelt, he demurred and let his advisors fight it out amongst themselves, which Hull would eventually win. Moley would be shuffled aside by 1934.⁷¹

By 1934, after New Deal economic control schemes had disappointing results, Roosevelt came around to Hull and sought trade negotiating authority from Congress for the Executive. Douglas Irwin explains the legislation as follows: “The Roosevelt administration would have the authority to reduce import duties by up to 50 percent in trade agreements with other countries. These tariff reductions could be implemented by executive order and would not need congressional approval....(and) would apply to imports from all countries through the unconditional Most-Favored-Nation clause.”⁷² The Reciprocal Trade Agreement Act (RTAA) of 1934, which granted the executive more authority for commercial treaty negotiation than any previous such bill, would have to be renewed by Congress every three years. One key distinction that worked in favor of the Administration was that, typically, a commercial treaty had to be approved by 2/3 of the Senate, but renewal of the RTAA would only require a simple majority. The Democratic majority in both houses ensured it passed. As evidence of the tenuousness of the low tariff victory, there was no attempt by the Democratic Congress to implement a broad downward revision of the tariff, as had occurred when they took the White House and Congress in 1913 and 1893. The Smoot-Hawley tariff schedule would remain in place, and Hull would rely on reciprocal treaties to bring them down.

Hull devised a “popgun” approach for obtaining reciprocal trade agreements, whereby he would negotiate a downward revision of specific American tariffs on issues that mattered most to

⁷¹ Michael A. Butler, *Cautious Visionary: Cordell Hull and Trade Reform, 1933-1937* (Kent, OH: Kent State University Press, 1998), 15-45.

⁷² Irwin, 425.

the counterparty in return for access to their market for goods that Americans cared about the most. Through the RTAA's insistence that these treaties be unconditional MFN, all countries benefited from the newly dropped rates. However, countries were prevented from "free-riding" because the tariff reductions in American treaties with other nations likely did not affect the American import duties that non-signatories cared about the most. This incentivized countries to sign their own Reciprocal Trade Agreements instead of relying on others. It was a narrow approach that anticipated the later multilateral trade negotiations. Hull's approach was most vociferously criticized by George N. Peek, who had helped craft the McNary-Haugen Bill and would be a thorn in both Hull's and Agriculture Secretary Henry Wallace's sides during the first few years of the New Deal. As discussed in another chapter, Peek wanted the United States to avoid the unconditional Most Favored Nation and return to the "traditional American policy" of conditional reciprocity. Peek often derailed some of Hull's earlier efforts, but he would eventually overplay his hand and be shuffled out of the Administration like Moley.⁷³ Hull would spend the next decade single-mindedly signing these Reciprocal Trade Treaties, eventually signing 34 of them. Many of these were with Latin America, which became part of the broader "Good Neighbor Policy" that did so much to boost U.S. esteem in the region. The feather in the cap was supposed to be the British Treaty of 1938, but the negotiations were difficult, and the "tariff reductions were modest," according to Douglas Irwin.⁷⁴

The Reciprocal Trade Agreement Authority came up for renewal three times during Hull's tenure, and the South's support would be critical every time. One of the key witnesses in the hearings over the 1937 renewal was the American Cotton Shippers Association, while

⁷³ Butler, 97-119.

⁷⁴ Irwin, 439.

Southern Congressmen and Senators were almost unanimous in supporting the legislation and defeating amendments that would have weakened the President's authority. As the world tumbled into war in 1939, even Roosevelt began to think the Reciprocal Trade Program was futile given the geopolitical environment. Hull believed, however, that they were still vital because "only five percent [of the trade agreements program] is economic, while the other 95 percent is more or less political or psychological."⁷⁵ Despite some pressure to remove him, Hull held onto his job and when the 1940 renewal came up, the President offered him support. The House passed it largely along partisan lines, but the Senate battle was very close. Democrats, including those from western districts with mineral and beef interests, were opposed to renewal, along with most Republicans. Key Pittman (D-NV) proposed an amendment requiring a two-thirds Senate approval of all trade agreements, which only lost 44-41. The renewal was only carried 42-37, with 18 Democrats opposed. The Southern phalanx had been the difference for Hull, as every Senator from a cotton-growing state voted for it. Elizabeth Sanders claimed that giving specific elites credit for the reform movement was akin to saying that it was "...the sword that won Jerusalem, not Saladin's army."⁷⁶ In this case, Saladin's army was the Southern Congressmen and Senators.

Saladin's Army would come in handy again in the summer of 1945. Although more of a monetary agreement than a trade agreement, the 1944 Bretton Woods Treaty secured multilateral cooperation on a new exchange system and established two institutions to help govern global economic relations: The International Bank of Reconstruction and Development (IBRD), and the International Monetary Fund (IMF). The former offered loans to countries that needed to recover

⁷⁵ Irwin, 447.

⁷⁶ Sanders, 3.

from the war or were seeking loans for economic development, while the IMF was established to provide stability to the new exchange system and to offer liquidity to governments facing debt crises. While Hull was not present at Bretton Woods, he and Treasury Secretary Henry Morgenthau coordinated closely in establishing the American position, leading up to both the preliminary Atlantic City Conference with the United Kingdom and the main conference itself.⁷⁷ While the exchange rate system would lead to significant trouble, as the following chapters will explore, the IRDB and the IMF were significant victories for raw cotton exporters. Most countries were expected to develop a textile sector as part of their reconstruction or development plans, requiring raw cotton to feed their mills. The United States, as the world's largest supplier of cotton, was likely to be the primary source. Meanwhile, the IMF ensured governments were unlikely to default on their debts. This infused the postwar trading order with confidence, which meant that foreign firms and governments would be more willing to take on debt for raw material purchases. As the Bretton Woods Agreement was a treaty that fell outside of the RTAA, Congress had to approve it.

There were four key votes in the Senate regarding the approval of the Bretton Woods Agreement, three on amendments and one on the treaty itself. The three amendments were introduced by skeptical Republicans to either delay the passage of the Bill or to insert intolerable provisions. The first amendment, offered by nationalist Republican Robert Taft of Ohio, sought to delay voting on the bill until after the November elections, the second sought to demand that all adherents immediately remove any currency restrictions (an amendment that Britain never could have agreed to, a subject we will encounter in a subsequent chapter), and a third

⁷⁷ D.B. Woolner, "The Man Who Wasn't There: Cordell Hull, Bretton Woods, and GATT," in Giles Scott-Smith, and J. Simon Rofe (eds.) *Global Perspectives on the Bretton Woods Conference and the Post-War International Order* (New York: Palgrave-McMillan, 2017), 245-261.

amendment to more lightly enforce currency convertibility. The votes mainly fell along partisan lines, and since Democrats controlled the majority, they could resist any poison-pill amendments. However, the Democratic majority was a majority because of the solid South. Of the 47 Democrats in the Senate at the time, 26 represented the cotton periphery. And two of the Republicans who supported the bill were from Oklahoma and Missouri, states with regions within the cotton periphery. Only one southern Senator, Pappy O'Daniel of Texas, opposed it owing to his contempt for Roosevelt. On the closest vote, on Taft's first amendment, 22 of the 53 nay votes came from southern cotton senators, which provided the margin of victory.⁷⁸ Thus, while the United States might have voted to pass Bretton Woods without the monolithic support of the cotton periphery, the cotton periphery ensured its passage.

Hull resigned in November 1944, before the Bretton Woods votes, owing to poor health; his eleven years in the position made him the longest-serving Secretary of State in American history. He would pass the trade treaty baton off to the incoming Secretary of State, Senator James Byrnes of South Carolina. Byrnes would continue Hull's crusade for multilateral trade treaties that reduced tariff rates. At the same time, Hull would dedicate himself to helping organize the United Nations in retirement, for which he would win the Nobel Peace Prize. Byrnes' attention, meanwhile, was turned towards putting a capstone on the Reciprocal Trade Agreements by creating a multilateral International Trading Organization (ITO). The approach taken, following a recommendation by Ottawa in 1945, was a "selective-nuclear-multilateral-bilateral" approach. According to Douglas Irwin, "Under this approach, about a dozen countries would negotiate bilateral agreements for selective tariff reductions and reach informal agreement

⁷⁸ Congressional Quest Almanac, "Senate Votes on Bretton Woods Agreement," library.cqpress.com/cqalmanac/file.php?path=Floor_Votes_Tables/1945_Q3_Foreign_Policy_Floor_Votes.pdf

on rules dealing with tariff and non-tariff barriers to trade. This agreement would then be presented to a larger international conference that would create the ITO.”⁷⁹

Negotiations would not begin until 1947, after Republicans had swept the 1946 midterm elections. This meant that the nuclear group negotiations would take place against the backdrop of a Republican Congress representing core constituencies that were hostile to any downward tariff revisions. Despite significant attempts by members of the Republican Caucus to derail these negotiations, a group of influential Republicans, most notably Senator Arthur Vandenberg (R-MI), became tepid supporters of the now-Truman administration’s multilateral foreign policy. Vandenberg and his allies prevented nationalist Republicans from disrupting the negotiations too much.⁸⁰ The General Agreement on Tariffs and Trade (GATT) was the treaty signed at the conference. Although negotiations were complex at times, the extensive preparations made the process relatively smooth on most issues. More important than even the specific concessions was the idea that countries could cooperate multilaterally to reduce tariffs.⁸¹ The GATT institutionalized the unconditional MFN policy, a commitment to reducing tariffs, and the “national treatment” as American foreign trade policy for almost eighty years. Although the more ambitious ITO would never be ratified, the GATT gave the cotton periphery the permanent trade policy it had always desired.

⁷⁹ Irwin, 472.

⁸⁰ Irwin, 471-480.

⁸¹ Irwin, 478-484.

Argument and Organization of the Work:

When Roosevelt came to power in 1933, his cotton periphery supporters could never have imagined a complete victory on trade policy like GATT. Even if they could accurately predict the future, these clairvoyant farmers would not have been eager to wait fourteen years for their trade problems to be resolved. In the meantime, they needed relief while reciprocal trade treaties dribbled in, treaties that were necessary but not sufficient to solve the cotton problem. As President Roosevelt said to Treasury Secretary Henry Morgenthau in 1938, “Trade Treaties are Too Goddamned Slow, The World is Marching Too Fast.” That same year, in addressing a conference on the Economic Problems of the South, Roosevelt claimed, “It is my conviction that the South presents right now the nation’s no. 1 economic problem...”⁸² Besides reciprocal trade, cotton farmers would need other public policy solutions to solve the cotton problem. Between Roosevelt’s 1933 inauguration and the 1947 signing of the GATT Treaty, cotton stakeholders in Congress and the Administration aggressively utilized the state's power, which their prominence within the dominant Democratic coalition afforded them, to resolve the cotton problem. They wielded this power to inflate the price of cotton at home artificially, provide credit to foreign governments and firms to purchase American cotton, launch diplomatic campaigns for price stability, and force open reluctant export markets for the purposes of achieving global cotton supremacy. These interventions helped raise cotton prices from less than 7 cents per pound in 1933 to 36.38 cents on the New Orleans Spot Market in 1947, a price high enough for most cotton producers.

⁸² Franklin D. Roosevelt, “Message to the Conference on Economic Conditions in the South,” July 4th, 1938.

The dissertation is organized into two sections and five chapters. Section One, chapters 3 and 4, analyzes the period during the 1930s when agricultural policy in the United States was defensive in nature, when the American state intervened to stabilize the economic crisis in the cotton belt. Chapter 3 investigates the pursuit and implementation of a price floor, through the Commodity Credit Corporation, that shifted the risk of price volatility that cotton farmers faced from the farmers themselves to the American state. Chapter 4, meanwhile, explores the Export-Import Bank's early years under the prickly George Peek, who sought personal political power to aggressively liquidate American farm surpluses despite the closed trading environment of the 1930s. Section Two analyzes the period after the beginning of the Second World War, when the cotton belt crisis had stabilized and Southern cotton exporters sought to use their national influence to achieve global cotton supremacy. Chapter 5 explores how the United States Government's credibility as a reliable and trustworthy ally was disrupted by the Commodity Credit Corporation's willingness to export cotton surpluses and capture global cotton market share at all costs. Chapter 6 investigates how the United States Government's pursuit of destroying the British Empire for the benefit of export-dependent industries like cotton was stymied by the onset of the Cold War. Lastly, Chapter 7 analyzes how the Export-Import Bank was utilized to ensure that global postwar industrial reconstruction would be fueled by American raw cotton exports, even at the expense of the American textile sector.

Important Note:

Because these cotton stakeholders pursued freedom of commerce to address the cotton problem, I often use the term 'liberal' to describe them. Most, however, did not have 'liberal' views when it came to race relations. Many, as well, did not grow the cotton they were trying to sell. Instead,

much of the cotton was physically grown by Black sharecroppers. These Black sharecroppers were defrauded and coerced by their landlords, the class of men who appear in this story, and were denied any political rights with which to campaign for an improvement in their condition. While the South was a heavily impoverished region, Black sharecroppers who grew cotton experienced the most significant grinding poverty and had little official political recourse. They suffered legally imposed segregation in the cotton states during this period and were denied the franchise. The men at the center of this story are the protagonists in the story of the South's political-economic triumph and the associated establishment of the American order. However, readers should remember that although their commitment to economic liberalism and liberty was generally sincere, most did not extend it to the Black citizens of their states.

Chapter 2: Literature Review

Isolation vs. Internationalism:

The introduction made the case that American internationalism, at least its trade policy, was a “southern internationalism” shaped by the experience of peripheral southerners during the postbellum period through the Depression. It was a foreign policy ideology held by prominent members of the Roosevelt Administration, who sought to overcome the “isolationism” preferred by the core. Who were these isolationists? Ronald Radosh argued in 1975 that, “Now that we know (the virtues of American empire) to be a fairy tale, perhaps it is time to take another look at those awful America-Firsters, whose isolationism has been accused of providing grist for the Axis mill. We will find that the generalized conceptions of what the isolationists advocated was shaped by their opponents.”¹

Radosh had to revise the historical perception of isolationists because triumphant liberal historians had frequently portrayed them unflatteringly after the war. These historians treated the rejection of isolationism as a sort of morality play, where eventually selfish Americans were forced to look beyond their oceans. For instance, Robert Osgoode claimed that “Because the United States was relatively isolated from world politics by virtue of its geographical and economic position, the American people were spared the necessity of testing their assumptions about American conduct and the conduct of other nations against the unpleasant realities of

¹ Ronald Radosh, *Prophets on the Right: Profiles of Conservative Critics of American Globalism* (New York: Simon and Schuster, 1975), 12.

international relations.”² The first generation of scholars to study this period sought to pinpoint the moment America triumphantly shed its “isolationist” post-World War One bearing and adopted an internationalist one. In 1952, William L. Langer and S. Everett Gleason argued that, due to the Executive Branch’s authority in foreign relations, the change was effected by Roosevelt, who began shaping the public’s opinion towards internationalism in 1937 in preparation to face the totalitarian menace.³ Meanwhile, another contemporary author, Walter Johnson, wrote *The Battle Against Isolationism* in terms of the pro-interventionist campaign after the war broke out in 1939.⁴ Everett and Gleason, however, never really define isolation or internationalism. They emphasize Roosevelt’s campaign to connect American sentiment with the plight of European democracies, while downplaying trade relations. Thus, to many scholars, the debate between isolationism and internationalism centered on whether to abandon neutrality and enter the war.⁵ Historian Justus Doenecke narrows the definition even further, “When historians use the term ‘isolationism,’ they are really referring to the United States’ abdication of collective peacekeeping and its determination to avoid the political difficulties of the Old World. Because isolationists could tolerate, even endorse, intervention in Asia and South America, one must stress that anti-European unilateralism was an essential core of so-called isolationism.”⁶

Bear F. Braumoeller claims that the perception that the United States was isolationist from the 1920s until 1941 was more myth than reality, and the United States was heavily

² Robert. E. Osgoode, *Ideals and Self-Interest in America’s Foreign Relations: The Great Transformation of the Twentieth Century* (Chicago: University of Chicago Press, 1953), 17.

³ William L. Langer, S. Everett Gleason, *The Challenge to Isolation, 1937-1940* (New York: Harper and Brothers, 1952), 10.

⁴ Walter Johnson, *The Battle Against Isolation* (Chicago: University of Chicago Press, 1944).

⁵ Other books in this vein include Manfred Jones, *Isolationism in America, 1935-1944* (Ithaca, NY: Cornell University Press); and Donald F. Drummond, *The Passing of American Neutrality, 1937-1941* (Ann Arbor, MI: University of Michigan Press, 1955).

⁶ Justus Doenecke, *From Isolation to War, 1931-1941*, 2nd ed. (Arlington Heights, IL: Harlan Davidson, 1991), 4.

involved in European affairs throughout the interwar period.⁷ As Doenecke argued, "...‘isolation’ is a poor word to use to describe United States interwar policy."⁸ Braumoeller is part of a broader school of literature, that includes Doenecke and W. S. Cole, offering a necessary corrective to rescue “isolationism” from its characterization in the triumphant liberal scholarship as a sort of crank-cryptofascist ideology.⁹ As Doenecke in particular shows, the so-called “isolationists” represented a broad spectrum of American society and were well within the political mainstream, especially given the lingering trauma that was experienced during the First World War.¹⁰ Although the literature on isolationism vs. internationalism is rich and valuable, Cole is one of the few who attempts to tease out the regional economic motivations behind isolationism. Cole argues, “Isolationists were most numerous in the Middle-West and least numerous in the South.”¹¹ Cole claims that Roosevelt was effectively a “progressive” in his first term and governed according to the tenets of progressive-western isolationists. However, according to Cole, the split between the progressives and the White House over court-packing, along with the emerging international storm, led Roosevelt to become more internationalist and shift away from his earlier isolationist stance.¹²

The argument between the internationalists and revisionists over “isolationism” is strange because it says practically nothing about trade. For instance, the revisionists can claim “isolationism” was a fairy tale, but Smoot-Hawley happened. By generally ignoring discussions

⁷ Bear F. Braumoeller, “The Myth of American Isolationism,” *Foreign Policy Analysis* Vol. 6 (2010): 349-371.

⁸ Doenecke, *From Isolationism to War, 1931-1941*, 4.

⁹ Many of these books were written by scholars representing either the left or so-called “Old-Right Tradition,” See: Radosh; Justus Doenecke, *From Isolation to War, 1931-1941*; Justus Doenecke, *Storm on the Horizon: The Challenge to American Intervention, 1939-1941* (New York: Rowman and Littlefield, 2000); Wayne S. Cole, *Roosevelt and the Isolationists, 1932-1940* (Lincoln, NE: University of Nebraska Press, 1983).

¹⁰ Justus Doenecke, *Storm on the Horizon: The Challenge to American Intervention, 1939-1941*.

¹¹ W.S. Cole, *Roosevelt and the Isolationists: 1932-1940*, 8.

¹² Cole, *Roosevelt and the Isolationists: 1932-1940*, 10.

over trade, these scholars could argue along the same fault lines that characterized the northern New Deal, particularly in the manufacturing core. The one exception is Cole, whose Nebraska perspective ensured that he accounted for the role of agrarian radicalism in the isolationist movement. Cole, who was also a biographer of leading Republican isolationist Senator Gerald Nye of North Dakota, argued that “Most farmers realized that they were affected by foreign markets and foreign suppliers. But many objected to foreign policies they believed were inspired by the same selfish “urban” interests that exploited them on the domestic scene.”¹³ This might have had some bearing in parts of the west, but most grain and cotton farmers sought to export free of control by those “urban interests.”

This emphasis on anti-interventionism, as opposed to liberal trade, is likely a result of the controversial American military interventions during the various phases of the debate. Frustrated by the actions of the United States in Asia after 1950 and then in the Middle East after 1958, many revisionist scholars emphasized the interventionist aspect of American foreign policy over trade. Thus, the premise of Osgoode’s claim, that the United States could afford “isolationism” before the Second World War, “Because the United States was relatively isolated from world politics by virtue of its geographical and economic position...” has rarely been questioned in this debate.¹⁴ As any Southern cotton farmer of the time would attest, the United States was not economically isolated.

Doenecke argued that “What the isolationists ultimately shared was not social caste or geographical location. Instead, what they possessed in common was an ideology with roots deep

¹³ W. S. Cole, *Determinism and American Foreign Relations During the Franklin D. Roosevelt Era* (Boston, MA: University Press of America, 1995), 30.

¹⁴ Osgoode, p. 17.

in the country's past."¹⁵ Doenecke was trying to explain the isolationists to a modern audience, much like an anthropologist explaining an obscure Amazonian tribe. However, if we flip the question, and simply ask who the consistent internationalists were, we get an answer that depends on geography. A lot of them were Southerners. While geography might have insufficiently accounted for the distinctions between isolationism and internationalism in the North and West, in the South it did. If you grew cotton, you were an internationalist.

Cotton Internationalism:

There has been considerable confusion and debate about the relationship between the white South, nationalism, and internationalism. While some early scholars, such as V.O. Key and Alfred O. Hero, assumed that everyone understood that the white South favored open trade and the postwar global system, others challenged this assertion. The difference appears to be in definition and timing. As far as definition goes, it depends on how a scholar identifies "internationalism." There was a broad Southern consensus on internationalist initiatives that helped them sell cotton, while there was division over internationalist initiatives that might undermine the racial caste system. For instance, Alexander DeConde noted how many Southerners, most notably James Reed of Missouri, used racism to undermine the League of Nations vote.¹⁶ Reed was frequently a critic of internationalist initiatives, but he should not be

¹⁵ Justus Doenecke, *Not To The Swift: The Old Isolationists in the Cold War Era* (London: Bucknell University Press, 1979).

¹⁶ Alexander DeConde, "The South and Isolation," *The Journal of Southern History* Vol. 24, No. 3 (Aug. 1958): 332-346. In his article, DeConde noted how many 1950s observers were concerned about the decline of Southern internationalism. This phenomenon was also explored and measured at the time in Malcolm Jewell, "Evaluating the Decline of Southern Internationalism Through Senatorial Roll Call Votes," *The Journal of Politics* Vol. 21, No. 4 (Nov. 1959): 624-646.

considered characteristic of a cotton state Senator because, while cotton was grown in Missouri, it was never the state's primary crop or sector. The relationship between the South and internationalism also depends on when you examine Southern support for internationalism. Southern internationalist sentiment appears to have significantly eroded between 1948 and 1955. Thus, for pre-1948 works (like this one), Southerners were the pre-eminent internationalists, while studies after 1955 present a far more complicated picture.¹⁷ This adjustment appears to be the result of national government intervention and the Cold War.

A few prominent studies have shown how the Cold War reshaped southern society to integrate it more with American national society. In his 1994 book, *Cotton Belt to Sunbelt*, Bruce Schulman explains the role of national government investment after 1938 in the transition from the cotton belt to the Sun Belt.¹⁸ Kari Frederickson, meanwhile, demonstrated how the Savannah River Plant near Aiken, SC, served as a microcosm of the national Cold War defense investment that completely reshaped southern society. It brought in migrants from the North, many of whom were educated and voted Republican, while deeply embedding the national security state within the region.¹⁹ By the 1950s, economic development had significantly altered the average white Southerner's relationship with cotton. The price of cotton was no longer at the center of the white

¹⁷ Katherine Rye Jewell argues in *Dollars for Dixie: Business and the Transformation of Conservatism in the Twentieth Century*, (New York: Cambridge, 2017) that the industrialists of the New South became disillusioned with their Democratic allies during the New Deal and adopted the language of free enterprise to seduce new conservative allies on the region's economic opportunity. In this way, she disagrees with Nancy McLean's argument (Nancy MacLean, "Southern Dominance in Borrowed Language: The Regional Origins of American Neoliberalism" in Jane Collins, Michaela di Leonardo, and Brett Williams, eds., *New Landscapes of Inequality: Neoliberalism and the Erosion of Democracy in America* (Santa Fe, NM: School for Advanced Research Press, 2008), 23, 25–26) that American neoliberalism emerged from the planter ethos of the American South, a claim McLean is generally joined in making by Heather Cox Richardson in *How the South Won the Civil War: Oligarchy, Democracy, and the Continuing Fight for the Soul of America* (New York: Oxford University Press, 2020), but rather by the emerging industrialists of the New South.

¹⁸ Bruce Schulman, *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South, 1938-1980* (New York: Oxford University Press, 1991).

¹⁹ Kari Frederickson, *Cold War Dixie* (Athens, GA: University of Georgia Press, 2013).

Southerner's universe. Thus, they started voting like conservative northerners on every issue but race. As Mary L. Dudziak shows, ironically, southern support for the Cold War would eventually undermine their racial caste system. The Cold War's need for the United States to maintain liberal credibility in the world encouraged the national government to intervene more forcefully on behalf of Civil Rights in the South.²⁰ When the Civil Rights battles subsided, the white South was no longer poor, rural, and deeply stratified. It was now middle-class, industrial, and suburban. It resembled the North and West, a change that Richard Nixon seized on to connect the values of these white sunbelt Southerners to his Republican Party. Now that cotton and race, at least officially, were not on the ballot, the Republican Party could become a truly national coalition of white suburban voters.

Back in 1947, however, Southern voters were still overwhelmingly internationalist. In 1949, political scientist V.O. Key claimed that the voting records of Southern senators suggest an ordinary diversity of opinions among them, except on their desire to maintain the racial caste system and "the free trade tradition."²¹ His conclusion was "the Solid South" referred to a political consensus over these issues. Similarly, political scientist Alfred O. Hero Jr. claimed, in 1965, that "Southern voters sent to Congress between 1917 and 1955 a disproportionately large number of legislators who supported...international cooperation and... majorities of Southern members of the Senate and House voted for most forms of collaboration with other countries proposed by our Presidents during the war years." Hero compares these numbers favorably to those of non-Southern Congressmen, attributing it to traditional Southern antipathy toward the

²⁰ Mary L. Dudziak, *Cold War Civil Rights: Race and the Image of American Democracy*, (Princeton, NJ: Princeton University Press, 2000).

²¹ V.O. Key, *Southern Politics in State and Nation*, 1984 cloth edition (Knoxville, TN: University of Tennessee Press), 353

tariff, the elite nature of Southern politics, and the fact that these Senators and Congressmen, being more electorally secure, “could devote themselves to international problems.”²² Hero’s book blames the erosion of internationalist sentiment among Southern Democrats on the decline in Southern politics’ elite nature. “Since ignorance, indifference, and isolationist or neo-isolationist attitudes have been most widespread among these groups which have been severely underrepresented in the choice of Congressmen...” the expansion of the franchise, among both white and Black southern voters, has led to a growth in those sentiments.²³ While Hero’s romantic faith in the international-mindedness of the Southern elite is charming, the increase in nationalism in the post-1948 period is probably better understood as a combination of economic diversification and the hostility to Southern racism evinced by international bodies.

The conversion of the white South into the base of the Reaganite Republican Party changed the way scholars viewed Southern political and social history. The white South’s embrace of the Republican Party whilst it was in its schizophrenic transition from a party of the Liberal Consensus to a party of Ronald Reagan means that historians drew a straight-line between a laissez-faire white South during Jim Crow and the “neoliberal” Republican Party of the 1980s. While the South had a robust tradition of limited government, it also had an equally strong tradition of agrarian interventionism. It was these agrarians that Elizabeth Sanders pointed to as being the Southern flank of the farmers’ revolution of the American state between 1877 and 1917.

²² Alfred O. Hero Jr., *The Southerner and World Affairs* (Baton Rouge, LA: LSU Press, 1966), 1.

²³ Hero, 10.

Progressivism and its Southern Version:

The Progressive Era of Reform at the national level is generally associated with the period from approximately 1900 to 1919, when a new conservative ascendancy is assumed to have replaced it.²⁴ Southern historians, seeking to expand on the early reform-era literature that emphasized the movement's urban aspects like settlement houses and labor reforms, searched for similar trends in the South where the significant reform movement was agrarian populism.

The historiography of Southern progressivism is tinged by the need to disentangle it from populism. Arthur S. Link argued that a distinct Southern progressivism emerged from populism, resembling the Northern variety, but it was constrained by the South's traditional hostility to centralization. Link claimed that progressive reform in the South, unlike in the North, was individualistic and was limited to the local level, limiting its capacity for widespread reform.²⁵ Meanwhile, by the early twentieth century, there was little distinction between populism and progressivism, as progressivism's more practical and achievable reform agenda eventually replaced its more radical agrarian cousin.²⁶

Dewey Grantham also argued that southern populism and progressivism were distinct waves of reform at the end of the nineteenth century to "modernize the South and to humanize its institutions without abandoning its more desirable values and traditions."²⁷ However, he argued that state governments often led a progressive reform agenda that emerged from the populist

²⁴ For Instance: Nell Irvin Painter, *Standing at Armageddon: The United States 1877-1919* (New York: Norton, 1987); Steven J. Diner, *A Very Different Age: Americans of the Progressive Era* (New York: W.W. Norton, 1998); Robert H., Wiebe, *The Search for Order* (New York: Hill and Wang, 1963).

²⁵ Arthur S. Link, *The Paradox of Southern Progressivism, 1880-1930* (Chapel Hill, NC: UNC Press, 1992).

²⁶ Arthur S. Link, "The Progressive Movement in the South, 1870-1914," *North Carolina Historical Review*, Vol. 23 (April 1946):172-195.

²⁷ Dewey W. Grantham, *Southern Progressivism: The Reconciliation of Progress and Tradition* (Knoxville, TN: University of Tennessee Press, 1983), xxiii.

movement in areas such as health, including the eradication of hookworm, support for prohibition, regulation of industry on behalf of labor and consumers, economic modernization, and support for education. Unlike Link, who viewed the Southern Progressives as individualistic, Grantham saw an even more severe form of top-down social control than in the North. On no issue was this more glaring than the Southern progressives' insistence on segregation and disfranchisement as a tool for civil reform, which took the form of the Jim Crow Constitutions amid the Southern progressive wave.

C. Vann Woodward, however, claimed that there was little connection between Southern and Northern progressivism, and that Southern progressivism was an elite-driven response to radical populism. To Woodward, Southern progressivism was a Democratic campaign to buy off the agrarians and further embed the racial caste system into Southern society. He argued that, while the demographic profile of the Southern Progressive movement might appear similar to the Northern movement, the reforms Southern progressives embarked on were conservative, benefiting only whites and the Bourbon wings of the State Democratic parties.²⁸ The coup de grâce, at least at the state level, was the passage of the Jim Crow constitutions.²⁹ In this way, Woodward's southern progressivism was a "triumph of conservatism," similar to how revisionist Gabriel Kolko described the Northern version.³⁰

While there are significant disagreements, southern historiography generally agrees that Progressivism was an elite-led movement, unlike populism, and that, as Richard Hofstadter

²⁸ C. Vann Woodward, *Origins of the New South*, (Baton Rouge: LSU Press, 1951).

²⁹ C. Vann Woodward, *The Strange Career of Jim Crow* (New York: Oxford University Press, 1955); See Also: Glenda Gilmore, *Gender and Jim Crow*, (Chapel Hill, NC: UNC Press, 1996).

³⁰ Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*, (New York: The Free Press, 1963).

argued, agrarian populism largely disappeared as a distinct movement after 1900.³¹ The general tendency is to assume that populists accepted that progressive leaders, who were urbane, educated, and middle-class, were better situated to make the necessary sorts of reforms. However, as Elizabeth Sanders notes, most successful reform campaigns during the Progressive Era were led by farmers intent on resolving issues that had motivated the populists in the first place. Furthermore, while the literature suggests that the energy behind urban reform may have waned during the 1920s, as cities boomed amidst prosperity and consumer culture, the agrarians never disappeared.³² After all, cities may have prospered in the 1920s, but the countryside, particularly the Southern periphery, endured a terrible decades-long recession. This would be fertile ground for the populist flower to grow until it could bloom during the New Deal.

Charles Postel, in *The Populist Vision*, seeks to correct the urbane characterization of populists as impractically radical romantics desperate to halt America's forward technological and social progress. Postel suggests that the agrarian populists had a liberal vision for America that "...attempted to fashion a modernity suitable to their own interests."³³ This would be a modernity shorn of the ability of corporate powers to illegitimately rig the system for their own benefit at the expense of the agrarian classes. Populists sought public control of the railroads, anti-trust, the destruction of the gold standard, a reform of the banking system to ensure that credit did not just concentrate in financial centers, low-tariffs, and a way of marketing export-crops that did not leave farmers vulnerable to rapacious creditors and temporary swings in commodities markets.

³¹ Richard Hofstadter, *Age of Reform*, (New York: Vintage Books, 1955).

³² The disappearance of the Progressives in the 1920s does lend credence to Gabriel Kolko's critique of the Progressives as elite conservatives seeking to exercise control of a reform movement to secure their own pre-eminent power.

³³ Charles Postel, *The Populist Vision* (New York: Oxford University Press, 2007), 4.

The New Deal and Southern Agricultural Reform:

The Southern historiography agrees that the New Deal brought some measure of prosperity to the South. Still, scholars are generally dismayed that the opportunity was not further seized for more radical and enduring social changes. On racial progress, for instance, while historians recognize the radical vision for a biracial democracy as outlined by New Dealers like Rexford Tugwell, Harvard Sitkoff argued that the New Deal accomplished little for Black Southerners. However, it did lay the groundwork for later opportunities.³⁴ While the results were disappointing for Black Southerners, there is general concurrence that significant shifts were occurring in the white Southern community during the New Deal.

In a previous section, it was noted that Bruce Schulman argued that the Roosevelt Administration's willingness to make significant national investments, particularly in defense infrastructure, helped transform the region from "the cotton belt to the sunbelt."³⁵ In his *The South and the New Deal*, Roger Biles claims that the New Deal brought a measure of prosperity to the South brought national government spending to the South in the form of infrastructure projects like the Tennessee Valley Authority and relief work like the Works Progress Administration and Civilian Conservation Corps. Still, any results were diminished by relief flowing through landlords and investments being checked by skeptical state governments.³⁶ What emerges from this literature is the emergence of the New Deal as a project of conservative

³⁴ Harvard Sitkoff, *A New Deal for Blacks: The Emergence of Civil Rights as a National Issue Vol. 1* (New York: Oxford University Press, 1979).

³⁵ Schulman, *From Cotton Belt to Sunbelt*.

³⁶ Roger Biles, *The South and the New Deal* (Lexington, KY: University Press of Kentucky, 1994).

reform, rather than agrarian radicalism. However, recent historians have rediscovered the broader New Deal as an exercise in popular democracy. As Eric Rauchway recently said, “The New Deal matters most of all because it marked a dramatic shift away of power from corporate boardrooms and bank headquarters, a shift that accompanied an unmatched period of widespread prosperity.”³⁷ From the perspective of the Southern periphery, the New Deal shifted political power away from the Northeastern core toward the white South, aligning with the project of the southern agrarians. And while they often used that power to reinforce their control over Black Southerners, they also used it to rescue the cotton sector. As Anthony Badger put it, “The Agricultural Adjustment Administration (AAA) established the mechanisms of production control, price support loans, and ample credit that would enable...farmers who stayed on the land to work in a relatively risk-free environment and to enjoy prosperity when it returned after World War II.”³⁸ Thus, the Southern agricultural New Deal appears very successful by the terms set by its agrarian supporters.

The literature around the Southern agrarian New Deal has emphasized the AAA’s domestic battles over production controls and tenants’ rights.³⁹ These were bare-knuckle political

³⁷ Eric Rauchway, *Why The New Deal Matters* (New Haven, CT: Yale University Press, 2021) 8.

³⁸ Anthony J. Badger, *New Deal/New South: An Anthony J. Badger Reader* (Fayetteville, AR: University of Arkansas Press, 2007), 33.

³⁹ Some recent examples of scholars who have analyzed the AAA in the South include Roger E. Biles' *The South and the New Deal* (Lexington, KY: The University Press of Kentucky, 1993), Donald H. Grubbs, *Cry from the Cotton: The Southern Tenant Farmers' Union and the New Deal* (Fayetteville, AR: University of Arkansas Press, 2000); and Jon Hyde, *American Dreamer: A Life of Henry A. Wallace* (New York: W.W. Norton, 2001). Meanwhile, larger-scope monographs of the New Deal tend to include AAA history as part of their broader analysis of the New Deal. Political scientists have also analyzed the New Deal for its significant accomplishments in state creation. The most prominent example of this so-called "American Political Development" literature and the New Deal is Theda Skocpol and Kenneth Finegold's book, *State and Party in the New Deal* (Madison, WI: University of Wisconsin Press, 1995). Other more recent examples are Brian Balogh's analysis of the "associational state" in Brian Balogh, *The Associational State: American Governance in the Twentieth Century*, (Philadelphia, PA: University of Pennsylvania Press, 2015), that presents the New Deal from a perspective of cooperative policymaking between the public and private sectors. Laura Phillips Sawyer, *American Fair Trade: Proprietary Capitalism, Corporatism, and the 'New Competition,' 1890-1940*

battles with significant long-term social, economic, and racial consequences for the South. Given how badly many Black tenants suffered from these programs, they are generally considered to have been a failure. However, the AAA was not the only agency involved in Southern farm relief. Organizations like the Farm Credit Agency, the Reconstruction Finance Corporation, and the Resettlement Administration (later the Farm Security Administration) were agencies that all had important relief roles to play in the South. These agencies' mandates and programs occasionally overlapped with AAA programs on production controls and tenant rights, but they also had other spheres. One of the most important organizations for farm relief, particularly in the South, was the Commodity Credit Corporation (CCC). The Commodity Credit Corporation issued nonrecourse government-backed loans on collateralized cotton to farmers, meaning that they could choose to pay back the loan after a year, either in cash or in-kind, depending on whether the loan rate exceeded the spot market rate. This would finally give the cotton farmer adequate credit to ride out volatile prices, the absence of which was what Southern agrarians had most vociferously blamed for their poverty.

Historians have hardly ignored the Commodity Credit Corporation, but over time, it seems to have slipped in importance relative to the AAA in the historiography.⁴⁰ This is unfortunate, as the Corporation may have been more effective at raising cotton prices than the

(New York: Cambridge University Press, 2018), meanwhile, argues that the shape the American regulatory state took during the progressive era and the New Deal was the result of lobbying by trade associations and industry groups through Congress and the Administrative state to harness the power of the state for their benefit.

⁴⁰ Much of the existing literature on the nonrecourse loan comes from economists, many of whom had worked in government. Officials such as Murray Benedict, Oscar Stine, Edwin Nourse, John D. Black, Carl T. Schmidt, Reed L. Frischknecht, Theodore Schultz, and Willard Cochrane all published monographs on the subject in the 1930s, 1940s, and 1950s.

AAA's acreage controls.⁴¹ For example, in *Freedom From Fear: The American People in Depression and War*, David M. Kennedy argues that the Commodity Credit Corporation had “[b]egun almost as an afterthought as part of the rescue operation for cotton in October 1933... and essentially reinstated Hoover’s old Farm Board, albeit in a context of production controls that would supposedly keep it from being swamped with limitless surpluses. Substantial surpluses accumulated nonetheless. By the eve of World War II, the corporation held in its warehouses and elevators a third of a billion dollars worth of unmarketable cotton...”⁴² Yet he never mentions it again.

The nonrecourse loan has gotten more attention from agricultural historians, but it is only generally lightly touched upon before moving on to other subjects. For instance, in *The Fault Lines of Farm Policy*, Jonathan Coppess only mentions it briefly before discussing conflicts over production controls. He argues that then and now, "The single policy choice-seeking to increase prices by controlling production and acres-has determined much of the direction and development of farm policy."⁴³ Judge Glock, meanwhile, briefly discusses the nonrecourse loan through the lens of the “parity price” concept and subsidized mortgages.⁴⁴ At the same time, Sarah T. Phillips examines the consequences of the vast government surpluses created by the nonrecourse loan in the 1960s.⁴⁵ In his biography of Henry Wallace, Benn Steil briefly mentions the nonrecourse loan in his half-page treatment of the “Ever-Normal Granary,” but provides little

⁴¹ This article is not intended to prove this point, I will leave that to economists. To the best of my knowledge, no economist has ever made the claim that the loans were more effective than controls. However, my impression of the subject after reading much of the economics literature is that it might have been.

⁴² David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999).

⁴³ Jonathan Coppess, *The Fault Lines of Farm Policy* (Lincoln, NE: University of Nebraska Press, 2018), 47.

⁴⁴ Judge Earl Glock, *The Dead Pledge: The Origins of the Mortgage Market and Federal Bailouts, 1913-1939* (New York: Columbia University Press, 2021).

⁴⁵ Sarah T. Phillips, "The Price of Plenty: Getting Farm Policy Right in the 1960s," *JAH* Vol. 109, No. 3 (December 2022): 596-620.

further information about it.⁴⁶ Meanwhile, Theda Skocpol and Kenneth Finegold acknowledged the early New Deal debate between those seeking production controls and George Peek's cartel preference in their 1995 *State and Party in America's New Deal*, but say nothing of the nonrecourse loan.⁴⁷

There are a few notable exceptions that do emphasize the centrality of the Commodity Credit Corporation to cotton-farmer relief. Keith Volanto's book, *Texas, Cotton, and the New Deal*, dedicates a chapter to the Commodity Credit Corporation loans as part of his analysis of the post-1937 "Ever-Normal Granary." However, he does not thoroughly engage with the CCC loan's 1933 origins.⁴⁸ That is not true of Lawrence Nelson's biography of Oscar Goodbar Johnston, however.⁴⁹ Nelson places the CCC loan at the center of his analysis of the New Deal, given that it was Johnston's baby. This study also puts the Commodity Credit Corporation at the center of the Southern New Deal, because while the CCC loans solved the cotton problem, they created such vast government surpluses that could only be liquidated through an aggressive expansion of exports.

American Foreign Relations:

In his book *American Empire*, revisionist historian Andrew J. Bacevich argues that American grand strategy since the end of the Cold War was to "preserve and, where both feasible

⁴⁶ Benn Steil, *The World That Wasn't: Henry Wallace and the Fate of the American Century* (New York: Avid Reader Press, 2024), 48.

⁴⁷ Theda Skocpol and Kenneth Finegold, *State and Party in America's New Deal* (Madison, WI: University of Wisconsin Press, 1995), 19.

⁴⁸ Keith Volanto, *Texas, Cotton, and the New Deal* (College Station, TX: Texas A and M Press, 2005).

⁴⁹ Lawrence Nelson, *King Cotton's Advocate: Oscar G. Johnston and the Cotton Farmers' New Deal* (Knoxville, TN: University of Tennessee Press, 1999).

and conducive to American interests, expand the American imperium. Central to this strategy is a commitment to global openness – removing barriers that inhibit the movement of goods, capital, ideas, and people. Its ultimate objective is the creation of an international order based on the principles of democratic capitalism, with the United States as the ultimate guarantor of order and enforcer of norms.”⁵⁰ The connection between “open-ness” and “imperium” might be a little foreign to those unfamiliar with this literature that began with an article written by John Gallagher and Ronald Robinson in 1954 titled “The Imperialism of Free Trade.” These authors argued that, rather than the opposite of empire, free-trade was entirely consistent with a type of “informal empire.” Informal Empire differed from the earlier “formal” variety by relaxing direct political control of colonies and favoring economic dependence to keep peripheral areas connected to the metropole. Provided economic dependence was assured, which Robinson and Gallagher believed could be achieved through liberal markets, expensive and controversial political control was deemed unnecessary.⁵¹

Building on Gallagher and Robinson was the so-called Wisconsin school of American Empire. Initiated by Wisconsin professor William Appleman Williams, who argued that American leaders sought to preserve their own political power by pushing the capitalist frontier abroad in search of markets for American domestic surpluses, this school built on the economic determinism of earlier progressive historians like Charles Beard. American officials sought a global “Open Door” to protect and expand American exporters' access to international markets. While rhetoric about liberalism and freedom abounded, and was often sincere, Williams argued

⁵⁰ Andrew J. Bacevich, *American Empire: The Realities and Consequences of U.S. Diplomacy* (Cambridge, MA: Harvard University Press, 2002), 3.

⁵¹ John Gallagher and Ronald Robinson, “The Imperialism of Free Trade,” *The Economic History Review* Vol. 6, No. 1 (1953):1-15.

that idealist energies would eventually be captured by the necessity of accumulating more economic power through markets. Unlike the radical theorists below, however, Williams did not believe that this was an inevitably necessary outcome of capitalism. As a proud progressive and World War Two Navy Veteran, Williams believed that American diplomacy could be reformed along idealistic lines if individual Americans could eliminate their unique pathological desire for more goods.⁵²

Other members of the Wisconsin School, like Walter LaFeber, developed Williams' insights into arguments that the key change in American foreign policy occurred with the closing of the frontier at the end of the nineteenth century. LaFeber argues that the Spanish-American War and the subsequent Empire were primarily driven by American manufacturers drowning in surpluses and needing relief through foreign markets. To LaFeber, the annexation of the Philippines and the subsequent Open-Door Notes were responses to a domestic economic crisis.⁵³ Williams, meanwhile, in a book particularly pertinent to this study, later argued that while an industrial crisis drove the turn of the century American Empire, those manufacturers merely adopted the rhetoric of an expansionist campaign that had been burning for two decades in the countryside, where surpluses were more endemic and burdensome. Thus, to Williams, American manufacturers may have briefly embraced the Open-Door American Empire, but its original, long-term, and future supporters would be from the countryside.⁵⁴

Surpluses were also at the heart of classical radical criticism, which posited that the modern empire was a structural evolution of capitalism. Its emergence at the end of the

⁵² William Appleman Williams, *The Tragedy of American Diplomacy* (New York: World Publishing Company, 1959).

⁵³ Walter LaFeber, *The New Empire: An Interpretation of American Expansion, 1860-1898* (Ithaca, NY: Cornell University Press, 1967).

⁵⁴ William Appleman Williams, *The Roots of the Modern American Empire* (New York: Random House, 1969).

nineteenth century was related to the capitalist domestic market's "underconsumption" of its own production.⁵⁵ Thus, a capitalist empire was necessary to secure markets to increase the consumption of surpluses. While still rooted in this tradition, the modern radical critique of American capitalism tends to be grounded in the "World-Systems Theory" of neo-Marxists, which focuses less on surpluses and highlights politics and culture in a manner that the early Marxists did not.

World-Systems Theory, because it draws inspiration from continental philosophy, attempts to comprehend the entire world economy, politics, societies, and culture simultaneously. Any attempt to analyze the system on different levels would lead to a lack of appreciation for how the entire system is designed to exploit the periphery for the benefit of the core. Immanuel Wallerstein, the American sociologist who first articulated World System Theory, explained that the world capitalist system consisted of a core of countries, North America, Western Europe, and a few others, who used their dominant positions in the world economy at the end of the last century to expand their capitalist framework on the rest of the world.⁵⁶ As Gabriel Kolko argued, "Essentially, the United States' aim was to restructure the world so that American business could trade, operate, and profit without restrictions everywhere." He argued that this was only possible if "American business could operate only in a world composed of politically reliable and stable capitalist nations, and with free access to raw materials."⁵⁷

⁵⁵ V. I. Lenin, *Imperialism: The Highest Stage of Capitalism*, 1916; Rosa Luxemburg, *The Accumulation of Capital: A Contribution to the Economic Theory of Imperialism*, 1913; J. A. Hobson, *Imperialism: A Study*, 1902.

⁵⁶ For Instance: Immanuel Wallerstein, *World Systems Analysis: An Introduction* (Durham, NC: Duke University Press, 2004).

⁵⁷ Gabriel Kolko, *The Limits of Power: The World and United States Foreign Policy, 1945-1954* (New York: Harper and Row), 2.

The “History of Capitalism” literature has made a more specific argument about the role of commodities in the formation of empires. Scott Reynolds Nelson, in *Oceans of Grain: How American Wheat Remade the World*, argues that competition over grain supplies and markets radically reshaped the world’s economy and its geopolitics at the end of the nineteenth and early twentieth centuries.⁵⁸ Sven Beckert, meanwhile, argues in *Empire of Cotton: A Global History* that the great divergence between the “Global North” and “Global South” was caused by the need to control cotton supply and labor in the Global South for the benefit of the Global North.⁵⁹ This builds on Eric Williams' classic argument that the growth of industrial capitalism depended on slavery.⁶⁰

Merging the insights of the history of capitalism literature with diplomatic history, Matthew Karp argues that American foreign policy in the mid-19th century was closely tied to the need to preserve slavery as an institution.⁶¹ Karp argues that Southerners were worried about the British Empire’s adoption of abolitionism, and sought to create a vast slave-labor based commodities empire across the Caribbean, through initiatives like the filibustering expeditions, that would be the world’s largest commodity store for industrial powers. It was only the rise of the Republicans and the outbreak of the Civil War that halted such progress. The next time Southerners would control American foreign policy, during the Roosevelt Administration, rather than trying to protect slavery, they would seek to eliminate cotton surpluses.

⁵⁸ Scott Reynolds Nelson, *Oceans of Grain: How American Wheat Remade the World* (New York: Basic Books, 2022).

⁵⁹ Sven Beckert, *Empire of Cotton: A Global History*, (New York: Alfred A. Knopf, 2016).

⁶⁰ Eric Williams, *Capitalism and Slavery*, 3rd ed. (Chapel Hill, NC: UNC Press, 2021).

⁶¹ Matthew Karp, *This Vast Southern Empire: Slaveholders at the Helm of American Foreign Policy* (Cambridge, UK: Cambridge University Press 2016).

New Deal Foreign Policy Literature:

The foreign relations historiography of the New Deal period has examined how the United States navigated the tumultuous geopolitical climate of the 1930s. It is too vast to enumerate here, but two trends are relevant to this work. The first trend might be termed “the revisionists.” This is a group of historians, generally of the Old Right and the New Left, who, influenced by the Wisconsin School, argued that New Deal foreign policy should be understood in terms of American “informal empire.”⁶² The most prominent volume of the revisionist school was a collection of essays called *Watershed of Empire*, written in 1976, that argued Roosevelt’s pursuit of Reciprocal Trade Agreements, the Latin American Good Neighbor Policy, and its monetary reforms were mechanisms for the administration to fulfill its vision of a permanent, executive branch-led, liberal empire. The collection is sometimes polemical, but it contains two insights that are relevant to this study. One was that many of the administration’s foreign policies included provisions for American commodity export, which powerful American interest groups

⁶² Lawrence P. Liggio, and James J. Martin, eds. *Watershed of Empire: Essays on New Deal Foreign Policy* (Colorado Springs, CO: Ralph Myles, 1976). This collection is a union of conservative and New Left voices that were critical of American assertiveness during the Cold War. The fact that Murray Rothbard and Lloyd C. Gardner can be found in the same collection is a wonderful little quirk of ideology. The book, generally, outlines various ways in which initiatives taken by the Roosevelt administration, both domestically and internationally, made American imperialism inevitable. My criticism of it is that they are altogether too cynical about American motives. It confuses the fact that America often acted self-interestedly with malevolence. In this vein, they would have done well to remember their New Left forebears, William Appleman Williams or Walter LaFeber, who despite their critiques of American Empire, retained respect for the system’s architects. It is also worth mentioning that whatever imperial motives may lay at the heart of New Deal diplomacy, American self-interestedness pales in comparison to the vicious and truly malevolent forces at work in Germany, Italy, Japan, and the Soviet Union. A useful, though unfortunately out of date, bibliographical essay on the “non-interventionist” school can be found here: Justus Doenicke, “Bibliographical Essay: The Anti-Interventionist Tradition: Leadership and Perceptions,” *Literature of Liberty* Vol. 4, No. 2, Summer 1981, [American Anti-Interventionist Tradition: A Bibliographical Essay by Justus Doenecke | Online Library of Liberty \(libertyfund.org\)](https://www.libertyfund.org/publications/literature-of-liberty/volume-4-no-2-summer-1981/bibliographical-essay-the-anti-interventionist-tradition-leadership-and-perceptions/). First Accessed August 1, 2024.

demand. The other was the New Deal's expansion of domestic government power was bound to have consequences for American foreign policy.⁶³

The second relevant historiographical trend, which we might call the liberal school, was best exemplified by Robert Dallek's book *Franklin D. Roosevelt and American Foreign Policy, 1932-1945*. Dallek argues that Roosevelt began his Presidency as a nationalist, having suppressed his internationalist instincts to get elected, but relatively quickly rediscovered his internationalist bearing. He became an ardent supporter of opening global trade, championed internationalist initiatives to stymie German, Italian, and Japanese aggression, and enthusiastically embraced being a "Good Neighbor" in Latin America. This study suggests that establishing a nonrecourse loan on cotton and other commodities for the benefit of farmers was impossible within a "nationalist" framework. Therefore, the need to stabilize cotton prices and the popularity of the loan helped encourage the Roosevelt administration to make a volte-face and embrace internationalism.

Foreign Policy Analysis:

While this is a history study, it seeks to answer questions that are familiar to political scientists. For instance, why was the national government so eager to create an export-oriented international system after the war? Or, why did the United States finance a significant loan with Britain, and why were State Department officials willing to tolerate a trade war with an ally in 1944? The rational actor model seems insufficient, as government agencies were frequently

⁶³ A measured critique of *Watershed* offered immediately after publication can be found here: Richard E. Welch Jr., "New Deal Diplomacy and Its Revisionists," *Reviews in American History* Vol. 5, No. 3, (September 1977): 410-417.

divided even at the ideological level. The introduction claimed that Cordell Hull instituted a southern internationalist trade policy almost by sheer will. While he had support in Congress, he frequently lacked support in the Executive Branch and even from the White House. As political scientist Graham Allison notes, even analysts supporting the rational actor model must acknowledge that "...large acts result from innumerable and often conflicting smaller actions taken by individuals at various levels of bureaucratic organizations in the service of a variety of only partially compatible conceptions of national goals, organizational goals, and political objectives."⁶⁴ Allison argues that, rather than the rational actor model, government decision making is better understood as "...bargaining games among players in the national government."⁶⁵ He referred to this as the *bureaucratic politics model* (BPM) of foreign policy analysis. Several different interpretations and refinements of the BPM have been published, but most adherents agree that decisions emerge from a competition among political elites.⁶⁶ This study generally supports Glenn Herald Snyder and Paul Diesling's approach to the BPM, which assumes that decision-making is often a consequence of a majority coalition imposing itself on a minority.⁶⁷ In this case, the most compelling explanation for why the US Government under Roosevelt and then Truman made many of the policy choices it did was the prominence of cotton men from the Southern periphery in their Administrations. Their numbers in both the bureaucracy and Congress gave them a position to ensure that state power benefited their interests.

⁶⁴ Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston, MA: Little, Brown, and Co, 1971), 6.

⁶⁵ Allison, 6.

⁶⁶ Greg Cashman, *What Causes War: An Introduction to Theories of Conflict*, 2nd ed. (New York: Rowman and Littlefield, 2014), 134.

⁶⁷ Glenn Herald Snyder, Paul Diesing, *Conflict Among Nations: Bargaining, Decision Making, and System Structure in International Crises* (Princeton, NJ: Princeton University Press, 1977).

How the Dissertation Fits into the Overall Literature:

This dissertation argues that southern agrarian reformers addressed the decades-long cotton problem by raising cotton prices through the fundamental reshaping of the American State during the New Deal and postwar periods. Hardly conservatives or adherents to laissez-faire ideologies, these white Southerners, many of whom had reform instincts nurtured by the Southern agrarian reform tradition, eagerly fostered and deployed state power to finally overcome what they perceived as the oppression of the Northern manufacturing core and permanently raise cotton prices. They seized control of agricultural policy to provide guaranteed public credit immune to price shocks and forced the government to accept its surpluses. They encouraged the creation of, and funding of, powerful government agencies whose *raison d'être* was to finance the sale of American surpluses abroad. They adopted a diplomacy that prioritized expanding and protecting American cotton export markets, often at the expense of other priorities, and implemented a new trade policy consistent with the views of pre-1955 southern internationalism, which was rooted in earlier agrarian thought.

This is an argument based on contingency rather than structure, and the course of events depended on the triumph of a 1930s Democratic political coalition, in which Southerners from cotton districts and states held prominent positions. It resulted from an economic region coming to power, with specific interests and grievances, when significant reform was possible due to the crisis of the depression. And these southerners, contrary to caricature, were almost all influenced by the southern agrarian tradition. They never hesitated to use state power, as they believed it was only through state power that they could overcome their weaker position in the national political economy.

While this study acknowledges that many significant American foreign policy decisions were made to eliminate the country's agricultural surpluses, it does not make some of the more strident claims of the revisionists. For instance, it makes no claim, one way or the other, on whether or not the American world order was an empire. I define the world order as a combination of rhetorical acknowledgement of self-determination, commitment to the unconditional Most-Favored-Nation clause and the Open Door, and a willingness to cooperate through international institutions to reduce tariffs and adjudicate disputes. Due to America's significant power in relation to other countries, aside from the Soviet Union, a compelling case can be made for an "informal empire" following World War II. However, that is for another study. "Informal empire" is a valid but debatable premise, just like World-Systems-Theory, and this is not a semantic analysis. It is not intended to convince readers that the United States was an empire, but neither is it intended to prove it was not. It may have been an empire, but that entirely depends on what your definition of empire is, and such a definition is well beyond the scope of this analysis. If the text sometimes uses the word "empire," it is because "the American-led multilateral world order" is cumbersome to use too often. Regardless of whether the United States was an "empire," it was a Great Power. And, like all Great Powers, it willingly used its power to pursue its global aims in accordance with its national interests. What, perhaps, separates the United States as a Great Power from others is that its national interest was decided via a relatively democratic political process. A democratic process that, at least in the 1930s and 1940s, allowed white southern cotton farmers to set the national interest.

Section 2 – Solving the Cotton Problem

Chapter 3: Surpluses and Expansion in the New Deal

I

Historian Douglas Hurt referred to it as "a problem of plenty."¹ Contemporary observers referred to it as "the farm problem." Between the 1870s and 1930s, American farmers suffered from surpluses that drove down prices, reducing many small American family farms to destitution. Between 1926 and 1940, over 100,000 Americans lost their farms each year.² Although no type of farming was spared, the “cotton problem” was particularly severe and chronic.

Much of America was still predominantly agricultural at the beginning of the Great Depression, and the South was the most agriculturally dependent part of the country. Although not every Southerner was a cotton farmer, few regions across the cotton South were not reliant on high cotton prices. The cotton problem incentivized many Southern Black farmers to head north, searching for "the warmth of other suns" where industry paid higher wages and racism was less acute. White farmers, meanwhile, faced foreclosure and uncertain futures. The family

¹ Douglas R. Hurt, *Problems of Plenty: The American Farmer in the Twentieth Century* (New York: Rowan and Littlefield, 2002).

² Lee Alston, "Farm Foreclosures in the United States in the Interwar Period," *Journal of Economic History* Vol. 43, No. 4 (December, 1983): 887.

cotton farm, the perceived social and economic backbone of the American South, had been threatened for a long time, but by the onset of the Great Depression, it faced extinction.

The Democrats' overwhelming 1932 election victory provided Southern cotton interests with an opportunity to halt this decline and refashion American agricultural governance in the interests of cotton growers. In the words of South Carolinian Ben Robertson, "There was a panic on Wall Street, and for the first time since 1860, the North began to question itself, to revalue its civilization. Once again, the North turned to other voices, to other advice. A President with an ancient American background was elected, and once more the capital of the United States moved back to Washington D.C. from its long exile in New York City."³ Franklin Roosevelt's unprecedented willingness to utilize the power of a peacetime American government to intervene in the American economy meant that agricultural interests in the Roosevelt administration would have a unique opportunity to reshape American agriculture. The fact that Roosevelt was a Democrat meant that these agricultural interests would be closely tied to cotton.

The Department of Agriculture, shortly after the Roosevelt Administration assumed office, sent out a memo explaining the scale of the cotton problem. According to the memo, Americans held about six million bales of surplus cotton in storage nationwide. This was a consequence of "...production running well ahead of consumption..." and would not be resolved until "...surplus (farmers) are disposed of in urban industry..." at some unspecified future date.⁴ The only way to manage the health of the cotton belt in the interim, until there could be fewer

³ Ben Robertson, *Red Hills and Cotton: An Upcountry Memoir* (New York: Alfred E. Knopf, 1942), 273.

⁴ Memorandum, United States Department of Agriculture, March 15th, 1933. Franklin D. Roosevelt Papers as President, OF-1 Agriculture, Folder 1. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

farmers, was through significant government intervention to achieve an increase in prices. New Deal officials would grapple with determining the most effective way to do that.

Historian George C. Herring argued that the Roosevelt administration attempted to resolve the Great Depression through “nationalist solutions,” a position endorsed by Brain Trusters like Raymond Moley and the powerful pro-tariff wing of the Party.⁵ During his first inaugural address, President Roosevelt claimed, “Our international trade relations... are in point of time and necessity secondary to the establishment of a sound national economy.”⁶ However, resolving the cotton crisis through “nationalist solutions” would prove difficult, given the significant difference between the amount of cotton America produced and the amount it consumed.

This chapter compares the visions of two Southern New Deal officials for resolving the cotton crisis: one who sought to adhere to the nationalist terms Roosevelt initially desired and another who never thought that was realistic. It argues that the resulting 1938 compromise shifted the burden of the cotton problem from farmers to the national government. The first vision, which we will refer to here as the nationalist one, accepted the so-called “overproduction thesis” that low cotton prices were a consequence of cotton supply being too high and demand too low. The nationalists recommended shrinking the supply to eliminate any cotton production beyond what was demanded domestically. While historically England purchased over half of the

⁵ George Herring, *From Colony to Superpower: U.S. Foreign Relations Since 1776* (New York: Oxford University Press, 2008), 494. Robert Dallek argues that FDR’s initial nationalist rhetoric owed to his continued alliance with nationalist newspaper publisher William Randolph Hearst: Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1932-1945* (New York: Oxford University Press, 1979), 18-19.

⁶ Franklin Roosevelt, “First Inaugural Address of Franklin Roosevelt,” March 4th, 1933. The Avalon Project, Yale University Library, [The Avalon Project : First Inaugural Address of Franklin D. Roosevelt \(yale.edu\)](https://avalonproject.org/1933/03/04/first-inaugural-address-of-franklin-roosevelt/). First Accessed August 1st, 2024.

American cotton crop, and Europe had more than double the number of spindles as the United States, these officials believed that cotton farmers had to adapt to a new reality, as the closure of the international trading system between 1929 and 1932 meant that cotton farmers could no longer rely on exports.⁷ The difficulty farmers had in restructuring the crop entirely for domestic consumption would be managed through the government issuing rent checks to take land out of production. The alternative proposal, championed by the most prominent farmer in the cotton belt, was for the government to increase prices through a “nonrecourse loan” that allowed cotton farmers to borrow money from the government at a fixed rate over a one-year term, with future bales held as collateral. If the price fell below the loan rate, cotton farmers could cancel their loans by surrendering their collateralized bales in kind to the national government, which would then market the cotton itself. In this system, the loan rate would serve as a price floor, protecting farmers against volatile global prices. Historian Anthony Badger argued that this allowed “...farmers...to work in a relatively risk-free environment.”⁸

Nationalists opposed the nonrecourse loan because it did little to fix American cotton production to American cotton demand. Cotton surpluses would still need to be exported, except now it was the government that risked financial catastrophe if officials could not profitably export it. While the government adopted acreage controls to restrict supply, the existence of the nonrecourse loan meant that acreage controls only served to manage the surpluses rather than eliminate them. This chapter concludes that the 1938 Farm Bill, which institutionalized both acreage controls and nonrecourse loans, solved the “cotton problem” at the expense of the

⁷ Alonzo Betis Cox, “Marketing American Cotton in England,” *USDA Technical Bulletin No. 69*, Washington D.C: Government Printing Office, June 1928, 2.

⁸ Anthony J. Badger, *New Deal/New South: An Anthony J. Badger Reader* (Fayetteville, AR: University of Arkansas Press, 2007), 33.

Government. Farmers were protected against a price collapse, but the Government still had to pursue export markets aggressively.

II

President Franklin D. Roosevelt promised experimentation, and nowhere was the laboratory more active than in the field of agriculture. After killing a cotton purchase bill passed by Hoover's last Congress due to apparent concerns that it was constitutionally dubious, Roosevelt brought social scientists and industry experts to Washington with broad discretion to increase farmers' purchasing power.⁹ Among Southern experts, although there was some consensus on initiatives such as inflating the currency and tariff reform, a broad disagreement emerged over which further tool for price adjustment would be most effective: controls or credit.¹⁰ The pro-control group believed that reducing production to levels matched by national demand was a feasible cooperative exercise that would benefit every cotton farmer, regardless of size.¹¹ Meanwhile, those who favored the nonrecourse loan believed that if farmers had the liquidity to wait out volatile prices, price runs could be avoided because nobody would be compelled to sell.¹² Among cotton stakeholders in the AAA, the two camps were most

⁹ Memorandum from President, March 15th, 1933. Franklin D. Roosevelt Papers as President, OF-258 Cotton, 1933, Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

¹⁰ Some viewed inflation as the answer to all of the system's ills.

¹¹ Members of this school include Cully Cobb, Ellison D. Smith, J.H. Bankhead, and occasionally Henry Wallace and Franklin Roosevelt.

¹² The debate between control and credit echoed the late 1914 debate across the cotton belt about how to address the catastrophically low prices that accompanied the loss of export markets and the closure of the exchanges that accompanied the onset of hostilities in Europe. Populists in Congress advocated various financing mechanisms by which the government would offer cotton loans that would not have to be repaid until markets recovered. The proposals, however, never quite got enough support to pass. Meanwhile, the new Federal Reserve instituted a cotton pool with paid-in capital from banks around the country to issue loans to cotton producers on warehoused cotton. The purpose was to extend credit so that farmers were not

prominently represented by Cully Cobb, the Head of the Cotton Production Division, who favored production controls, and Oscar Goodbar Johnston, the Finance Director of the AAA, who was consistently skeptical of controls and developed a preference for adjustments through subsidized short-term credit.

Despite their disagreement over specifics, Cobb and Johnston agreed that government support for agriculture was necessary after several decades of Republican-enacted policies that favored Northern industry at the expense of Southern agriculture. They both criticized Republican initiatives to maintain a tight monetary policy and high tariffs to protect Northern industry, as these policies increased production costs for Southern cotton farmers. The most recent flurry of tariffs, imposed during the Republican-dominated 1920s, began with the Fordney-McCumber Tariff Act and culminated in the destructive Smoot-Hawley Tariff Act of 1930. Cotton farmers perceived these tariffs as devastating to their operations, as they significantly raised production costs and made them vulnerable to retaliatory tariffs from their export markets.

forced to sell their cotton at 5 cents, the prevailing domestic price in the fall of 1914, to meet their debt obligations. The Fed's problem, and one also faced by the various Congressional warehousing proposals, was that the title to the cotton was difficult to determine due to the cotton-lien system. Accordingly, to make things simple to administer, the Fed limited their lending to warehouse receipts for cotton unencumbered by a lien. It was also only doing it in 100 bale lots. The upshot was that only large growers who could afford to self-finance could benefit, and those farmers could already generally afford to withhold at least some of their crops if necessary. The market's problem was the heavily indebted small growers with liens on their cotton. Markets recovered quickly enough with the re-opening of the exchanges and the British commitment to purchase vast amounts of American cotton, so there were few subscribers to the cotton pool. Contemporary accounts suggest that the few subscribers were a consequence of the markets recovering by the time the cotton pool was up and running. Still, it is also possible that those who needed the financing were excluded from the program. See: James L. McCorkle, "Louisiana and the Cotton Crisis, 1914," *Louisiana History* Vol. 18, No. 3 (Summer, 1977): 303-321; Federal Reserve, "First Annual Report of the Federal Reserve Board," Washington D.C.: Government Printing Office, 1915, Accessed on the Federal Reserve Bank of St. Louis's Digital Archives "FRASER" <http://fraser.stlouisfed.org/>.

The Smoot-Hawley Tariff initiated the process of closing international markets to American exports, coinciding with the decline in domestic demand that farmers suffered during the Great Depression. The result was a crash in cotton prices from 1929 to 1933 while the tariff law increased the prices cotton farmers had to pay for inputs. Making matters worse, the cotton belt experienced deflation before the rest of the country when the Nashville-based Caldwell and Company's bankruptcy triggered a bank run across the South, beginning in November 1930.¹³ The bank run devastated the region, as Caldwell and Company had functioned as a correspondent bank for many smaller country banks. Even the most significant cotton concerns were threatened with insolvency. According to Congressman Henry Steagall (D-AL), the bank collapse led to "...a destructive contraction of credit and the circulating medium... (and) have thrown our economic machinery out of order."¹⁴

The collapse of Caldwell and Company was acutely felt in the Mississippi Delta. The Delta was in the Federal Reserve's St. Louis District, whose leadership refused to act as the "lender of last resort" to banks in its district out of concern for moral hazard.¹⁵ This led to banks needing to call in loans to maintain liquidity and reserves, which frequently pushed indebted plantations into foreclosure or bankruptcy. The Campbell Plantation in Bolivar County, Mississippi, was foreclosed upon in 1931 by a bank that itself was foreclosed in 1932. The foreclosed bank's trustees were eager to unload this plantation to the neighboring Delta and Pine Land Company. However, Company President Oscar Goodbar Johnston thought it was a bad

¹³ Gary Richardson, "Banking Panics of 1930-31," Federal Reserve History, November 2013. First Accessed December 18, 2023. [Banking Panics of 1930-31 | Federal Reserve History](#).

¹⁴ Henry B. Steagall, "Speech to the House of Representatives in 73d Congress on May 2nd, 1933", *Congressional Record*, 2703.

¹⁵ Gary Richardson and William Troost, "Monetary Intervention Mitigated Banking Panics During the Great Depression: Quasi-Experimental Evidence From the Federal Reserve District Border in Mississippi," *National Bureau of Economic Research*, Washington D.C., Working Paper Number 12591, 2006.

investment at \$20.00 an acre.¹⁶ By comparison, Johnston refused to part with even some of his most marginal land to the Farm Security Administration for \$50.00 an acre in 1938. The price spread gives us an indication of how dire economic and farming conditions were in the Delta in 1932.

Oscar Johnston's Delta and Pine Land Company barely escaped its own date with insolvency, even though Johnston might have been the most powerful man in the Delta. Johnston rose to the upper echelon of Delta society through his career in regional banks. His financial acumen and ability to navigate the region's good ol' boy network led to rapid career advancement through the regional banks that large cotton farmers relied on for credit before being appointed the President of the Delta and Pine Land Company in 1929.¹⁷

The Delta and Pine Land Company's plantation, centered around the tiny Mississippi town of Scott, was the world's largest privately owned cotton farm. They produced over 12,000 bales (each weighing approximately 500 pounds) of high-quality cotton annually, much of which was exported. Additionally, it was one of the world's largest developers and sellers of cotton seeds, with its Delta Pine-branded cotton seeds used across the South. Early Ewing, the chief seed scientist, was renowned in the cotton industry for pioneering seeds that produced increasingly higher yields. The Delta and Pine Land Company was not American-controlled, however. Although Delta and Pine Land was incorporated in the United States, it was controlled by the Fine Cotton Spinners and Doublers Association of Manchester, England (FCSDA), which

¹⁶ Correspondence from Oscar Johnston to H.H. Stowell, June 11, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 24, Mitchell Memorial Library at Mississippi State University Special Collections.

¹⁷ Lawrence J. Nelson, *King Cotton's Advocate: Oscar G. Johnston and the New Deal* (Knoxville, TN: University of Tennessee Press), 14

owned several million dollars of Delta and Pine Land corporate bonds and the mortgage on the property. The FCSDA at the time was led by H.H. Stowell, a man whose correspondence with Johnston is a treasure trove of economic and political analysis.¹⁸

Johnston spent the early years of the depression begging Stowell and his bosses in Manchester for more and more credit while Manchester's responses increased in exasperation. When Oscar Johnston was recruited to Washington in 1933, the plantation's financial situation was desperate. Johnston had been forced to pledge all the company's and its tenants' assets as collateral in a desperate attempt to secure a \$500,000 land and chattel mortgage from President Hoover's Reconstruction Finance Corporation (RFC) to salvage the plantation.¹⁹ Applying for this loan would be one of Johnston's final tasks before being summoned to Washington in the spring of 1933, where he would be joined by some of the other most prominent cotton men in the South.²⁰

Roosevelt's ambitions for massive experimental agricultural reform necessitated the selection of a bold and visionary reformer as Secretary of Agriculture. Given the importance of the South to the Democratic Party's electoral coalition, many cotton farmers cherished the hope that he would select Cully Cobb as the new Secretary.²¹ Cobb had grown up in Prospect,

¹⁸ Lawrence Nelson, 14

¹⁹ Call for Special Meeting of Board of Directors, February 24, 1933. Delta and Pine Land Company Records, MS-101. Series 6, Box 42, Folder 4, Mitchell Memorial Library at Mississippi State University Special Collections. The Regional Agricultural Credit Corporations were created by the Reconstruction Finance Corporation (RFC) in 1932 in each of the twelve land bank districts of the United States. These were capitalized through the RFC by the federal government. The purpose was to provide an additional credit source for farmers desperate to access any sort of credit.

²⁰ A useful analysis of the Hoover administration's farm policies is Martin Fausold, "President Hoover's Farm Policies," *Agricultural History* Vol. 51, No. 2 (Apr. 1977): 352-377.

²¹ Correspondence from Editor Home Department to Mr. H.H. Williamson, Cully A. Cobb Papers, MS-47, Manuscripts. Series 74, Box 1, Folder 1, Mitchell Memorial Library at Mississippi State University.

Tennessee, and attended the Mississippi State Agricultural College (now Mississippi State University), before launching his career as a publicist. Cobb became editor of the Atlanta-based *Southern Ruralist* farm journal, writing about the latest scientific innovations and best practices for Southern farmers while advocating for significant government intervention in agriculture to raise prices by reducing production.

Roosevelt would disappoint many Southerners by bypassing Cobb and appointing a prominent progressive Iowa Republican named Henry A. Wallace to the post.²² Like Cobb, Wallace was a publisher, *Wallace's Farmer* was a farm journal that also advocated for the federal government to stabilize and protect farm prices. Wallace spent the 1920s lamenting the migration of farm workers to the cities and criticizing large-scale farmers whom he believed were reckless.²³ He had offered measured support for the McNary-Haugen Plan in the 1920s, but preferred a government-controlled price and production system along the lines of the Food Administration during World War One.²⁴ Although his Republican background made Wallace a controversial appointment in the cotton belt, his advocacy for progressive policies made him an easy fit in an administration willing to entertain ambitious price supports.²⁵ Wallace and the Roosevelt administration's early efforts culminated in the creation of the Agricultural Adjustment Administration (AAA) in May 1933. Cobb, who would be appointed to lead the Cotton

²² Wallace's father, Henry C. Wallace, had been Secretary of Agriculture under Coolidge.

²³ Richard S. Kirkendell, "Henry A. Wallace's Turn Towards the New Deal, 1921-1924," *Annals of Iowa* Vol. 49, Nos. 3-4 (1988): 235-38.

²⁴ Kirkendell, 234-35.

²⁵ Lauren Soth, "Henry Wallace and the Farm Crisis of the 1920s and 1930s," *The Annals of Iowa* Vol. 47, No. 2 (1983): 195-214.

Production Section of the AAA, argued that the sole purpose of AAA employees like him was to "devote ourselves to the task of increasing the purchasing power of the farmer."²⁶

Such an organization would require a Director of Finance with enormous financial talent, extensive Wall Street connections, and a shared enthusiasm for reform with Wallace and Cobb. The obvious choice was Oscar Goodbar Johnston. Although there were other politically connected cotton figures with an even more impressive financial background than Johnston, such as Will Clayton of the prominent cotton merchant Anderson, Clayton and Co. out of Texas, many had made their disdain for production controls public. Clayton had even threatened to abandon the Democrats because of it.²⁷ Accordingly, Johnston seemed the right fit. At the end of May 1933, Johnston took a leave of absence from his position as President of the Delta and Pine Land Company to become the Director of Finance of the AAA.

Johnston's acceptance of the AAA post was a significant conflict of interest. He continued to receive a salary as Company President while working in Washington. Even though his new salary in Washington would be deducted from his current salary as Company President, his salary as Company President would have far exceeded the salary he would have received if he had been just the AAA Director of Finance.²⁸ It is unclear exactly what his remuneration was as President of the Delta and Pine Land Company during his tenure as AAA Finance Director.

²⁶ Correspondence from Cully Cobb to Chester Davis, September 27, 1933. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University Special Collections.

²⁷ Gregory A. Fossedal, *Our Finest Hour: Will Clayton, The Marshall Plan, and the Triumph of Democracy* (San Francisco, CA: Hoover Institution Press, 1994). Clayton would go on to serve in government during and after the war, becoming one of the key architects of the Marshall Plan and GATT.

²⁸ Correspondence from Oscar Johnston to Delta and Pine Land Company Officers, May 26, 1933. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 42, Folder 10, Mitchell Memorial Library at Mississippi State University Special Collections.

Still, he would be one of the rare bureaucrats with regular access to a chauffeured limousine. Accordingly, the company was paying him some salary and benefits while he was ostensibly committed full-time to his duties in Washington.²⁹ This arrangement does not mean that Johnston was merely a "yes man" for his bosses in Manchester, as he frequently defended AAA policies against Manchester's objections. However, Johnston's tenure in Washington appears to have been very good for the company. After all, Johnston convinced Roosevelt to adopt the nonrecourse loan, which quickly relieved the Delta and Pine Land Company of its desperate need to beg for credit.³⁰

Johnston and Cobb served different constituencies, had diverse backgrounds, and held differing perspectives on what form price adjustment should take. However, in 1933, the desperation of the cotton belt meant they were both open-minded enough to try everything, even the "plow-up."³¹ Both Johnston and Cobb believed another year of low cotton prices might be fatal to the industry, so they supported the rapid adoption of acreage controls even though the cotton crop had already been planted. The law's timing in the agricultural cycle meant that government officials had to convince farmers to "plow up" thirty percent of their crop in return for government rent checks.³² The AAA hoped that reducing acreage by thirty percent would reduce surpluses and increase cotton prices. Prices did rise in the early summer of 1933,

²⁹ Correspondence from H.H. Stowell to Oscar Johnston, May 8, 1934. Delta and Pine Land Company records, MSS-101. Series 6, Box 46, Folder 22, Mitchell Memorial Library at Mississippi State University Special Collections.

³⁰ Correspondence from H.H. Stowell to Oscar Johnston, May 18, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 23, Mitchell Memorial Library at Mississippi State University Special Collections.

³¹ For an analysis of the campaign in Arkansas, see Keith J. Volanto, "The AAA Cotton Plow-Up Campaign in Arkansas," *Arkansas Historical Quarterly* Vol. 59, No. 4 (Winter, 2000): 388-406.

³² For farms with a history of 100 pounds per acre, they would receive \$6 per acre in rent. For farmers who could prove a yield of 275 pounds per acre or more, the government would pay them \$20 for each acre taken out of production.

seemingly intermittently, though it is difficult to determine how much was due to the plow-up campaign and how much was due to market variations.³³ Wallace seemed to think it was due to the May devaluation of the dollar.³⁴ Meanwhile, the contemporary University of Texas agricultural economist A.B. Cox, who measured cotton's price in gold rather than in dollars, argued that there was hardly any real increase in the price of cotton through 1936, only a nominal increase owing to the devaluation of the dollar to 59.06% of its former value.³⁵

Oscar Johnston had seen enough to convince him that acreage controls were a failure by the early autumn of 1933. In a letter to Henry Stowell, the Executive Director of the FCSDA, Johnston admitted that acreage reduction was and would continue to be a failure if measured solely by its impact on cotton prices. In a series of letters exchanged, Johnston and Stowell agreed that the inability to control the concentration of production on farms would lead to little reduction in overall cotton stocks, and any price increases would only result in farmers planting more, thereby undoing the entire plan.³⁶ Johnston came to government with experience as a banker and the President of a major farm operation. He understood how farmers would react to the new regime because he advised Delta and Pine Land Company on how to respond. He understood that not all cotton land on a farm, especially a big farm, was created equally and that some land was more productive than others. He knew that most farmers would endeavor to rent

³³ The law also permitted so-called "surplus removal purchases," by which the government could purchase surplus commodities and redirect them into domestic channels, typically relief channels. These programs were more important for beef, dairy, and other perishable commodities than they were for cotton. (Reed Frishknecht, p. 39).

³⁴ Correspondence from Henry Wallace to Franklin Roosevelt, July 26th, 1933. Franklin D. Roosevelt Papers as President, OF-1 – Agriculture, 1933-1934, Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

³⁵ A.B. Cox, L.H. Bean, "The A.A.A., the Cotton Growers, and the Agricultural Problem," *Journal of the American Statistical Association* Vol. 31, No. 194 (June 1936): 298-299.

³⁶ Correspondence from Oscar Johnston to H.H. Stowell, May 28, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 23, Mitchell Memorial Library at Mississippi State University Special Collections.

the worst land they could get away with to the government while increasing production on their best land. Economist Reed Frishknecht summarized this problem in 1953 by suggesting that “The method of acreage allotments...actually provided no guarantee against price decreasing surpluses. Under these programs... farmers selected the best acreage to use under their acreage allotments, planted rows closer together, and used better seed strains and more fertilizer.”³⁷

Despite his private concerns expressed to Stowell, Oscar Johnston publicly supported the acreage control program through the summer of 1933. However, during the debates over the Bankhead Cotton Control Act that began in the late summer of 1933, Johnston began to raise concerns about controls with Secretary Wallace.³⁸ The Bankhead Act of 1934, sponsored by Alabama Senator John H. Bankhead II, removed the voluntary provisions of the 1933 plow-up campaign while enforcing bale control and acreage control. The Bankhead proposal emerged in the summer of 1933, stemming from concerns that the acreage controls were insufficient to limit production. Unlike Johnston, who assumed that all farmers increased the concentration of activity on the land they were permitted to keep in production, Bankhead blamed “free-riding” non-cooperators. Blame was leveled at those who had not signed acreage contracts with the government and planted more to take advantage of the price increase caused by others’ cotton being plowed up. Accordingly, the Bankhead Act would require compliance with controls. The Bankhead Cotton Control Act imposed bale control at the gin. Farmers were issued a certain number of “bale-tags,” beyond which they would have to pay a 50% tax on any ginned or sold cotton. The US government believed that if the American cotton crop were limited to 10 million

³⁷ Reed Frishknecht, *Farm Price and Income Support Programs, 1933-1950* (Salt Lake City, UT: University of Utah Institute For Government, 1953), 50.

³⁸ Correspondence from Oscar Johnston to Henry A. Wallace, September 7, 1933. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Mitchell Memorial Library at Mississippi State University Special Collections.

bales, about 70% of the typical cotton crop, supply would drop to a point where prices would increase. Accordingly, 10 million bale tags were issued to farmers across the belt with a farmer's allotment depending on their historical production.

As someone who supported a nationalist approach to price adjustment, Cully Cobb became an enthusiastic supporter of the Bankhead Act.³⁹ Cobb believed it would both raise prices and help him assert control over ginning operations. He believed that control at the gin was a more efficient tool for limiting the size of the American cotton crop, and it ensured that, as Head of the AAA Cotton Production Division, ginning would fall under his purview. Cobb's control over ginning had been challenged by other AAA departments, most notably those in the cottonseed oil world. These competitors argued that ginning was a form of processing and, therefore, should be considered separate from cotton production. Cobb, however, vehemently disagreed, probably correctly, and continually lobbied his bosses to ensure that ginning was part of the cotton harvest process and, therefore, an integral aspect of cotton production.⁴⁰ By imposing bale control on farmers at the gin, the Bankhead Act essentially acknowledged that ginning was an extension of the harvest.

Cobb's vision first conflicted with Johnston's during the Bankhead Act debates. Cully Cobb, an educator and publicist rather than a director of a large plantation, believed that gin control was the key to reducing production equally among all farmers.⁴¹ He felt control would

³⁹ Memorandum from Cully Cobb to Mr. Chester C. Davis, August 12, 1933. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University.

⁴⁰ Memorandum from Cully Cobb to Victor Christgau, June 25, 1934. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University

⁴¹ Discussion Statement No. 2 from C.A. Cobb, Chief Cotton Production Section, AAA, June 19, 1934, "The Cotton Belt's Comeback Under Agricultural Adjustment," Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 1, Mitchell Memorial Library at Mississippi State University.

benefit small producers by ensuring that ginning operations were consistent with the AAA's overall plan to increase farmers' purchasing power.⁴² By controlling bales and acres under production, every farmer would sacrifice a little for the survival of all. The program also enabled the government to restrict domestic supply to domestic demand more efficiently. In a letter to Victor Christgau on the Bankhead Act, Cobb argued that the "cotton program is a control program."⁴³ Cobb, it is also worth noting, lived in Georgia, where domestic mills primarily purchased the cotton crop. Cotton in the West, such as that grown in the Delta, was almost exclusively exported.⁴⁴

Johnston disagreed with the bale control plan and voiced his opposition in a letter to Secretary Wallace in September of 1933. Johnston argued that a farmer could not predict the number of bales he would produce yearly. This meant that, invariably, there would be regular surpluses above what the farmer was permitted to gin under the Bankhead Plan allotment. This cotton would continue to exist, even if it were not immediately ginned, and "exercise a bearish influence" on the market.⁴⁵ In a letter to Henry Stowell on February 1, 1934, A.P. Toler, the interim head of operations for the Delta and Pine Land Company, stated that Oscar Johnston had

⁴² Memorandum from Cully Cobb to Chester Davis, August 12, 1933, Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University.

⁴³ Memorandum from Cully Cobb to Victor Christgau, June 25, 1934. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University. It should be acknowledged, however, that Cobb wanted to control ginning for the benefit of the farmers. When it was floated by someone that the ginning industry could be controlled along the same lines as the NIRA, Cobb was apoplectic. He argued that "inasmuch as the ginning industry secures all of its income from the farmer and this cost to the farmer cannot be passed on, the fixing of hours and wages could have but one effect and that would be to increase costs to the producers of cotton and to that degree defeat the purposes of the Agricultural Adjustment Administration."

⁴⁴ A. B. Cox, "Recent Changes in Marketing American Cotton in Europe," *The Southwestern Political and Social Science Quarterly* Vol. 7, No. 2 (September 1926): 162-164.

⁴⁵ Correspondence from Oscar Johnston to H.H. Stowell, May 1, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 22, Mitchell Memorial Library at Mississippi State University Special Collections.

informed him the Bankhead Act was "distinctly to the disadvantage of the company" and therefore planned to lobby heavily for its defeat in Congress.⁴⁶ Unfortunately for Johnston, he was unable to overcome the support for the measure, and the Bankhead Act was passed with the President's enthusiastic backing. Will Bankhead of Alabama, the Bill's House Sponsor and brother of its Senate sponsor, accused Johnston of "not looking at the bill from the standpoint of the farmer... but from the interests of a great British syndicate."⁴⁷ Although this is probably an unfair simplification, as many in the South opposed the Bankhead Act, the above correspondence suggests that Johnston's concern for the company influenced his judgment of the Bill.

One of Johnston's concerns about controls was that if Americans were no longer exporting much, their market share would be captured by competitors like Brazil, Egypt, or India. As the United States was the primary global supplier of cotton, any decrease in American supply provided an opportunity for other suppliers to increase production and capitalize on the price increases resulting from the drop in American production. During the 1934 planting season, Egypt and India had already substantially increased their acres under production to take advantage of the reduced American production. Stowell told Johnston that he was unsure the American government could maintain the control program in the long term, as it was burdensome and only resulted in a loss of American ability to shape the market.⁴⁸ Protecting the American cotton market share was crucial for Johnston, as there was a greater demand in

⁴⁶ Correspondence from A.P. Toler to H. H. Stowell, February 1, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 18, Mitchell Memorial Library at Mississippi State University Special Collections.

⁴⁷ Lawrence Nelson, 70.

⁴⁸ Correspondence from H.H. Stowell to Oscar Johnston, May 7 and 18, 1934. Delta and Pine Land Records, MSS-101. Series 6, Box 46, Folders 22 and 23, Mitchell Memorial Library at Mississippi State University Special Collections.

European mills for the high-quality cotton that Delta and Pine Land produced than in American mills.⁴⁹

A.B. Cox confirmed Johnston's and Stowell's concerns three years later. Cox argued that the primary reason for the control program's failure was that it had a minimal impact on the global cotton production. He claimed that, "While the supply of American cotton was being decreased by more than 6,000,000 bales, supplies of foreign cotton were being increased about 4,000,000 bales so that the net decline in supplies of all cotton has been less than 3,000,000 bales, and in spite of U.S. production this year (1936) being only 11,000,000 bales, world production is about 26,000,000 bales, or approximately what it was during the five years prior to depression... in spite of our drastic reduction, foreign production has been increased sufficiently to bring world annual production back to approaching normal."⁵⁰ Thus, Cox concluded that the only achievement of the control programs was to reduce American market share.⁵¹

III

By September 1933, despite approximately 30% of America's cotton acreage being "plowed up" over the summer, cotton prices had collapsed to 8.31 cents per pound by early September on the New Orleans Spot Market from their July high of 11.68 cents, and representatives from cotton states began issuing desperate cries for further significant government relief.⁵² Senator Ellison D. "Cotton Ed" Smith of South Carolina telegraphed the

⁴⁹ Cox, "Recent Changes in Marketing American Cotton in Europe," 162.

⁵⁰ A.B. Cox, L.H. Bean, "The A.A.A., Cotton Growers, and the Agricultural Problem," 302-303.

⁵¹ A.B. Cox, L.H. Bean, "The A.A.A., Cotton Growers, and the Agricultural Problem," 303.

⁵² "Week's Cotton Market," *New York Times*, Monday, September 11, 1933, 31.

President to tell him to issue an order to “stop the sale of cotton until prices can recover.”⁵³

Meanwhile, A.D. Stewart of the Mississippi Cooperative Cotton Association urged the President to “immediately institute further inflation” to “relieve distress among cotton growers...”

Furthermore, he argued that the government should issue an advance to all those growers who plowed up cotton to alleviate the farmer’s distress “until he can be benefited by the inflation.”⁵⁴

Representatives from cotton states traveled to Washington on September 18 to demand that the government “inflate the currency, fix the minimum price of cotton at 15 or 20 cents, and limit the 1934 cotton crop to 9 million bales.”⁵⁵

Meanwhile, the agrarian Governor of Texas, Miriam “Ma” Ferguson, offered a more nuanced approach to the problem. In August, just as prices began their descent, she sent a telegram to the President informing him that “the downward plunge in cotton prices is causing great concern of farming masses...”. She recommended the President order the Federal Reserve to “request member banks to at once announce that loans (at) ninety-percent of value of cotton will be made for twelve months at five percent on all spot cotton offered...”⁵⁶ Ferguson was brushed off by the new Chairman of the Federal Reserve, Eugene Black, who argued that not only was such a request by the Federal Reserve probably illegal but that the President of the Federal Reserve Bank of Dallas had told him that “the cotton credit in that state is extremely easy, that the Texas banks are most willing to make cotton loans, and that the Reserve Bank of

⁵³ Telegram from E.D. Smith to President Roosevelt, September 11, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁵⁴ Telegram from A.D. Stewart to President Roosevelt, September 11, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁵⁵ Edwin Nourse, Joseph S. Davis, John D. Black, *Three Years of the Agricultural Adjustment Administration*, (Washington D.C.: Brookings Institute, 1937), 153.

⁵⁶ Telegram from Miriam Ferguson to President Roosevelt, August 16, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

Dallas is ready to handle for such banks a large volume of such loans.”⁵⁷ What Black chose not to consider was that the supposedly “extremely easy” cotton credit probably still had very short terms and carried high interest. Fed officials, bankers, and farmers tended to have very different opinions about what constituted “easy credit” during the Depression.⁵⁸

Echoing Ferguson’s suggestion was Georgia Governor Eugene Talmadge. Talmadge told President Roosevelt, “I do not believe that inflation will correct the trouble of the cotton farmer of the South....what the South needs is a higher price for cotton...” His main long-term suggestions for how to raise cotton prices were to “...establish trade channels with foreign countries to buy our cotton” and to remedy the fact that “We now have no long-term credit.”⁵⁹ Ferguson and Talmadge emphasized that the credit environment would have to be reformed if cotton prices were to recover.

By mid-September 1933, Oscar Johnston conceived of a credit plan to, as he referred to it in a memo to George Peek, “enable producers to liquidate existing crop mortgages, to market their crop in an orderly fashion, and to obtain the benefits which we believe will be derived from the National Recovery program.”⁶⁰ Oscar Johnston's struggle to access credit during the first

⁵⁷ Correspondence from Eugene D. Black to Presidential Secretary Stephen Early, August 25, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁵⁸ See Milton Friedman and Anna Schwarz, *The Great Contraction* (Princeton, NJ: Princeton University Press, 1965). Eugene Black is generally associated with a looser monetary policy than his predecessors. After all, he likely got the job because of how well the Atlanta District managed Caldwell’s collapse, which was in no small part a consequence of Black’s insistence on keeping the discount window open.

⁵⁹ Correspondence from Eugene Talmadge to President Roosevelt, September 19, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁶⁰ Memorandum to George Peek from Oscar Johnston, September 22, 1933. Franklin D. Roosevelt Papers as President, OF 258 - Cotton, 1933, Franklin D. Roosevelt Presidential Library, Hyde Park, NY. Perhaps unsurprisingly, Lawrence Nelson used this exact same quote in his biography of Johnston. Although I hesitated to use it here, as I did not want to be accused of merely parroting Nelson, the quote is so good and sums up so much that I have decided to allow it to stand.

years of the Depression, along with his experience as a large cotton farmer and rural banker, meant he was closer to the practical problems of cotton farmers than a Fed official like Eugene Black and probably gave him reason to at least sympathize with Ferguson and Talmadge that tight credit was an obstacle to recovery. Johnston was quite optimistic about the possibilities of direct government loans to farmers to provide relief and raise prices, but generally thought the government's role should end there except in an emergency.⁶¹ However, cotton's price collapse in August and September of 1933 constituted just such an emergency, and he advanced a plan for the Government to offer a ten-cent nonrecourse loan across the cotton belt.

The nonrecourse loans were issued through the newly created Commodity Credit Corporation (CCC). The CCC, a government agricultural financing agency, was established by Executive Order in October 1933 and reshaped how farmers accessed credit, giving them more control over selling their crops. The 10-cent nonrecourse loan of 1933 allowed cotton farmers, who agreed to sign acreage reduction contracts, to pledge bales from their planted crop as collateral for a loan from the CCC at a rate of 10 cents per pound. Accordingly, if a farmer committed 2,000 bales, each weighing 500 pounds, to the CCC, the farmer would receive a loan of \$100,000.00. If prices rose above ten cents a pound in the subsequent year, the farmer could dispose of the cotton on the open market, repay the government in cash for the loan and a nominal interest fee, and pocket any proceeds beyond ten cents. If the farmer could not dispose of his cotton for more than ten cents during the subsequent year, he could relinquish the pledged cotton to the federal government at the end of the loan period. The federal government accepted

⁶¹ Correspondence between Oscar Johnston and H.H. Stowell, Specific Examples from Oscar Johnston letters on May 28, June 11, and June 20, 1934, and H.H. Stowell to Oscar Johnston letter of August 24, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folders 24 and 29. Mitchell Memorial Library at Mississippi State University Special Collections.

this "in-kind" payment and canceled the loan. The government would then store this surplus until prices rose. The loan established a ten-cent price floor for cotton farmers, as the government had essentially purchased the cotton at ten cents a pound. By eliminating any pressure from creditors to liquidate, the CCC gave farmers a safety net to speculate further on prices.

As evidence of how ambitious the White House believed this program to be, Johnston and Paul Porter, a lawyer from the AAA, had to obtain approval from various departments before it could be implemented. Johnston and Porter embarked on a two-day marathon in Johnston's limousine, where they browbeat their way past bureaucratic obstacles to meet with the Comptroller General, the Head of the Bureau of the Budget, the Attorney General, and finally, the Secretary of State. They could only see the latter due to the shared status of Johnston and Cordell Hull as alumni of Cumberland Law School in Tennessee.⁶²

The nonrecourse loan was immediately popular among cotton farmers. Senator Bankhead of Alabama told the President after it was announced internally, "Your announcement on cotton plan will electrify the cotton belt and give the people new life. All of us love you and this action will increase our affection."⁶³ E.F. Creekmore of the American Cotton Cooperative Association (A.C.C.A.) told the President that the public announcement has "caused generally a more hopeful feeling among the World Cotton Trade."⁶⁴ C.O. Moser passed along "the appreciation of the Organized Cotton Producers of the South for (The President's) wise and courageous

⁶² Lawrence Nelson, 60-61.

⁶³ Telegram from JH Bankhead to Franklin D. Roosevelt, October 6, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁶⁴ Correspondence from E.F. Creekmore to President Roosevelt, October 28, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

monetary program.”⁶⁵ Prices stabilized in October after the announcement of the CCC and were increasing by January as Johnston had hoped, which quieted the voices loudly demanding further inflation.⁶⁶ It was so popular and effective that Wallace and Peek urged similar loans be extended to corn farmers.⁶⁷

In the fall 1933 iteration of the CCC, cotton growers borrowed \$120,000,000.00 through the nonrecourse loan and only paid back about half of it in cash the following year.⁶⁸ Economists Edwin Nourse, Joseph S. Davis, and John D. Black, in their analysis of New Deal Farm legislation for the Brookings Institute, summarized the results of the cotton loan by claiming “the loan served its purpose of tiding growers over a period of depressed prices during the fall and early winter, but it encouraged them to hold longer than was necessary and increased the volume of cotton that was under government control.”⁶⁹ This left the government with the problem of warehousing and disposing of the cotton the growers had relinquished. The buildup and disposal of government surpluses was not a new problem for the government and had doomed the Hoover administration’s commodity price stabilization efforts.

In the atmosphere of crisis that gripped agriculture in 1930, the Farm Board that President Hoover had created the previous year flexibly interpreted its mandate to set up

⁶⁵ Telegram from C.O. Moser to President Roosevelt, November 24, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁶⁶ Lawrence Nelson, 58.

⁶⁷ Memorandum from FDR to President of Reconstruction Finance Corporation, November 7, 1933. Franklin D. Roosevelt Papers as President, OF 1 - Agriculture, 1933-34. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁶⁸ Correspondence from Oscar Johnston to H.H.Stowell, June 20, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 24. Mitchell Memorial Library at Mississippi State University Special Collections.

⁶⁹ Edwin Nourse, Joseph S. Davis, John D. Black, 164-165.

corporations for open-market commodity purchases.⁷⁰ Unfortunately, after the scheme became public, moral hazard set in, and growers planted more while buyers waited for the price to drop again, which it did quickly.⁷¹ The Farm Board was warehousing well over a million bales in the summer of 1931.⁷² The number had ballooned to over two million when Oscar Johnston took over cotton pool operations in 1933.⁷³

Oscar Johnston took immediate control of the Farm Board's surplus cotton on behalf of the AAA after being appointed Finance Director in the summer of 1933. He was eager to quickly sell the stocks "without discrimination or favoritism and with every caution to avoid dumping or taking any action that might have an unfavorable effect on the market."⁷⁴ The 1933 Agricultural Adjustment Act had allowed farmers, based on an expanded idea of an earlier proposal from Senator Ellison D. Smith (D-SC) to decrease government stocks, an option to purchase the cotton Hoover's Farm Board had bought that was still sitting in government warehouses for six cents

⁷⁰ David Kennedy described the nonrecourse loan as "...essentially reinstat(ing) Hoover's old Federal Farm Board, albeit in a context of production controls that would supposedly keep it from being swamped with limitless surpluses." However, the nonrecourse loan differed substantially from the Federal Farm Board and Cotton Stabilization Loans of 1929-30. Firstly, the Federal Farm Board only lent to cooperatives. It did not lend to the individual farmer. The loans were frequently issued at, or above, market value in a desperate attempt to arrest price decline. The loans were not nonrecourse, which meant that the Board's inability to arrest the decline of prices meant that the Co-Ops struggled to sell enough wheat or cotton to cover the loans. Eventually, the Board established Stabilization Corporations for grain and cotton, which were empowered to purchase and sell these commodities to raise prices. When it became clear that the Cotton Stabilization Corporation was buying significant amounts of cotton, growers were incentivized to grow more cotton for the Stabilization Corporation to purchase. This was how the government ended up with millions of bales of surplus cotton in 1933.

⁷¹ Charles Merz, "The Federal Farm Board: Its Operations and the Dilemma it Faces," *The New York Times*, Sunday July 26, 1931, 1, 5.

⁷² Charles Merz, "The Federal Farm Board: Its Operations and the Dilemma it Faces," *The New York Times*, Sunday July 26, 1931, 1, 5.

⁷³ Correspondence from Franklin D. Roosevelt to Gov. Eugene Talmadge of Georgia, July 21, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Library, Hyde Park, NY. The pool would consist of actual cotton and cotton futures.

⁷⁴ Press Release, "Secretary Takes Over Cotton to Meet Options," United States Department of Agriculture Office of Information Press Service, July 19, 1933. Franklin D. Roosevelt Papers as President, OF 258 – Cotton, 1933. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

per pound at a given time in the future as an alternative to receiving cash for the 1933 "plow-up" rent. The idea was that farmers could gamble on the price of cotton increasing by forgoing an immediate rent check in hopes of reaping greater profits in the long term. From the government's perspective, the upside was that it had to pay less up-front for the plow-up and it would help them liquidate some of their cotton stocks. The downside, however, was that this "optioned cotton" would have to be set aside until the farmers who now owned the rights to that warehoused cotton approved of a sale. Johnston's remedy was to offer farmers a four-cent-per-pound advance in return for the ability to sell the cotton whenever the government deemed fit. The owners of the cotton would then, upon sale, receive the proceeds of the sale minus the four-cent-per-pound advance and the original six-cent purchase price. Johnston's Delta and Pine Land Company received a \$48,000.00 cheque in advance payment in early 1934 on their 2,400 bales of optioned cotton.⁷⁵

Oscar Johnston believed that higher prices in the summer of 1934 meant he could do even better for growers like himself, who still held these optioned bale certificates. He obtained permission to sell these certificates back to the government for the price of cotton at the end of the month when the certificates were exchanged. The Delta and Pine Land Company sold its certificates to the government in October 1934, when cotton was trading at \$0.13 per pound. After subtracting the original six-cent option, the four-cent advance, and nominal warehousing charges, the Delta and Pine Land Company received a cheque for \$39,480.00. If we add the four-cent advance already received by Delta and Pine Land, the total was \$87,480.00 on their "plow-up" cotton. This meant that at \$20 an acre, the government's rental price to take land out of

⁷⁵ Correspondence from Oscar Johnston to H.H. Stowell, August 29, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 29. Mitchell Memorial Library at Mississippi State University Special Collections.

production, the Delta and Pine Land Company received the equivalent of a rent payment for 4,374 acres, about twice the acreage they took out of production. This \$87,480.00 infusion was put immediately against the \$80,000.00 balance the company had on its line of credit in Memphis. These types of government payments would be crucial in the Delta and Pine Land Company's ability to recover from the brink of bankruptcy.⁷⁶ Johnston's critics outside the Administration were quick to point out Johnston's tangled interests. Charles Hyde, a lobbyist for the New England textile industry who criticized Johnston's issuing of warehousing and shipping contracts, asked, "Now, what is Mr. Johnston's interest? He is the owner or controller of 23,000 acres of cotton-growing land. He is known to have been intimately associated with the cooperative managers and the great cotton dealers... Thus we see that legislation that was intended to benefit the farmer is being used solely for the benefit of banks, brokers, and cotton gamblers..."⁷⁷ However, Johnston's biographer Lawrence Nelson argued that "more than three quarters of the approximately 575,000 option holders, whose equity covered nearly two million bales..." earned "profits totaling more than \$12 million."⁷⁸

Still, these various schemes did little to alleviate the pressure on the government cotton pool. The 1933 nonrecourse loan "in-kind" repayments meant that an additional 1.2 million bales would have to be warehoused after August 1934. Meanwhile, weeks earlier, the government announced it would offer the nonrecourse loan again on the 1934 crop at 12 cents per pound. The 1934 loan was two cents higher than the previous year because it was believed that poor weather

⁷⁶ Correspondence from Oscar Johnston to H.H. Stowell, September 10, 1934. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 46, Folder 30. Mitchell Memorial Library at Mississippi State University Special Collections.

⁷⁷ "New England Cotton Industry Request For Storage," from Correspondence Between Charles Hyde and Franklin Roosevelt, November 1, 1933. 258 Cotton, Box 1 Cotton August-December 1933 Folder. Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

⁷⁸ Lawrence Nelson, 64.

conditions and large weevil infestations across the belt would result in a significantly smaller crop and, consequently, higher prices.⁷⁹ However, their assumptions were wrong, and spot prices for the 1934 crop were much lower than anticipated, which led to farmers surrendering six million bales for government storage to repay their loans in 1935.⁸⁰

IV

Although the longevity of the CCC loan program was initially unclear, the nonrecourse loans were reissued every year, except in 1936, until they became permanent with the passage of the 1938 Farm Bill. In response to the 12-cent 1934 loan rate, which resulted in substantial government surpluses, the cotton loan rate was reduced back to 10 cents per pound in 1935. Despite the more modest rate, few loans were repaid in cash, as the spread between the average market price and loan rate was razor-thin for most of the year. However, the lower rate discouraged the scale of borrowing seen in 1934.⁸¹ By the summer of 1936, Johnston had managed to liquidate the government's holdings of the pool cotton (the cotton inherited from the Federal Farm Board and the 1933 CCC cotton), and prices had stabilized to the point where he felt he could retire from his position as Cotton Pool Manager.⁸² Johnston could return his full attention to his operations in the Delta, something much more attractive now that the government

⁷⁹ Correspondence from H.H. Stowell to Oscar Johnston, August 24, 1934. Delta and Pine Land Company records, MSS-101, Manuscripts. Series 6, Box 46, Folder 29. Mitchell Memorial Library at Mississippi State University Special Collections.

⁸⁰ Memorandum from Cully Cobb to Chester Davis, May 28, 1935. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University.

⁸¹ Report "Commodity Credit Corporation Results of Cotton Programs, 1933-1946," USDA, Clinton P. Anderson Papers, Box 13, Commodity Credit Corporation Correspondence Folder, Harry S. Truman Presidential Library, Independence, MO.

⁸² Nourse, Davis, and Black, 98.

subsidies he had designed and implemented had made the company profitable again. In January 1936, the Delta and Pine Land Company responded to a Dun & Bradstreet survey, which showed that it had \$61,000.00 in cash on hand, plus an Accounts Receivable Balance of approximately \$140,000.00. This was against annual expenses of approximately \$125,000.00. The onset of government credit had saved Delta and Pine Land and assisted in its newfound profitability.⁸³

Meanwhile, Cully Cobb's Cotton Production Division continued to attempt to calculate the required number of acres and bales that needed to be taken out of production to achieve the optimal supply, thereby raising prices under the assumption of static demand. In 1935, Cobb believed that the cotton crop needed to be 11,500,000 bales or less to reduce surpluses; accordingly, the Bankhead quota was set at 10,500,000 bales. The actual harvest was just over 11.5 million bales, which, according to Cobb's logic, should have led to a price increase. However, a decrease in consumption (which Cobb claimed was a downstream effect of the accumulated stocks from the 12-cent 1934 loan) meant that surplus levels were barely affected despite hitting his target.⁸⁴ The economist A.B. Cox, meanwhile, argued that the flat prices were a result of the increase in foreign production.⁸⁵ Cobb's efforts to marginalize the loans in favor of acreage control were defeated by the 1936 *U.S. v. Butler* Supreme Court decision, which declared the control program unconstitutional.

⁸³ Questionnaire filled out by Delta and Pine Company for Dun and Bradstreet Co., January 28, 1936. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 42, Folder 51. Mitchell Memorial Library at Mississippi State University Special Collections.

⁸⁴ Memorandum from Cully Cobb to H.R. Tolley, August 17, 1935. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 3, Folder 1, Mitchell Memorial Library at Mississippi State University Special Collections.

⁸⁵ A.B. Cox, L.H. Bean, "The A.A.A., Cotton Growers, and the Agricultural Problem," 302-303.

When Oscar Johnston retired as cotton pool manager in 1936, he had hoped that cotton was on a sound enough price footing that further nonrecourse loans would be unnecessary. However, he was wrong. During the following two years, cotton prices plummeted to barely above eight cents a pound, erasing any gains affected by the AAA and CCC. Jeremy Pytlak, a Marxist commentator, stated in 1939, "Six years of capitalist 'planning' have 'improved' the cotton situation only to the extent of raising the price 2.86 cents above the all-time low of 1931." This accomplishment had cost the government \$1,539,000,000.00 since the Roosevelt administration took office.⁸⁶ Although the 1937 recession negatively affected cotton demand, Cobb and Henry Wallace attributed the 1936-37 price drop to the government being forced to abandon production controls by the Supreme Court's *Butler* decision that declared the AAA unconstitutional. Cobb and Wallace argued that freeing farmers from controls encouraged farmers to put seven million more acres into production than they would have if the Bankhead quotas had remained in effect.⁸⁷ It had led to a harvest of 18,300,000 bales in 1937, six million more than in 1935. Wallace believed this increase would have led to a collapse of cotton prices to 4 or 5 cents per pound had it not been for the emergency 9-cent CCC nonrecourse loan in 1937.⁸⁸ Wallace appears to have been of two minds on the utility of the cotton loan. On some occasions, he seems to share Cobb's skepticism about the loan, but at other times, he appears to champion it. Regardless, whatever skepticism he and Cobb may have shared about the wisdom of the

⁸⁶ Jeremy Pytlak, "The Cotton Economy in Depression," *The New Internationalist* Vol. 5, No. 8 (August 1939): 247-250.

⁸⁷ Although surplus removal programs would also remain in effect during this period, perishables benefited more than cotton.

⁸⁸ USDA AAA Bulletin, General Information Series, October 1938, "An American Income for Cotton," Cully A. Cobb Papers, MS-47, Manuscripts. Series 74, Box 1, Folder 1, Mitchell Memorial Library at Mississippi State University.

nonrecourse loan, both were grateful that it was unaffected by the *Butler* decision and could stave off total disaster in the cotton belt.⁸⁹

After returning to Mississippi from Washington in 1936, Oscar Johnston responded to the 1937 cotton price crisis by organizing the National Cotton Council. He crisscrossed the Delta in the winter of 1937-1938, urging cotton interests to join his new lobby group. In the wake of the *Butler* decision, Johnston informed cotton farmers that production controls had failed and that it was in every farmer's interest to encourage an increase in global cotton consumption rather than to control supply. As Delta Times-Democrat editor Hodding Carter noted, "For the first time since the New Deal assumed complete responsibility for farm welfare, cotton's leadership agrees that control is not the answer...consumption increases through advertising, the discovery of new uses, and loosening of trade restrictions is the only hope for salvation."⁹⁰

However, Cully Cobb and Henry Wallace were not ready to abandon production controls, even after the *Butler* decision. However grateful they were for the nonrecourse loan on the 1937 crop, both remained skeptical that stable prices could be achieved through loans and market expansion. Accordingly, even after *Butler*, they continued encouraging acreage controls, which were reintroduced under the Soil Conservation Act of 1936.⁹¹

⁸⁹ USDA AAA Bulletin, General Information Series, October, 1938, "An American Income for Cotton," Cully A. Cobb Papers, MS-47, Manuscripts. Series 74, Box 1, Folder 1, Mitchell Memorial Library at Mississippi State University. In this article, which are Wallace's condensed remarks from an address he delivered at Fort Worth Texas, Wallace assumed it was 16M bales. However, Cobb's office's statistics list the number as 18,300,000 ("Cotton, American: Acreage, Yield, Supplies, and Disappearance, 1919-1920 to 1937-1938").

⁹⁰ Statement from Hodding Carter II on Oscar Johnston and National Cotton Council. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 26, Folder 8. Mitchell Memorial Library, Mississippi State University Special Collections.

⁹¹ USDA AAA Bulletin, General Information Series, October 1938, "An American Income for Cotton," Cully A. Cobb Papers, MS-47, Manuscripts. Series 74, Box 1, Folder 1, Mitchell Memorial Library at Mississippi State University.

The passage of the 1936 Soil Conservation Act reinstated acreage controls through the guise of environmental protection while devolving authority to the states to administer the plan. This addressed the *Butler* ruling's declaration that the Federal Government had infringed on the power of the states by trying to raise prices. The Court declared that agricultural prices were a local concern, not one of "interstate commerce," and therefore explicitly within the jurisdiction of the states.⁹² In the eyes of government lawyers, federal government support for state environmental programs was on firmer legal ground. The downside was that it required time to bring the states on board, perform environmental surveys, and re-obtain the support of stakeholders. By the time this was accomplished, the record 1937 cotton crop had already been planted, the size of which was believed to likely lead to a cotton price crash without intervention. Senators from the cotton states demanded a new loan be offered, but the President initially refused because he felt that, without production controls, the surpluses would be uncontrollable. A compromise was eventually reached, where the government would offer a 9-cent loan for congressional action to reimpose acreage controls as soon as Congress returned, resulting in the 1938 Farm Bill.⁹³

The 1938 Agricultural Adjustment Act, also known as the 1938 Farm Bill, permanently reorganized the government's relationship with American farmers and addressed the cotton problem, at least from the farmers' perspective.⁹⁴ It emerged from Henry Wallace's vision of an "ever-normal granary," an idea he claimed to have borrowed from ancient China and the biblical

⁹² United States v. Butler, 297 U.S. 1 (1936).

⁹³ Carl T. Schmidt, *American Farmers in the World Crisis* (New York: Oxford University Press, 1940), 147. Report "Commodity Credit Corporation Results of Cotton Programs, 1933-1946," USDA, Clinton P. Anderson Papers, Box 13, Commodity Credit Corporation Correspondence Folder, Harry S. Truman Presidential Library, Independence, MO.

⁹⁴ Technically, it was just an amendment to the Soil Conservation Act.

story of Joseph in Egypt.⁹⁵ Wallace's plan called for permanently establishing government programs that restricted acreage and offered nonrecourse loans to create a type of national cooperative that lent to every farmer and handled the "organized marketing" of the crop if the farmer failed.⁹⁶ The cooperative's price of admission was signing an acreage reduction contract with the government. The goal was to ensure that farmers always received a "parity price" for their crop, which the 1938 Farm Bill defined as "that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relations as prevailed during the period from August 1909 to July 1914." In layman's terms, farm purchasing power had lagged behind industrial purchasing power since the early 20th century, specifically since 1914. Farmers blamed this on industrial tariffs, which forced them to purchase more expensive domestically produced goods instead of cheaper foreign-produced goods. As part of the original AAA, between 1933 and the *Butler* decision, American cotton farmers received a direct "parity check" every year from the federal government to compensate for the difference between the market price they received for their cotton and the estimated "parity price." This had amounted to cheques of between one and one and a half cents

⁹⁵ Derek Bodde, "Henry Wallace and the Ever-Normal Granary," *The Far-Eastern Quarterly* Vol. 5, No. 4 (Aug. 1946): 411-426. Congressional debates around cotton loans from the 1914 crisis might have more directly influenced Wallace. Several proposals were advanced that fall for a loan on cotton to establish a price floor, but many Senators and Representatives otherwise sympathetic to the plight of cotton farmers were concerned that such a loan only delayed the problem of too much cotton hitting the market at once. Eventually, even the stored cotton would have to be sold. Accordingly, the latter proposals included a loan on the cotton and acreage controls to limit future production, the two main components of the "Ever-Normal Granary." (see: James L. McCorkle, "Louisiana and the Cotton Crisis, 1914," *Louisiana History* Vol. 18, No. 3 (Summer, 1977): 303-321.)

⁹⁶ Many of the significant farm reforms crafted by Congress, such as the 1916 Federal Farm Loans Act, the 1922 Capper-Volstead Act, and the 1923 Agricultural Credits Act incentivized farmers to create cooperative-style organizations to increase credit and facilitate "organized marketing." The "Ever-Normal Granary" is, arguably, both a culmination of these efforts and an acknowledgment that the piecemeal approach to cooperatives had failed.

per pound. The 1936 Soil Conservation Act and the 1938 Farm Bill permanently authorized these payments to farmers in addition to any other assistance they received.⁹⁷

However, although direct parity payments remained a tool at the government's disposal and Congress would appropriate funds for such payments for several more years, the framers of the 1938 Farm Bill intended to achieve parity by raising market prices rather than through direct subsidies.⁹⁸ According to the 1938 Farm Bill, prices would be stabilized, or made "normal," by a federal government that issued annual nonrecourse loans at 60 percent of the calculated parity price.⁹⁹ In an economic emergency, the nonrecourse loan would be the most crucial instrument for price adjustment. The law stated that when cotton prices fell below 52 percent of parity, deemed an emergency, all cotton farmers were forced to place their entire crop in the loan to stabilize prices.¹⁰⁰ According to Reed Frishknecht, the nonrecourse loan would become the "major method of increasing farm prices."¹⁰¹

V

The 1938 Farm Bill shifted the burden of price risk from the cotton farmer to the government. Farmers could rely on a government price floor for bales they intended to market,

⁹⁷ Reed L. Frishknecht, *Farm Price and Income Support Programs, 1933-1950* (Salt Lake City, UT: University of Utah Institute of Government, 1953), 31.

⁹⁸ According to Frishknecht total farm parity appropriations totaled over a billion dollars between the passage of the 1938 Farm Bill and the price increases that accompanied wartime demand that negated any need for such payments. (Frishknecht, 32).

⁹⁹ Agricultural Adjustment Act of 1938, Title III, Subtitle A, sec. 302, d

¹⁰⁰ United States Department of Agriculture Economic Research Division, "History of Agricultural Price Support and Adjustment Programs, 1933-1984: Background for 1985 Farm Legislation," Agriculture Information Bulletin No. 485 (Washington D.C. 1984), 14.

¹⁰¹ Frishknecht, 51.

government rent for the land they took out of production, and a parity check that ensured their incomes would be comparable to those of urban Americans. While the periphery had spent much of the post-Civil War period complaining about being marginalized, it can be argued that they were now privileged. No industrial sector, no matter how politically powerful, could rely on the sort of guaranteed profitability that farmers could now access. However, while the farmers were satisfied, the government now had a significant problem on its hands.

The fact that both acreage control and credit were key components of the 1938 Farm Bill suggests a compromise between the two positions of those who wished for a nationalist recovery and those who did not. However, the Farm Bill's institutionalization of the nonrecourse loan meant that the United States had closed the door to a nationalist recovery. The fact that bale control was not part of the 1938 version further guaranteed that export markets would be necessary, as there were now very few mechanisms for controlling the amount of cotton grown on acres the government was not renting. Accordingly, without the Bankhead bale control system, the government no longer controlled the size of the cotton crop, and new customers would need to be found to dispose of surpluses.

The problem the government inherited from cotton farmers was apparent almost immediately, as the price floor the loan put under American cotton was above the world price for spot cotton. Thus, American cotton farmers had little interest in exporting their cotton at a price lower than the loan rate, and there was little incentive to hedge on the futures market. Accordingly, American farmers were exporting less cotton in 1938 than they had in sixty-five

years, and as many bales from the much more diminutive 1938 crop entered government hands as had entered from the bumper 1937 crop.¹⁰²

By March of 1939, the administration was forced to acknowledge that “the cotton loans have served a useful purpose in sustaining prices during heavy marketing periods, but due to large extent of the record crop of 1937 stocks under loans have now accumulated to such an extent that it is desirable that a portion of the stocks be moved into domestic consumption and export as fast as marketing conditions permit.”¹⁰³ The United States Government’s recovery program had put itself in a position where it had to consider dumping. From the perspective of March of 1939, only a year after the “Ever-Normal Granary” was adopted, the nonrecourse loan appeared unsustainable without significant exports. To encourage farmers to export their cotton, as opposed to just waiting to surrender their cotton to the government, the Administration organized an export subsidy on newly grown cotton which paid farmers \$7.50 per exported bale.¹⁰⁴ The result was a bonanza resulting in six million bales from the 1939 crop being exported, “almost double the shipments in the preceding season.”¹⁰⁵ However, the export subsidy hardly caused prices to increase, which was the purpose of the ever-normal granary and the factor that most determined farmers’ prosperity, and drove down the prices that farmers in other countries received for their cotton. The onset of war was not even enough to drive up prices.¹⁰⁶ Although demand increased, most of that was domestic American demand as shipping space was

¹⁰² Carl Schmidt, 157.

¹⁰³ Correspondence from H.H. McIntyre to Henry Wallace, March 9, 1939. Franklin D. Roosevelt Papers as President, OF 614 - Trade, 1933-1945, Franklin D. Roosevelt Presidential Library, Hyde Park, NY.

¹⁰⁴ Cotton export subsidies were hardly novel. Between 1921 and 1923, “to assist in financing exports,” the War Finance Corporation advanced \$58,274,253 to American exporters. \$40,758,508 of it (70%) went to cotton exporters. See: Sixth Annual Report, The War Finance Corporation, 1923, 16.

¹⁰⁵ Carl Schmidt, *American Farmers in the World Crisis*, 158.

¹⁰⁶ Greg Robinson argued that this was a consequence of shutting off trade with Japan, the largest importer of raw cotton at the time. Greg Robinson, “Japan and the New Orleans Cotton Trade in the Early Twentieth Century,” *Louisiana History* Vol. 64, No. 4 (Fall 2023): 421-422.

scarce and sea lanes were insecure.¹⁰⁷ Only after America entered the war and had more reliable transport across the Atlantic could cotton farmers take advantage of the price increases that accompanied growing wartime demand.¹⁰⁸

In 1936, economist A.B. Cox argued that neither the loan nor the control schemes had any effect on raising prices.¹⁰⁹ However, the various relief schemes that farmers now had access to —parity checks, rent checks, and nonrecourse loans—meant that many farmers (at least the landowning ones) were much better off financially through government assistance despite the low prices. Therefore, New Deal farm legislation did not solve the cotton problem; it merely led to the government assuming responsibility for the cotton problem itself. A significant political victory for Southern Democrats. Southerners leveraged their political influence during the New Deal to create a new political economy for peripheral agriculture, one that enabled them to benefit from volatile global commodity prices without incurring any downside risk. However, Washington's assumption of the cotton problem for itself meant that it now had a material stake in liquidating agricultural surpluses.

¹⁰⁷ "Cotton Prices in the World Wars," *Monthly Review*, March 1944, St. Louis Federal Reserve, p. 3. [65097_1940-1944.pdf \(stlouisfed.org\)](#). First Accessed November 2021.

¹⁰⁸ "Cotton Prices in the World Wars," *Monthly Review*, March 1944, St. Louis Federal Reserve, p. 3. [65097_1940-1944.pdf \(stlouisfed.org\)](#). First Accessed November 2021. It is also possible that fears of falling production affected cotton prices, as laborers were fleeing the cotton fields for high-paying jobs in industry and the military. Johnston took several fields out of production on the Delta and Pine Land plantation for this very reason from 1943-1945.

¹⁰⁹ A.B. Cox, L.H. Bean, "The A.A.A., the Cotton Growers, and the Agricultural Problem," 298-299.

Chapter 4 - The Export-Import Bank: George Peek's Bilateral Tool, 1934-1938

I

On December 31, 1934, George N. Peek, the Special Advisor on Trade to the President and President of the Second Export-Import Bank of Washington, submitted a report recommending a fundamental restructuring of American trade policy. If fully implemented, this policy would have significantly altered the way the United States executed foreign policy. Peek suggested that "...the depressed condition of American agriculture, spread as it was throughout the entire geographic area of the United States, was mainly responsible for our depression." He argued that the only way for a full recovery to take place was to regain agricultural export markets, as "the prosperity of our agriculture is more directly dependent upon foreign markets than is the prosperity of industry." He implied that the biggest obstacle to foreign markets was "...our exports being denied payment." Peek identified the two Export-Import Banks that had been created by Executive Order in 1934 as having filled, "...a long-term need and are playing an essential part in the re-establishment of American foreign trade on a sound basis." He recommended establishing the Export-Import Bank on a definite statutory basis and having it governed by a powerful central board led by him, which would also function as the centralized foreign trade agency. Peek saw this board as becoming the most powerful entity in American foreign trade, even more powerful than the Departments of State or Commerce. Peek argued that this board have should be "...empowered to make recommendations as to the initiation and conduct of reciprocal trade agreements and shall act as a board of review to pass upon them prior

to their submission to you for final approval.” Thus, Peek’s board would be empowered to effectively reject a trade treaty signed by the State Department.¹

Peek was not content to settle for being the ultimate power, aside from the President, on foreign trade policy; he also sought to make his Export-Import Bank the primary domestic policy authority for the New Deal. He recommended that the Export-Import Bank Committee be given “...a similar function of recommendation and review...with respect to such provisions as Section 3(e) of the National Recovery Act, the quota making power at present vested in the Secretary of Agriculture, and the powers now exercised by the Department of the Treasury with respect of dumping and countervailing duties. Thus, while final action would be vested in the President, the Board of the new Export-Import Bank would act as a review committee before the President exercised those functions delegated to him by Congress.” In the court politics of the Roosevelt administration, this document stands out for its absolute brazenness. Peek sought to utilize the Export-Import Bank to make him the most powerful man in Washington, other than perhaps Roosevelt himself. Roosevelt would take some of his advice, such as establishing the Export-Import Bank on a permanent statutory basis with Peek at its head. However, he would not make the Export-Import Bank the supreme power in Washington.²

Peek’s power play was hardly out of character, as he frequently attempted to bypass prominent cabinet officials, such as Henry Wallace, Cordell Hull, and Henry Morgenthau, in his encounters with Roosevelt. Peek had been the President of the Moline Plow Company for much of the 1910s before joining the War Industries Board during World War I and becoming one of the country’s foremost advocates of achieving farmer parity. He was one of the Republican

¹ Correspondence from George Peek to Franklin D. Roosevelt, December 31, 1934, 3-7, FDR Presidential Papers, Box 1, Trade 1933 Folder, Franklin. Delano Roosevelt Presidential Library, Hyde Park, NY.

² Peek to Roosevelt, December 31, 1934, 7.

figures behind the crafting of the 1926 McNary-Haugen Bill, which would have had the government purchase surplus American crops at an artificially high price floor and then sell them overseas at the market price. When President Coolidge repeatedly vetoed the bill, Peek became a Democrat.

Peek was brought into the Roosevelt Administration and made the Director of the new Agricultural Adjustment Administration. However, Peek did not work well when he had a superior, and Secretary of Agriculture Henry Wallace supervised him at the AAA. Peek kept insisting on cartelizing agriculture as a solution to the crisis despite being repeatedly overruled by Wallace. Eventually, the relationship became unsalvageable, and Roosevelt was forced to relieve Peek of his duties there. However, Roosevelt wanted to keep Peek in his administration. If nothing else, Peek was an imaginative thinker who offered a different perspective than Roosevelt was likely to receive from Wallace or Hull. Roosevelt appointed him his Special Advisor on Trade and later the President of the Export-Import Bank. Peek's intransigence would eventually become too much for even Roosevelt to bear, when Peek forced Roosevelt's hand in a battle between himself and Cordell Hull over a trade treaty decision.

Peek's views on trade were distinguishable from Hull's. He believed that, although tariffs obstructed foreign trade, they were a secondary concern to exchange controls. Peek's experience was that, despite the high tariffs of the period, "...there is a strong demand on the part of foreign nations for American products, particularly agricultural products." However, "...conditions arising out of exchange difficulties..." meant that exporting depended on "...barter transactions in one form or another... as a means of holding markets pending a general stabilization of currencies or the restoration of more normal trade conditions." If Hull was a true believer in the virtues of free trade, Peek was practical and even cynical. He believed that American foreign

policy should generally abandon "...diplomatic and political considerations," and focus exclusively on "...commercial and financial considerations." He believed that dealing with other countries individually, and not collectively, was the proper principle to "...apply to the whole question of foreign trade." According to Peek, "Circumstances alter cases, and in the realistic world of commerce we must to a large extent take things as we find them and deal with them accordingly, country by country, and, if necessary, commodity by commodity, in order to find an ultimate good solution."³

He made the case that the international environment compelled the US Government to be at the center of trade for the foreseeable future. He argued that, "With the breakdown of international exchanges, foreign trade has become increasingly the affair of governments rather than individuals." He argued further that, "Foreign nations are organizing as never before to protect their internal economy through devices such as high tariffs, quota systems and exchange controls, and through the formulation of special agreements which range all the way from general commercial treaties to specific barter transactions of commodity against commodity." He told Roosevelt that "Figures I believe to be reliable indicate that the greatest gains in international trade have been made by those countries which have resorted to special trade agreements, notably Great Britain, France, and Russia, and that those gains have been made largely at the expense of the United States." Thus, Peek recommended "To cope with such conditions of trade, we must retain in our hands the highest possible degree of bargaining power and the greatest freedom of motion to deal with conditions as they arise."⁴

³ Peek to Roosevelt, 6,8,9.

⁴ Peek to Roosevelt, 9, 10.

Critics labeled Peek an “isolationist,” but that is not an altogether fair characterization. He is probably more accurately called a “bilateralist.” He believed that the international environment required a *realpolitik* approach, and that the lack of established rules governing international relations meant that the ability to negotiate favorable terms in such interactions depended on the ability to project and maintain power. With this in mind, he opposed Warren Harding’s and Charles Evans Hughes’ 1921 decision to offer “unconditional most-favored-nation status” in American trade treaties, preferring the conditional model pursued by James Blaine in the 1880s and 1890s. Thus, Peek was not necessarily critical of Hull’s pursuit of reciprocal trade but wanted the treaties the Administration signed to be on a conditional Most Favorable Nation basis rather than an unconditional Most Favorable Nation basis. He also worried about Hull’s priorities. Peek believed that, while tariffs disrupted American exports, they did not prevent trade. Buyers for American agricultural goods could still be found, even if tariffs made trade more difficult. To Peek, exchange controls were the real problem. Peek wanted Hull and the State Department to focus on exchange control agreements between countries first, and to then pivot to negotiating lower tariffs. He worried that exchange control agreements could be hung up for years waiting for an uncertain trade treaty. His diva-esque personality came through in this battle and, when he forced Roosevelt to pick sides (something Roosevelt was typically reluctant to do), Roosevelt chose Hull. However, agricultural exporters would appreciate Peek and the Export-Import Bank’s rigorous and practical approach to facilitating exports.⁵

The Export-Import Bank would become the government’s chief bilateral tool for exporting American commodities until Hull could sufficiently expand export markets to liquidate commodity surpluses through regular channels. Cotton exporters, including the Commodity

⁵ Gilbert Fite, *George N. Peek and the Fight for Farm Parity* (Norman, OK: University of Oklahoma Press, 1954).

Credit Corporation, were among the most frequent users of the Export-Import Bank to facilitate raw cotton exports, even when this created tension with other American diplomatic initiatives during the Great Depression and Second World War. To some degree, the Export-Import Bank in this period was an extension of George Peek's impatient and cavalier personality, in contrast to Hull's patience and fastidiousness. While the State Department pursued a long-term strategy to open up cotton markets through Reciprocal Trade Agreements, the Export-Import Bank served as a tool to facilitate immediate cotton exports. While Hull and the State Department pursued cooperative agreements and attempted to maintain American moral credibility, Peek's Export-Import Bank focused on growing American commerce. It showed little regard for any other considerations, which would lead to significant tension between the Export-Import Bank and the State Department. Still, the Export-Import Bank was a handy tool for the U.S. Government. It could help facilitate the liquidation of surpluses (particularly cotton) and assist in strategic foreign economic development (something for which cotton was also beneficial). Thus, while Hull's frustrations with Peek and the Export-Import Bank were often justified, the Export-Import Bank was able to export a significant amount of cotton in the short term. In contrast, the Reciprocal Trade Agreements were a long-term dream with an uncertain payoff. Additionally, loans from the Exim Bank proved to be a valuable means of overcoming some of the challenges associated with trade negotiations.

II

The first Export-Import Bank was formed in February 1934 to facilitate trade with the Soviet Union. However, given the status of Russian war debts to the United States, "...it was voted on March 16th, by the Board of Directors of the Bank, [at the suggestion of the State Department], that it would not finance Russian trade until a settlement of the debt question..."⁶ Soon after, a Second Export-Import Bank of Washington (the Eximbank) was established to finance the export of American silver to Cuba, allowing the Cuban government to mint the silver into coinage. The Cuban Government needed to import silver from the United States to mint coins, but it did not have the foreign exchange with which to purchase the silver from American mining distributors. George Peek claimed that this transaction was "satisfactorily concluded," and another Cuba silver loan was quickly arranged. Over the next several years, the Eximbank facilitated numerous transactions involving Cuban coinage, totaling \$27,554,035.30. These loans not only assisted American silver exporters but also aided Cuban buying power. As justification for the fourth purchase of silver, 15,468,750 ounces of silver at 1000 fineness in 1938, the Eximbank stated, "...the result of those (previous) agreements had been to improve, materially, the stabilization of Cuban economy and also a great help to the restoration of normal trade with the United States."⁷ Thus, the Eximbank became a vital tool for economic diplomacy in the broken global economy of the 1930s and 1940s.⁸

According to George Peek, "It had been originally contemplated that a Third Export-Import Bank would be created to finance trade with the other nations of the world. However, it was decided to expand the functions of the Second Export-Import Bank to include trade with all

⁶ Peek to Roosevelt, 13.

⁷ "Synopsis of Credit No. 175," Cuban Coinage Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

⁸ Peek to Roosevelt, 13.

nations except Russia.”⁹ The Second Export-Import Bank opened its doors to businesses in July 1934 and, by the end of the year, had approved \$12 million worth of loans, including the financing of a shipment of \$1.3 million of tobacco from S.B. Smith and Company of Mayfield, Kentucky, to the Compania Arrendataria de Tabacas in Spain.¹⁰

The Eximbank also assisted in the tricky parts of trade negotiations. For instance, the Brazilian-US Trade Treaty of 1935 included “a provision that the Brazilian Government would cause sufficient exchange to be available to take care of...” about thirty million dollars of blocked remittances to US exporters that had accumulated owing to “...the overall shortage of foreign exchange in Brazil.”¹¹ The Eximbank played a key role in facilitating the favorable liquidation of these remittances. The Bank of Brazil would offer notes to American exporters with various maturity dates to facilitate the payment of remittances on behalf of Brazilian importers. Those exporters would then discount the notes at specific American banks, understanding that the Eximbank would re-discount the notes for the banks.¹² The Eximbank was willing to be a party to such a deal, even if the business case was tenuous, because the Bank’s directors understood that the agency was an instrument of foreign commercial policy. According to the resolution adopted by the Board of Directors concerning the Brazilian arrangement, “The Board of Trustees of the Bank has determined and hereby finds that the participation of the Bank in the financing of

⁹ Peek to Roosevelt, 13.

¹⁰ “Resolution,” Folder 11, S.B. Smith and Company, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

¹¹ “Synopsis of Credit No.80,” RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

¹² “Synopsis of Credit No.80.”

said notes... will facilitate and increase exports and the exchange of commodities between the United States of America and foreign nations and the agencies or nationals thereof.”¹³

However, the Eximbank’s primary purpose would be to facilitate American exports under impossible trade conditions. This was particularly important for export-dependent sectors, such as the cotton industry, which would come to rely heavily on the facilities of the Eximbank. The situation in Czechoslovakia is a good example of the fundamental challenges faced by American cotton exporters, including the CCC, during the 1930s. In Czechoslovakia, “Government exchange restrictions in place since October 1931, place all foreign exchange transactions under the control of the National Bank of Czechoslovakia. Banks sanctioned to engage in foreign exchange operations may allot exchange to their clients, without restrictions, in payment for goods imported only when the amount involved is less than 20,000 crowns a month (about \$850 USD).”¹⁴ Meanwhile, exporters were expected to surrender the foreign exchange they received for the export, “... to the National Bank, unless the exporter has obtained special permission from the National Bank to use the foreign exchange for his own imports.”¹⁵ Situations like this were hardly unique to Czechoslovakia. The collapse of exchange that occurred in 1931 after the Ottawa Conference and the subsequent failure of the London Conference forced nation-states to husband their foreign exchange carefully. Both Peek and Hull recognized that this was a significant issue for American exporters. The difference lay between their priorities. Hull sought comprehensive reciprocal trade agreements to reduce tariffs and resolve exchange control issues.

¹³ “Resolutions of the Board of Trustees, Export-Import Bank of Washington,” February 17, 1936, Folder 12, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

¹⁴ “Resolutions of the Board of Trustees, Export-Import Bank of Washington,” February 17, 1936, Folder 12, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

¹⁵ “Credit Proposal,” July 31, 1935, 4, Project #100 Chase National Bank, Agents for Anglo-Czechoslovak Bank and Prague Credit Bank Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

Peek believed that exchange controls should be resolved first to allow trade despite the tariffs before entering the tense negotiations of a reciprocal trade treaty. Peek sought to utilize the Export-Import Bank to circumvent the problems.

III

The Administration's general abandonment of a nationalist recovery, including its support for Cordell Hull's aggressive Reciprocal Trade Agreements campaign, assisted Oscar Johnston in his quest to liquidate government cotton surpluses without crashing the cotton price. By 1936, Roosevelt was starting to sound like Cordell Hull when he declared to the Pan-American Conference in Buenos Aires that "...the welfare and prosperity of each of our nations depend in large part on the benefits derived from commerce amongst ourselves, and with other Nations, for our present civilization rests on the basis of an international exchange of commodities."¹⁶ Accordingly, Oscar Johnston's government cotton operations would benefit from working with an administration that, by 1935 at least, had embraced the need for internationalism and, according to economist Carl T. Schmitt, committed to "restoring the old course of our foreign trade in agricultural products."¹⁷

However, while supportive of Cordell Hull, Johnston could not wait for the uncertain future Reciprocal Trade Agreements to market the warehoused government cotton abroad. In the interim, he encountered various exchange control regimes that stymied his ability to export.

¹⁶ Franklin Roosevelt, 'Pan-American Conference Address,' December 1st, 1936. Buenos Aires, Argentina. First Accessed July 18th, 2024. [Address before the Inter-American Conference for the Maintenance of Peace, Buenos Aires, Argentina. | The American Presidency Project \(ucsb.edu\)](#)

¹⁷ Carl T. Schmidt, *American Farmers in the World Crisis* (New York: Oxford University Press, 1941), 197.

Firms in export markets needed American dollars to purchase American cotton, dollars they could only access if their country's firms could export goods to the United States, a process hampered by high American tariffs and strict anti-dumping legislation. Johnston, and much of the cotton industry, turned to George Peek and the Export-Import Bank to negotiate one-off barter deals on a bilateral basis.

Czechoslovakia had been the textile center of the Austro-Hungarian Empire, having about 70% of the Empire's spindles in 1913. Following the end of the war, the Czech textile industry continued to expand. In 1920, the newly independent Czechoslovakia imported 221,000 bales, and by 1929 this had more than doubled to 535,000 bales. About three-quarters of the cotton fed through these spindles was American cotton, although most came via Germany. The economic calamity of the 1930s meant that, by 1935, 52% of Czech spindles lay dormant. The country only imported 334,000 bales in 1934, and the problems of foreign exchange in Czechoslovakia, Germany, and the United States meant that American cotton's share of the reduced Czech market had shrunk.¹⁸ In 1934, there was \$355,000.00 of blocked American exchange in Czechoslovakia. These were invoices payable to Americans, which Czech importers had attempted to settle, but had been blocked by the Czech National Bank to conserve foreign exchange. In 1935, only \$15,000 worth of these blocked exchanges would be permitted to be processed by the National Bank.¹⁹ The Eximbank was perfectly placed to resolve this problem. In 1935, the Anglo-Czechoslovak Bank in Prague approached the Eximbank to finance a significant cotton purchase,

¹⁸ "Imports of Raw Cotton," Project #100 Chase National Bank, Agents for Anglo-Czechoslovak Bank and Prague Credit Bank Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

¹⁹ "The Exchange and Trade Situation in Czechoslovakia, 1935", 1-2, Project #100 Chase National Bank, Agents for Anglo-Czechoslovak Bank and Prague Credit Bank Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

as they had identified that an "...American shipper... would be prepared to sell against spinner's acceptances endorsed or guaranteed by (Eximbank), provided that the acceptance would be readily negotiable with his banking connection or through its medium with yourselves and provided that such negotiations would be without recourse to the American shipper."²⁰ Peek accepted the proposal and agreed to a \$ 100,000 loan to Czechoslovakia to purchase American raw cotton.²¹ Czechoslovakia would be a regular destination for cotton exports facilitated by the Export-Import Bank. Between 1936 and 1938, the bank loaned an additional \$1,008,567.60 to purchase American cotton.²²

While the above transactions were hardly controversial, the Eximbank would showcase its hallmark moral flexibility in later cotton deals with Czechoslovakia. In December 1938, the bank, "for the purposes of the sale and exportation to Czechoslovakia and Yugoslavia of American raw cotton," extended both the amount of credit available and the period during which the Anglo-Czechoslovak and Prague Credit Bank could access the line of credit to June 1939.²³ Although this clause was terminated at a meeting on April 29, 1939, the reason for which was likely the full German invasion of Czechoslovakia, this credit extension occurred after the Germans occupied Prague in March 1938 and the Czechs had relinquished the Sudetenland in accordance with the terms of the Munich Agreement. Thus, the Eximbank was financing cotton

²⁰ "Correspondence from Anglo-Czechoslovak and Prague Credit Banks to Second Export-Import Bank of Washington," Received July 16th, 1935, Credit no 100 Czechoslovakia Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

²¹ "Synopsis of Credit No.100," Credit No. 100 Czechoslovakia Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD.

²² "Credit No. 137," and "Credit No. 143," Czechoslovakia Folder and Project No.143 Anglo-Czechoslovak Bank of Prague Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Boxes 1 and 2. NARA II Archives, College Park, MD. Some of this cotton was also to be sent from Czechoslovakia to Austria and Hungary.

²³ "Project No. 143 Amendment," Signed by Hawthorne Arey, December 20, 1938, Project No. 143 Anglo-Czechoslovak and Prague Credit Bank Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 2. NARA II Archives, College Park, MD

exports to a country largely under the thumb of the Nazis. Mr. Artur Wengaf, the President of the Anglo-Czechoslovak and Prague Credit Bank, sought these extensions. He argued that despite “one-half of the country’s spindles formerly in operation in Czechoslovakia (being) surrendered to Germany under the Munich Agreement...”, he only thought he would lose the business of “one cotton mill account.”²⁴ Since the annexation, he had seen “...increased activity of cotton mills in his country...(thus necessitating) a more active use of the credit than heretofore is to be expected.”²⁵ Czech textile production would be a vital aspect of the German war effort. Wengaf’s bank would attempt to adapt to the conditions under occupation but was eventually sold to German financial interests in 1943. Although it would reopen in 1945, it was quickly nationalized and merged into the Zivnostenska Banka in 1948 by the new Communist Government.

Another of America’s primary European cotton markets had historically been Germany, but the combination of the breakdown of global exchange and the ascendancy of the autarkic-leaning Hitler Government had essentially frozen that arrangement. However, cotton needed to be exported, and in 1935 George Peek and the Eximbank privately negotiated a significant barter deal with the Nazi Government on behalf of Johnston’s cotton pool and other exporters. The deal emerged in the summer of 1935 when, according to the Eximbank, American cotton stocks in

²⁴ “Memorandum to Executive Committee,” November 30, 1938, from W.D. Whittimore, Project No. 143 Anglo-Czechoslovak and Prague Credit Bank folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 2. NARA II Archives, College Park, MD. Wengaf’s letter is fascinating, and worthy of analysis from someone far more versed in the Czechoslovak history of the period. However, what is important for our purposes is that Wengaf expected to sell his bank’s branches in the Sudetenland to “...Allgemeine Credit Anstalt, of Leipzig, thus obviating their liquidation.” Wengaf was confident that the Munich Agreement would ultimately benefit the Czechs. He argued that “Taken as a whole the territories now transferred to Germany were, in certain respects, a burden to our country due to the fact that some of the districts in question were overindustrialized and, consequently, evidenced from time to time a considerable unemployment. The relief payments caused, at certain times, heavy disbursements on the part of our Government.”

²⁵ “Memorandum to Executive Committee,” November 30, 1938.

Bremen, the chief German cotton port, were “very low...”, and “...considerable business is lost through inability to supply German spinners on a hand-to-mouth basis as dollars become available.”²⁶ The Eximbank claimed that because, “Only the very largest of American houses can procure financing to store cotton in foreign ports...” some means had to be found to “...loan on cotton and in some manner to permit the storing of it in Bremen...” or German importers were going to stop purchasing American cotton altogether.²⁷ The Eximbank was there to help.

On July 23rd, 1935, the President of the American division of the cotton shipper Bartz and Company of Dallas, who also had a division in Bremen, petitioned George Peek to discuss, “...the matter of utilizing the facilities of your bank in the proposition of increasing consumption of American cotton in Germany...”²⁸ Bartz proposed that the Export-Import Bank finance for one year, “...shipments to be made by my firm say 25% of the invoice value of the cotton in Cash Dollars... and 75% to be paid out of exports of German manufacturers...”²⁹ Bartz added that the company was, “...vitally interested in any proposition that will enable us to increase our exports of cotton so badly needed by our European friends who are severely handicapped because of the shortage of immediate Cash Dollars...”³⁰

Cordell Hull scholar, Michael Butler, claimed that the German cotton deal meant that “Peek had...inserted himself into issues that were far larger than simply finding a market for American agricultural surpluses,” such as “efforts to liberalize German trade policy...”³¹ While

²⁶ “Credit Proposal,” 3, Credit No. 117 Barts and Co. Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD

²⁷ “Credit Proposal,” 3.

²⁸ “Correspondence from Bartz to George Peek,” July 23, 1945, Credit No. 114, Bartz and Company Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD

²⁹ “Correspondence from Bartz to George Peek,” July 23, 1945,

³⁰ “Correspondence from Bartz to George Peek,” July 23, 1945.

³¹ Michael A. Butler, *Cautious Visionary: Cordell Hull and Trade Reform, 1933-1937* (Kent, OH: Kent State University Press, 1998), 109.

Peek was negotiating the cotton deal, Hull was locked in his own talks with Hjalmar Schacht, the President of the Reichsbank. Hull sought to use a carrot and stick approach to convince the Nazi Government to soften its antisemitism and make significant trade concessions. Peek's deal undermined these efforts. Furthermore, according to Oscar Johnston's biographer Lawrence Nelson, the State Department objected to the deal's willingness to offer German manufacturing exporters preferential access to the American market, arguing it "jeopardized the integrity of the equal treatment and liberal trade ideals embodied in the reciprocity negotiations."³² This concern was hardly idle as, once the details became public, Brazil threatened to withdraw from its reciprocity negotiations with the State Department if the German deal were to proceed.³³ Roosevelt eventually terminated Peek's German deal due to complaints from Brazil, the State Department, and concerns about the perceived negative impact a significant influx of European industrial products would have on American manufacturing recovery. Lawrence Nelson describes the State Department's opposition to the barter deal and single-minded pursuit of a trade policy based on Reciprocal Trade Agreements as "a source of consternation" to both Johnston and Peek.³⁴ The embarrassment over having the German barter deal canceled would eventually contribute to Peek's ouster from the administration.

Fascist Italy was also one of the main markets for Export-Import Bank financed cotton exports. On January 7, 1937, the Eximbank authorized an export credit of \$3.6 million for shipments of American raw cotton to Italy, along the same lines as the German loan.³⁵ This loan

³² Lawrence J. Nelson, *King Cotton's Advocate: Oscar G. Johnston and the New Deal* (Knoxville, TN: University of Tennessee Press), 121.

³³ Lawrence Nelson, 121.

³⁴ Lawrence Nelson, 128.

³⁵ Correspondence from Samuel H. Sabin Memorandum to Executive Committee, Re: Italian Cotton Credits, March 11th, 1937, 147 Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 2. NARA II Archives, College Park, MD.

accounted for approximately 9-10% of Italy's cotton imports in 1937, a year that, according to the Bureau of Agricultural Economics, "... brought the highest profits the industry has seen in many years."³⁶ It was believed by Eximbank officials that "Exports of raw cotton to Italy for the first 8 months of this crop season had been about one-half larger than for the period one year earlier. It is reasonable to suppose that to some extent, our facilities are responsible."³⁷ 1937 was also the year that witnessed the culmination of the Italian invasion of Ethiopia. The League of Nations condemned the war, and the Italians engaged in war crimes by using aerially deployed mustard gas and killing hundreds of thousands of Ethiopian civilians. In 1938, the Eximbank offered a new \$3.6 million line of credit for the export of American raw cotton to Italy, although it was reduced to \$2.3 million on April 25, 1939.³⁸

These loans were given despite the massive public outcry in the United States against the invasion, particularly among the American Black community. In 1935, the Fraternal Council of Negro Churches passed a resolution that stated, "Americans of African descent are deeply stirred in their attitude and sympathies for Ethiopia, a Negroid people, who represent almost the only remaining example of independent government by the black race on the continent of Africa. While by sympathy, principle and ideas we are Americans to the core we cannot be deaf to the cry that comes from a menaced nation in the land of our fathers' fathers!"³⁹ W.E.B. Du Bois claimed that the outcry against the invasion led to an unprecedented upswing in activism among Black Americans. He claimed that "Black men and brown men have indeed been aroused as

³⁶ "Memorandum to Executive Committee: Re: No. 180 Italian Cotton Credit, 3,600,000," 180 Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 2. NARA II Archives, College Park, MD.

³⁷ "Memorandum to Executive Committee: Re: No. 180 Italian Cotton Credit, 3,600,000."

³⁸ Resolution of April 25th, 1939, 180 Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 2. NARA II Archives, College Park, MD.

³⁹ William R. Scott, "Black Nationalism and the Italo-Ethiopian Conflict, 1934-1936," *The Journal of Negro History* Vol. 63, No. 22 (April 1968): 121.

seldom before. Mass meetings and attempts to recruit volunteers have taken place in Harlem...” and dozens of other major Black neighborhoods.⁴⁰ Black Americans rose up across the country in meetings, protests, and lobbying campaigns through groups like the NAACP and what remained of Marcus Garvey’s UNIA. These campaigns attempted to convince the world not merely to acquiesce to Italy’s conquest and subjugation of Ethiopia. Even boycotts against Italian products were conducted by Black American organizations, yet significant amounts of American cotton, much of which was planted and harvested by Black Americans, was sent to Italy’s textile mills. Mussolini’s violent adventures in the Mediterranean did little to dissuade cotton exporters of the desirability of trading with the Italians.

On September 1st, 1939, Germany invaded Poland, triggering a response from Poland’s Allies, the United Kingdom and France, thus officially beginning the Second World War in Europe. Germany and Italy had, earlier in 1939, signed the “Pact of Steel,” in which Article Three read, “If it should happen, against the wishes and hopes of the Contracting Parties, that one of them becomes involved in military complications with another power or other powers, the other Contracting Party will immediately step to its side as an ally and will support it with all its military might on land, at sea and in the air.”⁴¹ Thus, the Pact of Steel made it likely that Germany’s war with the United Kingdom and France would likely draw in Italy. The fact that it did not happen immediately was because Italy was not expecting war so soon, and Rome did not believe it was yet capable of waging war against Britain and France. However, Italy was aligned with Germany, and a broader conflict would inevitably draw Italy in sooner or later. And, indeed,

⁴⁰ W.E.B. Du Bois, “Inter-Racial Implications of the Ethiopian Crisis: A Negro View,” *Foreign Affairs* Vol. 14, No. 1 (Oct. 1935).

⁴¹ Historical Resources About the Second World War, “The Pact of Steel – The Pact of Friendship and Alliance between Germany and Italy, May 22, 1939,” [The Pact of Steel – the Pact of Friendship and Alliance between Germany and Italy, May 22, 1939 | Historical Resources About The Second World War](#). First Accessed March 18th, 2025.

she was when Italy invaded France in June of 1940. Yet, Italy's status as a quasi-belligerent did not stop the Export-Import Bank from loaning to Italian banks to buy American cotton for use in Italian textile mills up until that date.

In November of 1939, more than two months after the war began in Europe, the Export-Import Bank expanded the existing Italian cotton credit from \$3.6M to \$9.6M "...in order to facilitate the export to Italy of American cotton."⁴² Although it would be canceled on June 10, 1940, the date Italy invaded France, much of the credit was used between December 1939 and June 10, with over \$4.6 million outstanding on the day the loan was canceled.⁴³ On June 12th, a day after the President claimed that a state of war existed between Italy on the one hand and Britain and France on the other, the Chairman of the Export-Import Bank sought an opinion as to whether the Italian Cotton Credit violated the Neutrality Acts. The Bank's legal counsel responded that, while the Neutrality Acts "...forbids the making of any loan or the extension of any credit to any government listed in a Presidential proclamation or any subdivision thereof, or to any person acting for or on behalf of such government or subdivision...the Italian banks were not agents of or for the Italian Government...it is my opinion that the loan arrangements with the Italian banks do not violate the Neutrality Proclamation."⁴⁴

Thus, the Export-Import Bank had little compunction about who it lent to before the war, as long as it meant exporting raw cotton. In 1939, the Eximbank authorized a credit line of up to

⁴² "Correspondence from Export-Import Bank of Washington to Bankers Trust Company," December 18, 1939, Loan 230 Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 4. NARA II Archives, College Park, MD.

⁴³ Memorandum Re: Cotton Credit No. 230, December 11, 1940, Loan 230, Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 4. NARA II Archives, College Park, MD.

⁴⁴ Correspondence from S.H.S. to William Whittimore, June 12, 1940, Loan 230 Italian Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 4. NARA II Archives, College Park, MD.

\$12.5 million with banks in Fascist Spain to purchase 250,000 bales of American cotton. This would be extended to \$13.35 million on May 15th, 1940, five days after the Germans invaded France.⁴⁵ Although both the United States and Spain were officially neutral in May of 1940, such neutrality of either country was hardly guaranteed. Apologists for Francisco Franco, the Spanish Fascist dictator, have usually argued that Franco cleverly kept Hitler at arm's length throughout the war, but historian Gerhard Weinberg argues that it was, in fact, at least in June of 1940, "...the Germans, and not the Spanish, holding back." In June of 1940, after the fall of France, Francisco Franco sent a note to Hitler offering to join the war with Germany if his imperialist demands were met. According to Weinberg, disagreement over the future division of Africa was the only thing that prevented Spain from going to war on the side of the Germans, just a month after the Export-Import Bank of Washington extended its credit line to facilitate the purchase of American cotton. Now, it is also possible that Spain's addiction to American imports, like raw cotton, encouraged them to make over-ambitious demands of the Nazis for support and thus kept them out of the war. However, Hitler's refusal of Franco's demands was hardly a foregone conclusion, and Spanish neutrality was not guaranteed when these loans were made.⁴⁶

The Export-Import Bank also established a 15 million dollar credit line with neutral Sweden's Bank of Sweden in March of 1940, about a month before Germany invaded Norway, to import American "...agricultural and manufacturing products required for civilian purposes."⁴⁷ Unlike the loan to Spain, there was never any real reason to be concerned that Sweden might join the war on the German side; however, Sweden continued to trade with

⁴⁵ "Resolution, 15th of May 1940," 241 Spanish Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 5. NARA II Archives, College Park, MD.

⁴⁶ Gerhard Weinberg, *A World at Arms: A Global History of World War II* (New York: Cambridge University Press, 2005), p. 177.

⁴⁷ "Correspondence from W. Bostrom to Jesse Jones," February 9, 1940, 252 Bank of Sweden Folder, RG 275 Export Import Bank of Washington, Credit Files, 1934-1951, Box 5. NARA II Archives, College Park, MD.

Germany throughout the war. Sweden approached the Export-Import Bank for this credit line because “Belligerent blockade measures constitute a constant hindrance to trade with some of our principal export markets. Another... consequence of the present crisis is that we have to pay cash for most of our imports while our staple exports are still largely sold on credit.”⁴⁸ Thus, they sought the loan to “...tide over the time-lag...” between accounts payable and receivable. Most of these exports from Sweden to Germany consisted of goods such as iron ore and ball bearings; however, the scale of trade between the two countries suggests that this credit line likely facilitated some degree of Swedish trade with Germany. It is likely for this reason, along with the increased shipping challenges, that the credit line was canceled on November 18, 1940.⁴⁹

IV

George Peek was not an immoral man, but he had little time for niceties in international trade. He envisioned an Export-Import Bank and trade policy that prioritized exporting American surpluses above all other considerations. While the Bank had little influence over the major cotton production markets in the world, its unscrupulous approach meant the Eximbank Board never hesitated to make unsavory deals. However, this was the consequence of government-owned agricultural surpluses. The need to liquidate encouraged any deals provided it reduced surpluses. Even if Peek was relieved of his duties at the Eximbank in 1936, his ethos would continue to dominate thinking at the bank until the war. At the end of 1934, Peek had proposed that Roosevelt make the Eximbank, with him at its head, the supreme foreign policy agent in the

⁴⁸ “Correspondence from W. Bostrom to Jesse Jones,” February 9, 1940.

⁴⁹ “Synopsis of Credit No. 252,” 252 Bank of Sweden Folder, RG 275 Export Import Bank of Washington, Credit Files, 1934-1951, Box 5. NARA II Archives, College Park, MD.

Government. Even if he was denied that, and eventually forced out of the bank, the Eximbank operated its own foreign economic policy throughout the 1930s. One that, as Peek had advocated, avoided "...diplomatic and political considerations," and prioritized "...commercial and financial considerations."⁵⁰ From a narrowly commercial and financial perspective, exporting cotton to Italy on the eve of their invasion of France made sense.

These international conundrums explain why Cully Cobb preferred controls to the nonrecourse loan for price adjustment. He worried that a significant difference existed in the downstream consequences of controls versus a loaning policy that involved the government accumulating vast surpluses. Cobb cautioned that "a loaning policy... which affects the market price tends to change the business conditions and monetary conditions prevailing in our country, with all the ramifications affecting this country and foreign countries. It is doubtful if we in this country have progressed to a point whereby we can fail to consider the ramifications of our relationships with other nations."⁵¹ He worried that the loan program was a sort of Pandora's Box of downstream international consequences, whereas the controls program had only domestic effects.

Defenders of the Eximbank might argue that these morally dubious transactions could be an American version of the sorts of actions Martin Gilbert argued the British Government took to appease the Nazis. Gilbert claimed that "The most serious efforts at appeasement were unknown to the general public. They were in the world of economics and trade." He suggested that the British Government perceived Hitler as having no specific economic or trade agenda, and thus

⁵⁰ Peek to Roosevelt, 8.

⁵¹ Memorandum from Cully Cobb to H.R. Toley, August 17, 1935. Cully A. Cobb Papers, MSS-47, Manuscripts. Series 74, Box 1, Folder 3, Mitchell Memorial Library at Mississippi State University.

wondered, “If Britain and Germany could seek active cooperation in the economic sphere, economic advantage would soon accrue.” The German sense of isolation would diminish, and, from economic beginnings, mutual advantage would soon accrue.” However, the Eximbank’s actions in selling cotton to Germany and Italy do not appear to be an attempt to appease them, but an attempt to resolve the domestic cotton surplus problem.⁵²

While Cully Cobb was likely correct that a strictly nationalist solution to the cotton problem might have prevented the United States from being dragged into these messy deals by the Eximbank, American cotton farmers (particularly in the southwest) needed export markets. And the Eximbank was a helpful tool for export expansion in the closed economic environment of the 1930s. The Bank was not limited to making morally dubious deals, and it uncontroversially financed many millions of dollars’ worth of exported cotton around the world.⁵³ Thus, it was a critical tool for cotton exporters, including Oscar Johnston’s cotton pool, to liquidate their holdings.

Johnston assumed that the cotton pool was a temporary evil and sought to eliminate the government’s holdings from the 1930 and 1933 cotton crops without resorting to dumping, which would harm America's relationships with other nations and lower the price of cotton. The Eximbank was perfect for this. Its facilities facilitated orderly marketing and enabled the Government to generally avoid dumping, at least until 1939. It worked well enough for Johnston,

⁵² Martin Gilbert, *The Roots of Appeasement*, ebook edition (London: Rosetta Books, 2015), 186.

⁵³ For instance, hundreds of thousands of dollars of contracts with Latvian and Polish banks, “Correspondence from Directors of Export-Import Bank of Washington to Directors of Republic National Bank & Trust Company of Dallas, Texas,” October 23, 1936, Project #121 Hannay-O’Donnell Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 1. NARA II Archives, College Park, MD. “Credit No. 122” and Credit No. 122A,”

who, by 1936, was proud to announce to George Peek that all the surplus cotton from 1930 and 1933 had been sold and that he could retire as manager of the cotton pool.⁵⁴

In the 1930s, the Export-Import Bank of Washington was a defensive tool of the American Government to help address aspects of the cotton problem. By facilitating exports despite exchange obstacles, the Eximbank helped liquidate American cotton surpluses and protect the country's global market share while the Roosevelt Administration experimented with different forms of relief. While the practical nature of its leadership, particularly George Peek, meant that the institution hardly improved America's moral standing in the world, cotton farmers needed to export. As we will see in a later chapter, the Eximbank did not disappear during or after the war. However, after the war, the Bank was no longer restricted to being a defensive tool; it could also serve as an offensive weapon for American global dominance in the cotton industry.

⁵⁴ Correspondence from Oscar Johnston to George N. Peek, July 27, 1936. Delta and Pine Land Company Records, MSS-101, Manuscripts. Series 6, Box 42, Folder 47, Mitchell Memorial Library at Mississippi State University Special Collections.

Section 3 – The Pursuit of Cotton Supremacy

Chapter 5 – Of Cartels and Trade Wars

I

The outbreak of World War II and the subsequent American entry into the war further discredited the sort of nationalist policies that the American core had championed in the era preceding the Great Depression. With the periphery in power, the United States could approach sympathetic Allies about implementing a multilateral world order that reduced trade barriers and recognized self-determination, made explicit in the August 1941 *Atlantic Charter* between the United Kingdom and the United States. However, implementing such a project would conflict with national governments' domestic interests, discouraging necessary sacrifices. While wartime governments frequently and earnestly declared their commitment to free trade and reductions in trade barriers, few were willing to sacrifice politically popular domestic programs to achieve it. American cotton growers, some of the world's most reliable internationalists before the war, were no different. Although they would continue to advocate for reducing trade barriers and other obstacles to American exports, their commitment to these principles was encouraged and constrained by self-interest. When it came time for cotton farmers to compromise as the war drew to a conclusion, by abandoning the CCC nonrecourse loan because it had become an obstacle to the internationalist project, few farmers were willing to sacrifice a program that had

stabilized their sector after decades of chaos. Instead, they sought to have their cake and eat it too by having the United States form a cartel of cotton-exporting countries.

The American price floor would lead to a major diplomatic row with key allies in the later years of the war and, at least from the perspective of the State Department, jeopardize the entire postwar American multilateral project. The Commodity Credit Corporation began dumping cotton, raising questions about the United States' sincerity in its commitment to a multilateral world order. While the CCC understood the geopolitical risks, stocks had reached a point where they needed to export at all costs, regardless of the consequences. They only got away with it because they had Congress and the law on their side, while the size and power of the United States meant that few affected countries could do much other than complain. Other national governments understood that a multilateral world order was a significant benefit to them, and thus they were willing to endure some insults from the Americans to achieve it. However, that did not mean they had to endure those insults quietly.

The Americans were not the only country with a domestic price floor desperate to export; however, they were the only ones powerful enough to dump with relative impunity. Reducing trade barriers required trust and cooperation, but the price floors encouraged unilateral action at the expense of other nations. Confronted with this reality, governments believed they had to either abandon their price floors or join an International Commodity Agreement, which allocated a quota to exporting countries and protected their exports from competition. Neither of these things occurred. Cotton farmers in the United States and their allies in Congress rejected the State Department's recommendation to reform the price floor. At the same time, producing countries could never agree on a fair distribution of export markets. Accordingly, although an

organization was formed to create and manage an International Commodity Agreement, none would emerge. Domestic national interests would prevent it.

II

Wartime demand hardly resolved America's surplus problem. However, the AAA law of 1938 had shifted the carrying risk from the farmer over to the Commodity Credit Corporation and the Federal Government. Thus, the surplus problem was effectively resolved from the farmers' perspective. Acreage controls were intended to mitigate future surpluses, but, as a 1945 report claimed, "Production has not declined as much as the acreage."¹ As farmers were no longer carrying the risk of overproduction, and bale control was not enforced, farmers faced no penalty for overproducing on eligible acres. Nor did their congressional representatives face any punishment for raising the rate at which CCC loans were paid during the war. The original 1938 law stipulated that loans were to be paid out at 52 to 75 percent of parity, depending on the prevailing conditions.² However, that was before the war. Congress raised the loan rate in 1941 to 85 percent of parity, 90 percent in October 1942, and 92.5 percent on June 30, 1944. In the same June law, although they capped the loan rate at 92.5 percent, Congress ordered the President to take "all lawful action to assure the farm producer...100 percent of the parity price."³ The latter was accomplished by directing the War Food Administration to purchase

¹ "The Cotton Situation in the United States," 1. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

² "Parity" was the income that a farmer received, which should generally equalize their cost of living to someone working in manufacturing. Thus, 100% of parity would be an income that allowed a farmer to enjoy the same standard of living as someone working in manufacturing.

³ "The Cotton Situation in the United States," 1.

cotton at 100 percent of the parity price from the farmers.⁴ In addition, these rates were to be maintained on all cotton “harvested after December 31, 1941 and before the expiration of the 2-year period beginning with the 1st day of January immediately following the date upon which.... hostilities in the present war have terminated.”⁵ This meant that the United States government was locked into maximally subsidizing farm commodities, including cotton, until over two years after the war had concluded. In March of 1945, the CCC had full ownership of over five million bales while holding another 3.5 million on account for producers. Given that carryover stocks were expected to exceed 11.5 million by the end of summer 1945, the Commodity Credit Corporation faced a significant crisis.⁶

By the time this crisis became apparent towards the end of 1944, the Commodity Credit Corporation had already proven itself to be an agency that prioritized its narrow mandate over broader American foreign policy goals. In 1943, as part of a complex Allied maneuver to prevent American private importers from diverting newly liberated Egyptian food production to the United States, rather than the Allied Government’s preferred destinations of the UK and India, the CCC purchased a significant quantity of Egyptian Long Staple cotton. Imports of long-staple cotton had been restricted in the United States on the premise of protecting shipping space for other more essential materials. When shipping space became available, the import quota was supposed to increase substantially. Peruvian exporters sought to capitalize on the higher import quota to sell significantly larger volumes of their long-staple strain in the United States than they had been able to under the previous system. The CCC did not want this Peruvian cotton to

⁴ “Report of Meeting of National Cotton Council and American Cotton Shippers Association in Memphis October 23, 24, 25, and 26,” 2. Cotton: 1944 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁵ “The Cotton Situation in the United States,” 1.

⁶ “The Cotton Situation in the United States,” 1.

compete with its Egyptian holdings and insisted that the import restrictions be maintained, despite the newly available shipping space. The CCC's representative at a meeting to resolve the issue threatened, if the old import quotas were not maintained and Peru was allowed to export more cotton to the United States, that the CCC would fill the entire new quota with the cotton they had purchased in Egypt, thus excluding all Peruvian cotton from the United States.

Although other committee members thought this was illegal, the CCC was not swayed.⁷

Accordingly, facing the surplus crisis of late-1944, the CCC could hardly be expected to reject policies that benefited itself at the expense of broader American foreign policy.

In late 1944 and 1945, while the war still raged in Europe and the Pacific, a quasi-trade war erupted between the United States and Brazil over cotton. Brazil, the world's second-largest cotton exporter, was outraged that the Americans reinstated an indefinite cotton export subsidy in November 1944. The Americans had an export subsidy in place as late as 1942, but they had suspended it when wartime shipping disruptions ensured the United States' primacy in its most crucial wartime export markets, particularly Canada. However, by 1944, the shipping situation had been resolved, and American cotton growers were forced to confront the fact that the domestic price floor was significantly higher than the international price, just as surpluses were returning.⁸ In the fall of 1944, American Middling 15/16th inch cotton was being offered on the New Orleans spot market for 21.35 cents per pound. Officials determined that this price was artificially inflated by approximately four cents above international prices due to the CCC loans,

⁷ State Department, "Memorandum of Conversation: Importation of Long-Staple Cotton," October 5, 1944. Cotton: 1944 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁸ "We Have High-Class Merchandise For Sale – Statement by the President of the Sao Paulo Union of Cotton Mill Operators," *Diario Da Noite*, November 2, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 51. NARA II Archives, College Park.

resulting in significant stocks remaining unsold and being liable for surrender to the CCC.⁹ Accordingly, in the days leading up to the 1944 elections, a 4-cent-per-pound export subsidy was adopted by the Commodity Credit Corporation after the *Surplus Property Act of 1944* transferred authority for surplus disposal from the War Finance Administration back to the Department of Agriculture.¹⁰ The Commodity Credit Corporation took advantage of the four-cent subsidy and “sold cotton from the stocks of the Corporation to the exporter on that basis.”¹¹ The Brazilians recalled how severely they were affected by the export subsidy the Americans began offering in 1939, when it became apparent that the domestic price floor was impacting export levels. The Brazilians believed that the American export subsidy would lead to Brazilian cotton being displaced from markets, as it had been in 1939.¹² The issue was particularly sensitive to the Brazilians because, despite Brazil's cotton exports being only a fraction of those of the United States, cotton was one of the most important mechanisms by which Brazil generated international exchange.

The specifics of the situation were explained in an edition of the São Paulo newspaper *Diário da Noite*, which published an article describing the “American cotton economy” and how the New Deal subsidy regime for American producers led to unintended consequences for both American and Brazilian cotton exporters. The article argued that, to preserve both the parity price floor and ensure cotton flowed into international markets, the United States began offering an export subsidy. This export subsidy drove Brazilian cotton out of global markets. The author

⁹ “The Cotton Situation in the United States,” 3.

¹⁰ 40 U.S.C. § 484: Disposal of Surplus Property, Sections 484 (g) and 484 (h).

¹¹ “The Cotton Situation in the United States,” 3.

¹² “The Matter of the Subsidy on Yankee Cotton Exports Is Being Carefully Followed: Negotiations are Being Carried On By The Ministries of Foreign Relations and Finance,” *Diario Da Noite*, November 22, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 51. NARA II Archives, College Park, MD.

argued that New Deal price supports, “intended to raise prices, adopted to solve a single problem, gave rise to others which required new measures.” The article continued, “As a result of the increases in subsidies on prices which rose above those on the world market, subsidies on exports naturally became indispensable to avoid the accumulation of domestic stocks.” The United States Department of Agriculture referred to the system of a price floor at home, combined with subsidies that allowed exported cotton to sell at a lower price, as the “two-price program.” The article accused the United States of “dumping,” and engaging in a practice “at variance with the free trade policies of Secretary (Cordell) Hull and the Department of State.” The author further argued that if another country were dumping like this at the Americans’ expense, the United States would “...under the terms of section 303 of the Tariff Act of 1930...(impose) supplementary or counterbalancing duties on imports of subsidized merchandise.” The Brazilian article, then, argued that the only fair resolution was through an International Cotton Agreement along the same lines as the International Wheat Agreement, whereby major producing countries would each agree to holding a share of an export market. “The International Agreement would...eliminate the practical objections of price subsidies and crop reductions followed by the United States.”¹³ Without such an agreement, at least according to the Brazilians, the government in Rio de Janeiro would have to extend permanent subsidies to Brazilian exporters at the expense of the Americans.¹⁴

¹³ “International Agreement to Solve Cotton Export Problem: Interesting Suggestions Made in the Bulletin of the National City Bank of New York,” *Diario Da Noite*, December 16, 1934. Cotton: 1945 Folder, RG 43: Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

¹⁴ Flavio Rodrigues, “Important Measures will be Taken to Protect the Cotton Market,” *Correio Paulistano* December 6, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

The Brazilians were not the only ones upset by the reintroduction of the export subsidy. American textile manufacturers complained that the export subsidy allowed international textile firms, which competed in the textile market with American ones, to purchase American cotton at a lower cost than their American counterparts. In response to these complaints, the American government imposed import quotas on textiles manufactured with “raw material from the United States,” thus offering American textile manufacturers a protected domestic market for goods they made from American cotton.¹⁵ One Brazilian observed, “All of this seems logical to the commentators in the United States, in spite of the tremendous repercussions on international trade relations, and above all on the principles of business policy on which this exchange rests.”¹⁶

In an article titled “Cotton and Good Neighborliness,” a columnist in the prominent Brazilian newspaper *A Gazeta* accused Brazil’s “friend and ally” (the United States) of targeting Brazilian cotton due to its “excellent fiber...and other superior qualities.” The author claimed that the export subsidy placed Brazil “...in a place of competitive disadvantage it cannot easily face.” The author wanted to remind “our allies in North America of something that should not be quickly forgotten: the loyal and determined cooperation, at the side of the United States, of our country against the Nazism and Fascism of the Axis which, let us be frank, tried to annihilate, above all else, the economic and commercial power of London and Washington.”¹⁷ The Brazilians were joined in their condemnation of the Americans by London’s *The Times*, which

¹⁵ *O Estadão De São Paulo*, November 25, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

¹⁶ *O Estadão De São Paulo*, November 25, 1944, 3.

¹⁷ “Cotton and Good Neighborliness,” *A Gazeta*, November 22, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

argued that "...measures such as these in the past led the world into conflagration."¹⁸ The issue became tangible in Brazil when a French importing firm decided to cancel its order of 400 bales of Brazilian cotton in favor of American cotton, due to the subsidy and generous financing terms offered by the Lend-Lease program. A Brazilian journalist suggested that "Up to now it was apparent that the approaching end of the world war would lead the United States into an undercover trade war against England for the conquest of post-war markets. And Brazil...now becomes the target for the same threat, in spite of the fact that it entered the conflict as a result of its solidarity with the United States."¹⁹ It should be remembered that Brazil had its own price floor since early in the war, which had doubled by 1945, but had not attempted to engage in dumping.²⁰

Although a conference was expected to be held in December of 1945 to discuss an International Cotton Agreement, the Brazilians made a preliminary offer that if "The United States (would) undertake to freeze its subsidy on cotton," that the "United States and Brazil (should) share the Canadian market...50/50." The Americans rejected this proposal reasonably quickly as they controlled a monopoly on Canadian cotton imports. However, some American officials were concerned that the export subsidy only bought time and was not a permanent solution. They worried about Western Europe and the long-term vulnerability of the "two-price

¹⁸ "Checkmate of the Good Neighbor Policy: Granting of a Subsidy For the Export of Yankee Cotton Has Profound Consequences on Brazilian Cotton Economy," *Diario Da Noite*, November 20, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

¹⁹ "Checkmate of the Good Neighbor Policy: Granting of a Subsidy for the Export of Yankee Cotton Has Profound Consequences on Brazilian Cotton Economy," 1 and 2.

²⁰ Technical Committee on Cotton, "The Present and Prospective World Cotton Situation, Draft Report," May 1945. Preliminary Draft of Proposed International Cotton Agreement Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II, College Park, MD.

program.” One official argued that, “So long as the price of cotton is tied closely to the parity level and the export payment remains at 4 cents per pound, European and perhaps other markets will be denied United States cotton if the export prices of competing growths fall below the parity price by more than 4 cents. Extensive free market sales to Europe would then depend upon the United States price going below parity or an increase in the export payment above 4 cents. Should either of these contingencies occur the export price might be forced below the Brazilian support price and the Brazilian Government would be forced to accumulate stocks or lower its support price. There is in this situation a very real danger of intergovernmental competition for the European and other export markets.”²¹

Meanwhile, on the ground in Brazil, the American cotton subsidy was having an effect that American cotton growers should have been familiar with. In 1920, the U.S. Federal Reserve reined in inflation at the expense of agricultural interests, primarily cotton and wheat growers. It became clear that cotton growers would have no access to marketing credit and “bears,” or speculators on futures markets, told the cotton growers to liquidate at any cost. The result was a price crash that deflated the southern economy in the summer of 1920.²² In November of 1944, with the reintroduction of the American export subsidy, Brazilian “bears” played hardball and encouraged Brazilian cotton growers to liquidate their stocks at depressed prices. One newspaper referred to the situation as “violent.”²³ It required emergency meetings of local, state, industry,

²¹ “Cotton Situation in the Americas,” 6. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 51, NARA II Archives, College Park, MD.

²² R. Alexander Ferguson and Nathanael Mickelson, “Equality of Agriculture: Robert L. Owen, Country Banks, and the Populist’s Federal Reserve,” *Business History Review*, Forthcoming.

²³ “Government To Suppress Energetically Manipulations of Bears in Markets,” *A Moite*, November 23rd, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 51. College Park NARA II.

and national officials, including the Minister of Finance. The Union of Cotton Operators of the State of São Paulo even requested an audience with Brazil's President to financially intervene and protect Brazilian growers from the consequences of the American subsidy. The Brazilian Government immediately responded through financing reforms and a suspension of the cotton export tax while the American subsidy was in place.²⁴ The Brazilians continued to make it known that the "...prestige that the United States enjoys as the champion of free trade..." was at stake.²⁵

Of course, it should be noted that cotton export voices were not the only ones in Brazil. As Olympio Guilherme of *O Diario* pointed out, "The Good Neighbor Policy was not imposed on us by force... We of Latin America welcomed it with open arms...after the bitter experiences of so many years of browbeating diplomacy and of the unjustifiable landing of marines."²⁶ He argued that "...our participation in the European armed conflict was not given on the basis of any promise of economic gain..." He condemned the idea that Brazil had sent its "...young men to the battlefronts to shed their blood generously in order that our products might have certain prerogatives granted to them in international trade."²⁷ Accordingly, whatever indignation was felt by cotton growers and exporters about the behavior of the United States, it was not necessarily

²⁴ "Necessary Measures Being Considered to Stop Bear Speculations in Cotton," *Diario De Sao Paolo*, November 23, 1944. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

²⁵ "The Situation of Brazilian Cotton in International Markets is Untenable," *Diario De Sao Paolo*, November 23rd, 1944, Cotton: 1945 Folder, RG 43: Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

²⁶ Olympio Guilherme, "Bungling and No Joke," *O Diario*, November 30th, 1944, 2-3. Cotton: 1945 Folder, RG 43: Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

²⁷ Guilherme, 3.

shared as intensely by other parts of the Brazilian population. Still, the export subsidy was a significant challenge for State Department officials to overcome in U.S.-Brazilian relations, and the general belief was that an International Commodity Agreement on cotton, which delineated export markets, was the only palatable solution that would maintain the American price floor while not irritating allies like Brazil.

Brazil was hardly the only country peeved at the Americans. The Peruvians, through their Ambassador to the U.S., Don Pedro Beltran, held intense negotiations with the American State Department in December 1944. Beltran claimed that there was, "...a basic inconsistency between the general cooperative friendly attitude of the United States and the program of making payments on exports of cotton." The Peruvian Ambassador continued that he had "heard rumors that American cotton was being sold in Chile to the exclusion of Peruvian cotton." The State Department explained to Beltran that the price floor held them hostage, "...previous legislation made certain steps necessary to allow any export of cotton." However, the representative from the Department of Agriculture arrogantly assured Beltran that the program was implemented to "...allow the United States to assume its normal or logical place as a cotton exporter without disrupting exports from other countries." The American delegation informed Beltran that they sought an International Cotton Agreement and that his country should send a delegation to a conference where one could be negotiated. Beltran responded that "...such a meeting would not be very productive if the United States had an export program in place at the time."²⁸ The Indians and Egyptians were also upset, but India's status as a member of the Sterling Area insulated it

²⁸ Department of State, "Memorandum of Conversation with Peruvian Ambassador re: Cotton Export Program of the United States." Cotton: 1944 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

somewhat from the consequences of the export subsidy. In contrast, newly liberated Egypt had exported only a negligible amount of short-staple cotton anyway.

In December 1944, Undersecretary of State Dean Acheson presented to Congress before the newly convened Pace Subcommittee, a House Agriculture Subcommittee tasked with investigating the “economic problems of the cotton belt.” Acheson argued that “...our present cotton policy...is more than a problem of a single commodity... it involves essential objectives of our entire foreign economic policy.” He argued that the significant dilemma was caused by the need to subsidize cotton exports because “...we in this country maintain by crop loans and price supports, a domestic price of cotton substantially higher than would have been the case if competitive forces had been free to determine price....(to) assure producers their proper share of the national income.” However, according to Acheson, “...the carry-over stocks of foreign cotton producing countries are high at the present time; they are almost double the pre-war level.” Therefore, “...it is not surprising that other countries...do not like the recent decision of our country to dispose of its surplus cotton in the world market by means of what amounts to a subsidy on exports.” He continued, “We in this country have at the present time a heavy responsibility for leadership in respect to commercial policy.” He stated that the United States must act consistently and fairly to “...reverse the trend of the pre-war decade toward the unilateral use of trade barriers, quotas, exchange restrictions, and discrimination.” He scolded the CCC and its supporters for jeopardizing the American-led international project to adopt “...measures for the reduction in trade barriers, the elimination of trade discrimination, and the adoption of fair methods of trade.” He warned them that the export subsidy “...must appear to other nations to be inconsistent with this general approach to economic foreign policy.” He continued, “This situation is serious in itself, because it is a source of irritation in our relations

with other friendly countries. It is even more serious, however, because it is likely to affect the confidence of other countries in our sincerity of purpose..." Acheson then recommended that, because of the downstream consequences of the mechanism by which cotton growers are given a price floor, perhaps "...direct aid of some kind," could replace it." However, Acheson acknowledged that the United States was legally committed to the price floor for at least two harvests following the end of hostilities. Accordingly, the State Department was at the mercy of Congress, and "...we must work out with other countries some plan for meeting their immediate grievance." To that end, he also recommended the signing of an International Cotton Agreement.²⁹

The State Department was not the only government agency that presented to the Pace Subcommittee, though. And many of those groups were a lot less hostile to the CCC than the State Department. The Federal Land Bank Presidents and Farm Credit Administration recommended that, "Until a permanent program is worked out..." by which they meant an International Cotton Agreement, "...we think an export subsidy is necessary."³⁰ Disagreement was found on both the export subsidy and the wisdom of the loan program throughout the hearings, often among individuals ostensibly representing the same interests. For instance, the representatives of the Arkansas and Alabama Bankers' Associations disagreed on the price floor but agreed on the export subsidy. The Arkansas Representative, A. Lynch, argued that cotton should "...fight freely and unfettered by fixed price regulations for the markets at home and

²⁹ Dean Acheson, "Statement on Cotton for the Pace Committee," 2-7. Cotton: 1944 Folder. RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

³⁰ "Presentation to Pace Subcommittee of I. N. Duggan of the Farm Credit Council," December 6, 1944. Pamphlets and Reports on Cotton Folder, International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

abroad,” and that farmers should be assisted by “...simple payments,” rather than a price floor. E. Espy, meanwhile, the Alabama Banker’s Association Representative argued that the CCC loans should be continued as they “...have done much to stabilize the price...” and have “been of much assistance to the cotton farmer.” Despite their disagreement on the loans, both Lynch and Espy agreed that subsidizing the exports of cotton was necessary “...to a point that will enable the shipper to compete with foreign produced cotton; produced in countries having much cheaper labor cost and lower standards of living.”³¹ The National Farmers Union, meanwhile, demanded permanent payments at “100% parity...as simple justice to farmers.” However, they did not want the program available to “corporate farmers.”³² Claude Wickard, the Secretary of Agriculture, argued four different policy approaches could be taken. He favored the “Fourth Approach,” which involved eliminating the export subsidy and making direct payments to producers for at least four or five years, plus “reconversion payments” that would enable cotton farmers to transition into other types of farming.³³

One of the highlights of the hearings was the testimony of C.C. Smith, the Director of the Cotton Division at the Commodity Credit Corporation, given that his agency was at the center of the maelstrom. He argued that the loan program was necessary to ensure the “...orderly marketing of cotton.” He showed that farmers tend to sell most of their crop between September and December, meaning that “The heavy marketing of the crop from September through

³¹ “Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton,” (The Pace Committee), 2,3. Statements Made Before Cotton Congress Beginning December 4th, 1944. Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

³² “Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton,” (The Pace Committee), 15.

³³ “Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton,” (The Pace Committee), 20.

December can depress the market to producers during their active market period. The loan program permits the farmer to carry his crop at a reasonable cost until later months when the weight of the movement has passed and therefore promotes orderly marketing.” He claimed that it was particularly needed because, “Cotton yields per acre are subject to large fluctuations.... The loan provides protection against a drastic decline in prices due to conditions over which the producer has no control.” He argued that the 1942 increase in the loan rate led to significantly larger purchases of cotton than were anticipated in 1943 and 1944, creating a “...tight warehouse and labor situation.” According to Smith, cotton had to be exported and the only mechanism to ensure that American cotton was competitive, due to the higher than market American price floor, was an “export differential of four cents.”³⁴

Any momentum towards significant changes to either the price floor or the export subsidy was likely forestalled by the testimony of Oscar Goodbar Johnston, the most powerful man in the cotton belt, on behalf of the National Cotton Congress (NCC), who openly threatened committee members into endorsing the status quo. At least temporarily. Johnston, the seasoned political veteran, argued that he was unwilling to provide any recommendations before “...all of the information which we anticipate will be developed and submitted,” during the Pace Subcommittee hearings, “...be available and be given the most careful possible scrutiny and study.” However, he reminded Congressmen that raw cotton, like every other American industry, is “...planning for a future much better than anything they have known before...” and that it was in everyone’s best interest to support a robust and healthy cotton belt. He argued that without

³⁴ “CCC Cotton Loan, Purchase, and Export Program,” Testimony of C.C. Smith to the Pace Committee, 1-5. RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. 1944 folder. NARA II Archives, College Park, MD.

reliable support, the cotton industry would face "...a rapid and chaotic disintegration..." He used this as a threat to committee members and Congressmen who might not have a direct vested interest in cotton by suggesting that if "the cotton industry ceases to be a factor in our national economy...Lands now utilized in the production of cotton will not lie idle. These lands will be put to other agricultural uses. They will enter into competition with lands in Wisconsin, Minnesota, Iowa, and other states in the production of dairy products. They will enter into competition with Kansas and the West in the production of wheat, oats, barley and rye. This is in no sense a threat. This is a calm and deliberate statement of fact. Other sections have a stake in the future of cotton."³⁵ This threat, regardless of Johnston's protests to the contrary, should have been expected. The CCC loan program was his baby, and Johnston would eagerly go to war with Congress if it meant protecting his baby.

Johnston's impressive shamelessness aside, he laid bare the political dilemma that Congressmen faced. They may have sympathized with the State Department's position and understood that the American agricultural subsidy program was creating significant headaches with American allies and was an obstacle to the creation of an international multilateral order. A multilateral order they, and even Oscar Johnston, supported. However, the liberal world order would have to accommodate American agricultural subsidies on all significant products because Johnston's logic was characteristically solid, if cynical. Congressmen could imagine that the collapse of one farm sector would likely mean that the land, labor, and capital associated with that sector would shift to another at the expense of the land, labor, and capital currently engaged in that sector. Farmers in those sectors now encroached upon by Southern farmers would then

³⁵ "Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton," (The Pace Committee), 35. Statements Made Before Cotton Congress Beginning December 4th, 1944 Folder. College Park NARA II.

blame their congressman, and no soaring rhetoric about the importance of American sacrifice to preserve a global international project would suffice to calm the destitute farmers. If elites wanted a global international order, it would have to account for the wishes of American voters. Which, in this case, meant voters from farm districts.

III

The Pace Subcommittee even investigated whether tariffs on cotton were preferable to the CCC loans. Some, like Carl H. Wilken of the National Association of Commissioners, Secretaries, and Directors of Agriculture, argued that “Tariff protection at parity was necessary,” while Harry B. Caldwell of the National Grange argued that cotton’s future required the “Elimination of all trade barriers.”³⁶ Lamar Fleming of Anderson-Clayton and Co., the most prominent cotton merchant in the world, argued that all tariffs should eventually be eliminated. Still, in the interim tariff revenue should be collected into a fund payable to cotton farmers that would allow them to “...sell the surplus abroad at low world prices...” while ensuring American farmers received “...the full American crop price...”³⁷ The American Cotton Shippers Association (ACSA), meanwhile, opposed an International Cotton Agreement and believed that cotton’s salvation depended on tariffs and trade barriers being eliminated as quickly as possible “...because such a large portion of the crop was exported, cotton has been the primary direct American victim of governmentally imposed barriers to international trade. Every primer in economics has taught that unless we are to give our products away we must take foreign products

³⁶ “Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton,” (The Pace Committee), 36.

³⁷ “Summary of Policy Recommendations, Related Statements, And Views Respecting Present and Pre-War Programs for Cotton,” (The Pace Committee), 36.

in payment.” The ACSA representative argued that when there is a global competition for scarce American dollars, “...the effect upon cotton prices and the cotton farmer...” is “...sharp and disastrous.”³⁸ Accordingly, American cotton stakeholders required “...a broadening and extension of the Reciprocal Trade Agreements Act...” and the elimination of virtually all tariffs.³⁹

Thus, the Pace Subcommittee, whose members were being threatened by Oscar Johnston and pulled in opposite directions by other stakeholders across the industry, punted. They followed Johnston’s advice and made no rash choices in the interim. They took little action on tariffs and merely adopted a resolution that opened the door to “...the use of income payments rather than parity-price supports, but expressed no preference for or disapproval of either method.”⁴⁰ Accordingly, the State Department would continue to be handcuffed by Congress’s commitment to the CCC loans. The only policy all could agree on was that an International Cotton Agreement was desirable and should be pursued.

This significant division among cotton stakeholders about the wisdom of continuing the price floor and the “two-price” system was apparent at an earlier meeting in October. At the October 1944 meeting of the National Cotton Council and the American Cotton Shippers Association in Memphis, even before the new export subsidy had been announced, a sharp

³⁸ “Statement on Behalf of the American Cotton Shippers Association Before the Cotton Conference Conducted by the House Committee on Agriculture Beginning December 4, 1944,” 3. Statements Made Before Cotton Congress Beginning December 1944 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

³⁹ “Statement on Behalf of the American Cotton Shippers Association Before the Cotton Conference Conducted by the House Committee on Agriculture Beginning December 4, 1944,” 6.

⁴⁰ “Partial List of Economic Topics which Latin American Governments Might Wish to Discuss at a Fourth Meeting of Foreign Ministers,” December 11, 1944, 3. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

division emerged between the farmers and the rest of the attendees about the entire form of cotton relief. Most non-farmer interests at the meeting supported further "...reductions in the tariff, expansion of the facilities of the Export-Import Bank, repeal of the Johnson Act that prevented offering loans to those still in default from WWI, elimination of the 100% parity purchase plan, reduction of the loan rate..." and a single price for cotton. The farmers, however, "...felt that the current loan rate should not be given up until a plan had been developed assuring the farmer of an income commensurate with income received by all other elements of the American economy." However, they acknowledged that competition from synthetic fibers and "...the drain on the Treasury for the necessary subsidies might be so great" that the current system would become untenable and be abandoned.⁴¹

The fiasco with the 1944 export subsidy intensified the desire among cotton producers for some international agreement. The Americans were confident that "The carry-over stocks are at a level which commercial channels cannot absorb without risking a disastrous collapse in export prices." Accordingly, they believed national price supports were necessary, both in the United States and in other producing countries. However, they were sensitive to the fact that "variation in the relative price support levels," among member countries, "...necessitates the payment of export differentials..." which "...are serious obstacles to the development of a free world market for cotton." The only solution to finding a mechanism for "the continuous adjustment of market supply to market demand in order to prevent the collapse of prices...", while sharing export

⁴¹ "Report of Meeting of National Cotton Council and American Cotton Shippers Association in Memphis October 23, 24, 25, and 26," 2.

markets on “an equitable basis among producer countries,” was an international commodity agreement.⁴²

As a sign that his “southern internationalism” was hardly *laissez-faire*, even Secretary of State Cordell Hull had signaled his support for an international cotton agreement as early as April of 1941, arguing that “...the international cotton problem should be worked out on the basis of cooperative action by formal agreement of the exporting countries.”⁴³ In the summer of 1943, an International Food Conference convened delegations from forty-four countries, including those under occupation, to discuss postwar international commodity markets. These representatives would spend many years discussing, and re-discussing, agreements on many major commodities.

IV

Several options were discussed by Allied nations throughout 1943 and 1944 to find some mechanism to effectively protect commodities producers within a multilateral model. In the initial 1943 meetings, several delegations, including most of the occupied countries, “had no strong feelings one way or the other,” regarding the wisdom of commodity agreements. They were joined in this neutral camp by the Republic of South Africa, who “stated that it had no export difficulties as envisaged by the committee.”⁴⁴ One group of countries, led by the United

⁴² “The Immediate World Cotton Problem,” 1-2. Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. College Park NARA II.

⁴³ “Outline of Cotton Discussions,” 3. Cotton: 1944 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁴⁴ “Views of Commodity Arrangements as Expressed to the Food Conference,” July 22, 1943, 3. Commodity Documents Folder, RG 43, Records of International Conferences, Exhibitions and Commissions,

Kingdom, proposed agreements to “stimulate consumption rather than to restrict production... by creating a buffer stock program to counter-act short-term price fluctuations and to direct a gradual expansion of production and consumption through its price policy.”⁴⁵ Economist Lionel Robbins, a convert to New Deal style public policy and representative of the British Government, suggested “prices would be evened out in the short-term through buffer stock operations... as such fluctuations may be very harmful and in no case serve any useful purpose. In the long run... prices would be brought down through buffer stock operations to the lowest price at which an adequate supply could be produced with profit to the producers.”⁴⁶ The American report noted, with some degree of snark, that this perspective reflected the United Kingdom’s “position... as an importer; and it has been suggested that it is even at variance with recent past action such as that taken with regard to sugar, wheat, and rubber.”⁴⁷ The Canadian delegation endorsed the British position, as the buffer stock program would “provide a measure of stability to the Canadian economy that would be difficult to achieve in any other way.” The Canadian delegation also suggested measures of “...economic expansion combined with a reduction in trade barriers and the discouragement of subsidized competition and competitive exchange depreciation.”⁴⁸ Still, the Americans had already conducted a detailed examination of the feasibility of using an international pool of buffer stocks to smooth out supply and demand of commodities. They had confirmed that it would likely prevent any wild short-term speculation,

International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 25. NARA II Archives, College Park, MD.

⁴⁵ “Views of Commodity Arrangements As Expressed to the Food Conference,” July 22nd, 1943, 4

⁴⁶ “Views of Commodity Arrangements As Expressed to the Food Conference,” July 22nd, 1943, 4

⁴⁷ “Views of Commodity Arrangements As Expressed to the Food Conference,” July 22nd, 1943, 4-5. There was also a group of policymakers who believed that, rather than an international commodity agreement, each commodity was governed by a “International Purchasing Corporation,” that would be free from the influence of Government, but would

⁴⁸ “Views of Commodity Arrangements As Expressed to the Food Conference,” July 22nd, 1943, 5.

but might unintentionally incentivize producers to overproduce, as Hoover's cotton and grain stabilization corporations had. The solution, according to the American report, was to ensure that the purchase "price range would have to be set low enough so that production would not be encouraged to expand faster than demand, but high enough to call forth adequate supplies."⁴⁹ If only it were so easy. The report's only recommendation for how to accomplish that was for the controlled industry to be "...able and willing to adjust itself to a given range of prices by competition."⁵⁰

Another group of countries, such as Belgium, joined the chorus advocating for free trade, but also proposed various control mechanisms, including direct production allocation, rather than buffer stocks. The Dominican Republic, characteristic of this group of countries, stated that "equal access for all countries to all markets would contribute a great deal towards rationalization of production but recommended that an international agency be created to handle exceptional surpluses."⁵¹ The American delegation, meanwhile, stayed quiet with one exception. One member of the delegation, who suffered from that provincial American delusion that American domestic politics was characteristic of domestic politics around the world, argued that any agreement "...in addition to buffer stocks, commodity agreements regulating production would be needed to give effect to the concept of income parity for farmers to assure farmers equal purchasing power to industrial workers."⁵² There was broad agreement among the delegations to increase consumption, limit trade barriers, and to regulate commodity markets to

⁴⁹ E. Denhardt, "Buffer Stocks and Production Quotas In International Raw Material Regulation," August 26th, 1942, 9. Commodity Documents Folder, RG 43: Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 25. NARA II Archives, College Park, MD.

⁵⁰ Denhardt, 11.

⁵¹ "Views of Commodity Arrangements As Expressed to the Food Conference," July 22nd, 1943, 7.

⁵² "Views of Commodity Arrangements As Expressed to the Food Conference," July 22nd, 1943, 8.

overcome short-term supply fluctuations internationally, cyclical fluctuations in demand owed to changes in purchasing power, and “chronic gaps between production and consumption such as those caused by structural changes in production or consumption...”⁵³ As this was a preliminary meeting, there was little need to resolve some of the incoherent contradictions at the heart of their agreements. They wanted free trade, with limited trade barriers, yet they generally sought enough controls to ensure that their producers and consumers were not overly vulnerable to the free market. Which, coincidentally, was the same conclusion the American 1942 Buffer Stock report came to. Much of the next half-decade would be consumed by trying to create square international commodity agreement pegs that could fit into the round hole of free trade, but they would only succeed in wheat.

In April of 1944, two months before the D-Day invasion, the United States Government’s Special Committee on Commodity Agreements and Methods of Trade issued its first draft report. The members were tasked with investigating the wisdom of creating “a jointly agreed international commodity policy” with the United Kingdom to resolve existing problems in internationally traded commodity markets. The four problems they sought to resolve through international commodity agreements were as follows: (1) the war had significantly incentivized production, meaning that the war's end would likely result in a significant drop in demand and prices. (2) The failure of the price mechanism to naturally adjust wartime supply to peacetime demand. (3) The “demonstrated instability of raw material prices and incomes in recent decades. (4) “The dangers inherent in allowing the further growth of unilateral national policies in support of the producers of internationally traded commodities.”⁵⁴

⁵³ “Views of Commodity Arrangements As Expressed to the Food Conference,” July 22nd, 1943, 9.

⁵⁴ “Draft Report of the Special Committee on Commodity Agreements and Methods of Trade,” April 4, 1944. Special Committee on Commodity Agreements and Methods of Trade Memoranda 19 Folder, RG 43, Records

In their final report, the committee members acknowledged a significant contradiction at the heart of attempting to establish international commodity agreements while these governments sought to reduce trade barriers to facilitate global economic expansion. They were concerned that “...international regulation agreements in the past have been largely concerned with developing effective means for restricting international trade and production in order to provide for, at a minimum, a tolerable basis for survival for all the national producer groups concerned...” that had “...turned into systems of monopolistic abuse.” The committee members thought this problem could be overcome, because the agreements of the past had largely been “producers agreements,” where “Consuming interests were never adequately represented.” The committee argued that if they were including representatives for consumers in international commodity agreements that it would be a significant safeguard to ensuring that postwar contracts, such as the one considered here, would be “...positive and constructive in character...” and emphasizing “...the stimulation of demand,” as opposed to the restriction of supply. If an international commodity agreement was to succeed, at least according to the committee members, then importing countries must have an equal say in it to “those largely interested in obtaining an export market for their production.”⁵⁵

The committee members wondered if “... there would be any need for a series of international commodity agreements if... a broad program for the relaxation of international trade barriers and other affirmative steps to bring about high levels of income and employment were successful.” However, they understood that “governments...made and are making

of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 25. NARA II Archives, College Park, MD.

⁵⁵ “Final Report of the Special Committee on Commodity Agreements and Methods of Trade,” September 19th, 1944, 7, 8, 15. Memoranda 19 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 25. NARA II Archives, College Park, MD.

commitments to protect the economic status of domestic primary producers...” which was difficult to reconcile with “... a comprehensive program for the reduction of trade barriers.” Accordingly, the only politically palatable way to reduce trade barriers would be to ensure that “...effective programs for the maintenance of high levels of production in the industrial areas of the world...” for “stimulating the demand of raw materials...(and thus) easing the problems of primary producers,” were maintained.⁵⁶

The committee suggested that the geopolitics of primary production were too thorny to be left to merely opening up trade barriers. It was too easy for governments to fall back on old habits and protect producers by erecting trade barriers. Accordingly, it was only through an international agreement between producers and consumers, which guaranteed a market for their production, that a return to the closed trading order of the 1930s could be avoided. One of the proposals the committee considered was for international purchasing of buffer stocks of commodities to stabilize supply and prices in the wake of the war.⁵⁷

The idea of creating an international purchasing agent for commodities to establish buffer stocks originated before the war. In 1938, John Maynard Keynes had recommended that the British Government create an International Purchasing Corporation to ensure reliable supplies from colonies for the motherland, “thereby affording to the country a large degree of security at relatively low cost in the event of war.” Some sympathetic American officials believed this served as a model that could be employed to “minimize price fluctuations and to ensure immediate response of supply to an improvement in demand.” The economist Andre Istel made a

⁵⁶ “Final Report of the Special Committee on Commodity Agreements and Methods of Trade,” September 19th, 1944, 7, 8, 12.

⁵⁷ “Final Report of the Special Committee on Commodity Agreements and Methods of Trade,” September 19th, 1944, 18.

similar proposal in a 1942 article in *Foreign Affairs*, except that, unlike Keynes's proposal, "the government would acquire title to all stocks, and assume the risks of depreciation as well as costs of storage." The committee ultimately decided that such a program would make little difference in addressing the chronic surpluses "...referred to in discussions of the 'surplus problem,'" because even a stable price would be too low. Prices had to be raised to achieve profitability. The report singled out cotton and wheat for having a demand "that crop equalizing operations, while producing greater stability, would result in less income for the farmer over a period than would be realized if prices were allowed to fluctuate freely." Whereas before the CCC loans, when credit was tight, cotton farmers might have been willing to accept lower prices provided they were stable and still profitable, as stability staved off creditors, the CCC loans encouraged bullishness. Thus, something other than an International Corporation would be required.⁵⁸

Vice President Henry Wallace, meanwhile, suggested a wartime agreement among all Allies where importing nations would "contract in advance for its anticipated requirements of raw materials from abroad for a period extending well beyond the end of the war."⁵⁹ The committee assigned to adjudicate proposals such as these was concerned that such a scheme, "...even though short-run, might set an undesirable precedent...since they definitely tend toward the building up of bilateralistic commercial arrangements, inherently involving discrimination." The specter of postwar "bilateralism" was enough to convince internationalist policymakers that Wallace's suggestion was out of step with their objectives. The committee members believed that future investigation of the surplus commodity problem should be directed towards,

⁵⁸ "The Problem of Raw Materials and the Contribution Which Might Be Made To Its Solution By The Creation of an International Purchasing Corporation," i-iv. Commodity Documents Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 25. NARA II Archives, College Park, MD.

⁵⁹ "The Problem of Raw Materials and the Contribution Which Might Be Made To Its Solution By The Creation of an International Purchasing Corporation," p. iv.

“...liquidating surpluses...” and the formation of “...international agreements involving control of production, stocks, exports, and prices and measures for increasing the consumption of and international trade in selected agricultural commodities and industrial raw materials.”⁶⁰

Not all officials, however, thought that such an agreement was a good idea. An interim report from the Special Committee on Commodity Agreements and the Methods of Trade in 1943 cautioned policymakers against embracing International Commodity Agreements too hastily. The authors argued that there were always those in primary sectors “whose habits of mind have gravitated towards restrictive market controls as a counterbalance to the controls exercised in other sectors of the economy. The logic of their position leads from national to international control and back again insofar as the successful operation of an international control scheme requires the establishment of effective national controls where they do not at present exist. The social ideal of price parity is the main intellectual prop of this policy, though the virtue and practicability of this postulate is likely to be even more sharply challenged in international economic relations, than it is in purely intra-national relations.”⁶¹

That same report also warned against another group of “more imaginative” supporters of commodity agreements. This group, according to the report, was “expansionist” in outlook, but rejected the “...free interplay of competitive forces...because international competition is held to be too disorderly and offers a constant temptation to national governments to inject themselves

⁶⁰ “The Problem of Raw Materials and the Contribution Which Might Be Made To Its Solution By The Creation of an International Purchasing Corporation,” iv, v.

⁶¹ “Interim Report of the Special Committee on Commodity Agreements and the Methods of Trade,” September 10th, 1943, Appendix A, 25. Commodity Documents Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File. Box No. 25. NARA II Archives, College Park, MD.

into the market situation with deplorable effects upon international harmony.”⁶² The report argued that this group “Instead, holds out international commodity agreements under government auspices as a promising alternative, with the confident expectation that these instruments of restriction can be transmuted into agencies of planned expansion and rationalization.”⁶³ By 1944, it was clear that the last argument had won out as the international commodity agreements being mooted included safeguards for consumers and were intended for “stimulating the demand of raw materials...” Thus, as instruments of expansion.⁶⁴ Unsurprisingly, this closely resembled the perspectives of cotton producers.

There was a specific subcommittee of the overall International Food Conference that dealt with the negotiation of an international cotton agreement, one whole heartedly endorsed by the American committee’s membership. In 1944, it was estimated that world governments held over 25 million bales in storage, and despite acreage reductions and labor shortages, there was no apparent indication that consumption would sufficiently outpace production to make a dent in the cotton surpluses, even when European mills reopened. The cotton committee recommended an international commodity agreement that created Most-Favored-Nation (MFN) status for all members of the United Nations, allowed for a diverse membership of producers and consumers, but required producers to implement tangible policies to reduce production. From the perspective of the American committee, this generally meant acreage controls. Although the CCC loans were

⁶² “Interim Report of the Special Committee on Commodity Agreements and the Methods of Trade,” September 10th, 1943, Appendix A, 25, 26.

⁶³ “Interim Report of the Special Committee on Commodity Agreements and the Methods of Trade,” September 10th, 1943, Appendix A, 26.

⁶⁴ “Final Report of the Special Committee on Commodity Agreements and Methods of Trade,” September 19th, 1944, 7,8.

mentioned in the report, none of the committee's recommendations for an International Cotton Agreement would have affected American cotton producers' abilities to receive CCC loans.⁶⁵

Cotton exporters, as they desperately sought to maintain CCC loans, also wanted to preserve their general export subsidies. According to one official, "In the United States, as well as in other countries putting a price floor under their agricultural commodities, export prices are perhaps not permitted to have their normal effect on production, but in view of the uncertainties of the transition period the whole program of protecting producers from disaster and at the same time acquiring an economic balance in agriculture will have to be faced by every national government on the basis of its own situation and experience. Any tendency toward cutthroat or uneconomic competition for cotton export markets may possibly be avoided through the development of international cooperation handling the disposal of surplus stocks."⁶⁶

V

The American export subsidy on cotton had become such a problem that it was expected to be the primary topic of conversation at a December 1944 meeting of foreign ministers from the Americas. A report was prepared to be sent out to the American members of the delegation, only a few of whom would have been familiar with the cotton issue, declaring "It is recognized that the use of export subsidies is inconsistent with our economic foreign policy..." The report continues, "However, under existing domestic support-price programs which results in a domestic price for cotton...which is higher than world prices substantially little, if any, exports

⁶⁵ "Basis for U.S. Cotton Export Payment," Cotton: 1945 Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁶⁶ "Basis for U.S. Cotton Export Payment."

would take place in the absence of a subsidy.” It was claimed in the report that the Executive Committee for Economic Foreign Policy (ECEFP), having taken up the question of how to reconcile the commercial policy with domestic agricultural policy, argued that the United States should commit to eliminating export subsidies, and prohibit their future use, at the “...earliest practicable date or in any event not later than three years from the cessation of present hostilities.” Unless the “...product was determined to be in chronic world surplus...” by a designated international organization. The ECEFP also recommended that a study be commissioned to report, “...the existence and amount of other types of subsidies, tending to increase exports or reduce imports, which are greater than those maintained.... On July 1, 1939.”⁶⁷

Before the war, a fledgling group of global cotton-producing countries formed the International Cotton Advisory Committee to discuss international cooperation. The war had intervened before any significant progress could be made, but the global cotton situation and the American export subsidy encouraged the United States to call for a meeting of the International Cotton Advisory Committee in the spring of 1945. Brazil, despite some earlier comments to the contrary, signaled its support for the meeting as early as the end of November 1944.⁶⁸ Although they had hoped that the Americans would withdraw their export subsidy until after the meeting, by early December, Brazilian newspapers were reporting that the Brazilian Government had resigned itself to attending a meeting without any guarantees to work towards “... an intelligent

⁶⁷ “Partial List of Economic Topics Which Latin American Governments Might Wish to Discuss at a Fourth Meeting of Foreign Ministers,” December 11th, 1944. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁶⁸ Donnelly, “Paraphrase of Telegram Received,” to Secretary of State from Embassy in Rio de Janeiro, November 29, 1944. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

understanding with respect to the distribution of cotton...”⁶⁹ However, other members of the committee, such as Peru, argued that “...as long as the United States Government continues its policy of subsidizing cotton exports, the Peruvian presence at the meeting would be useless.”⁷⁰ The British, meanwhile, though eager to attend the meeting on behalf of their colonial cotton growers, also wanted consumer representation to ensure that the mother country’s views were represented. Kenneth Jopson, a Counselor at the British Embassy in Washington, told the Americans that the likely British Representative to the meeting would be Sir Frank Stockdale, someone who, although intimately familiar with the problems of production, had little knowledge of the textile industry. Accordingly, Jopson suggested that each country send a member from the producing and consuming side.⁷¹ This is hardly surprising given the British home islands’ historic status as the world’s largest textile market. Jopson wanted to make sure that if an agreement were devised by the International Cotton Advisory Committee that fixed prices or spheres, it would not be one entirely for the benefit of cotton producers.

The promised meeting of the International Cotton Advisory Committee was finally held in April of 1945. The meeting concluded with little more than agreements that “...a burdensome world surplus of cotton exists,” that members were “...facing problems and difficulties originating from certain measures adopted by other member nations to deal with surpluses by

⁶⁹ Henry W. Spielman, “Opinion About an International Cotton Agreement,” December 7, 1944. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁷⁰ State Department Memorandum of Conversation, “Peruvian Attendance at the International Cotton Advisory Committee,” March 2, 1945. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁷¹ State Department Memorandum of Conversation, “Proposed Meeting of the International Cotton Advisory Committee,” December 22, 1944. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

unilateral actions...”, and that “...international collaboration...is preferable to unilateral action.” To address these issues, the Committee decided to establish a study group that would issue a report with “definite proposals for international collaboration.”⁷² This meeting can only be deemed a success for the Americans. They had not yet taken any action to reduce their export subsidy, despite acknowledging it was a problem in the final report of the April 1945 meeting; all they had promised to do was to study the issue further.

An American report claimed that the peacetime export volume of cotton could be expected to hover around 13 million bales, as this had been the average export volume during peacetime between 1909 and 1939. However, despite the relative “constancy of international trade,” consumption and production fluctuated wildly. The report argued that the most important markets had historically been the UK, Europe, and Japan. It was hoped that as peace and stability returned to Europe, that the UK and European countries would once again return to being major cotton importers for their textile mills, but the report’s writers believed that this was unlikely due to “...a shifting of the industry to the populous and low-wage regions of Asia and...the large-scale substitution of synthetic fibers.” They were bullish about Japanese prospects of once again becoming a significant cotton buyer, but that it would “...depend on the terms of peace.” India was an emerging market for specialty growths, but that was counterbalanced by the Soviet Union reducing their imports owing to domestic production. Accordingly, given that the world’s exportable surplus in 1944-45 was almost twenty million bales, and most traditional markets

⁷² “Final Action of the Fourth Meeting of the International Cotton Advisory Committee,” April 14, 1945. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

were going to be in recovery for some time, something had to give if prices were ever to stabilize and the U.S. Government no longer be forced to purchase vast quantities of American cotton.⁷³

In June of 1945, a month after V-E Day, Congress's Pace Subcommittee finally published its recommendations for postwar cotton programs. There was general agreement among the members on relatively uncontroversial measures, such as a commitment to expand research facilities and improve productivity. However, the committee disagreed on the thornier issues. There was considerable disagreement over how farmers should be assured of parity. They generally agreed that farmers deserved an income "...not less than parity..." and that the United States deserved its "fair portion of the world cotton market." However, they could not agree on how to accomplish this, aside from investigating the feasibility of "... an international cotton agreement." Any other resolution required, "...further study." However, the Committee did recommend that "...an international monetary agreement to stabilize foreign exchange and aid in exports," be signed as soon as possible and that the United States abolish the Johnson Act, "...prohibiting private loans to governments in default on World War I payments..." which would facilitate the "...use of funds of the Export-Import Bank," permitting the "...financing of exports of cotton and its products."⁷⁴

A preliminary draft of an International Cotton Agreement was finally circulated on June 30, 1945. The proposed agreement outlined the obligations of both producing and consuming

⁷³ "The World Cotton Surplus and Export Trade," 1, 7-11. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park.

⁷⁴ War Food Administration Office of Marketing Services, "Memorandum on Postwar Programs for Cotton: Proposed to carry out the suggestions and recommendations of the Subcommittee of the Committee on Agriculture on Postwar Programs," House of Representatives, Washington, D.C., December 4 to 9, 1944. Pamphlets and Reports On Cotton Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

countries, as well as the manner in which the agreement was to be administered and financed. Exporting countries were obligated to, "...take positive measures to increase the consumption of cotton within its own territories..." and to "Make it a part of its national agricultural policy to bring its production of cotton into line with its own raw cotton requirements, with its requirements for the fulfilment of its export quotas (which were as of yet undefined).... And with the need for the liquidation of surplus stocks." Signatories were then assigned an annual export quota, which they could fulfil in installments throughout the year. Tellingly, in the drafted agreement, the individual quotas were left blank. Presumably, these were to be worked out in negotiations among the members of the International Cotton Advisory Committee. Minimum prices, meanwhile, were to be fixed according to grade and staple length. The agreement would set the initial minimum prices, which could be adjusted by a Price Committee that was responsible to the various national governments. That is to say, if a government wanted an increase or decrease in the minimum price, they could apply to the Price Committee, which would issue a ruling. These prices were to be set for the three-year duration of the agreement. Like the export quotas, the prices were also left blank in the draft.⁷⁵

Meanwhile, the study group commissioned by the International Cotton Advisory Committee met twice to study the possibilities of an International Cotton Agreement. However, the members were unable to reach an agreement at either of the meetings. The best they could do was to adopt a resolution that "recommended that the study of international cotton problems be

⁷⁵ "Preliminary Draft of International Cotton Agreement," June 30, 1945. Preliminary Draft of International Cotton Agreement Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

continued and suggested that the Committee consider formalizing its organization to enable it to keep the world situation under constant review...”⁷⁶

The study group would present its report to the 1946 meeting of the International Cotton Advisory Committee. The atmosphere at the time of this meeting was less tense than that of the previous year, as the concerns of cotton-exporting countries about the American export subsidy had been somewhat addressed. The acute American export problems associated with the cotton surpluses subsided slightly by 1945. Labor shortages and the need to grow food crops in the United States significantly reduced American acreage under cultivation in 1945, resulting in the smallest crop since 1921.⁷⁷ Only 216,238 bales were entered into the CCC program, and all but 18,252 were liquidated by October of 1946.⁷⁸ The carry-over stock dropped from approximately 11,00,000 bales to only about 7,000,000. Meanwhile, demand for cotton increased so much that some cotton-exporting countries, such as India, actually imposed an embargo on the export of cotton to ensure their mills had sufficient stock.⁷⁹ The consequence was that prices remained well above parity, allowing the United States Government to feel content with making concessions to other countries and to cooperate as much as possible with the other members of the International Cotton Advisory Committee. The CCC began cutting the export subsidy in 1946 to two cents from four cents and would later reduce it by another half cent. Additionally, the United States

⁷⁶ James Gilbert Evans, “American Cotton Foreign Policy,” *State Department Bulletin Vol. XV, No. 389*, December 15, 1946, 1078.

⁷⁷ “Report on U.S. Cotton Situation,” May 9, 1946, International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

⁷⁸ United States Department of Agriculture, Commodity Credit Corporation “CCC Loans on 1945-Crop Cotton,” September 26, 1946. CCC Loans on 1945 Cotton Crop Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park.

⁷⁸ United States Department of Agriculture, Commodity Credit Corporation “CCC Loans on 1945-Crop.”

⁷⁹ “Report on U.S. Cotton Situation,” May 9, 1946.

sent 1.6 million bales of its surplus cotton from CCC stocks to its occupied zones in Japan and Germany, in return for cotton textiles.⁸⁰ Meanwhile, the Export-Import Bank was in the process of lending money to foreign buyers, which would result in the export of over half a million bales. Accordingly, the conflict had ended, and, contrary to their perceived experience of the conclusion of the First World War, surplus government stocks were dwindling, as was the area under cultivation. The result was that by August 1, 1946, the spot price had risen to 34.55 cents per pound, ten cents higher than the previous year.⁸¹ Thus, the meeting attendees felt less desperate, and there was therefore no immediate need to sign an International Cotton Agreement.

The Brazilians, in particular, appeared reluctant to sign an agreement. Dr. Jose Garibaldi Dantas, the Brazilian representative on the International Cotton Study Group commissioned by the ICAC to produce a report, argued that the situation had “improved substantially between April 1945, when the last meeting was held, and the present month.” He claimed that the, “...small crop harvested in the northern hemisphere the increase in consumption to meet the current necessities of the civil population deprived of clothing in sufficient quantity, and finally the demand for exports in the countries of Europe and Asia have improved the general outlook, making it inadvisable to sign an agreement...” until the postwar situation had stabilized.⁸² The optimism among cotton stakeholders that attended the cessation of hostilities in all countries meant that few wanted to be handcuffed by quotas established by an International Cotton Agreement. Whereas, in 1944, with the Americans implementing a hardline export program,

⁸⁰ Bureau of Agricultural Economics in the United States Department of Agriculture, “The Cotton Situation,” Jan-Feb 1947, 4.

⁸¹ United States Department of Agriculture, *Agricultural Statistics 1954*, 54.

⁸² “Dr. Garibaldi Dantas Comments on World Cotton Situation,” Rio de Janeiro, March 13, 1946. International Cotton Advisory Committee Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box No. 51. NARA II Archives, College Park, MD.

other countries might have been eager to protect themselves through an agreement. However, by 1946, when long-term demand appeared larger than it had in 1945, and with the Americans evidently satisfied, hardball was over. Accordingly, the desire of cotton-producing countries to bind themselves to quotas established at a moment of weakness seemed inadvisable. Accordingly, despite all the wartime efforts that had gone into establishing an International Commodity Agreement, the momentum stalled by 1946.

The International Cotton Advisory Committee would continue, however, and continues to do so to this day. The Executive Committee was struck at the 1946 meeting, and it is now headquartered in Washington, D.C. As an organization, it primarily facilitates communication and collaboration among international stakeholders in the cotton industry. It is very clear in its claim that “The ICAC does not have a role in price setting or in intervening in market mechanisms.” Instead, it is “...the premier source of international data on the world cotton industry...” and provides “...valuable information that is timely and relevant to all sectors of the cotton industry in assessing marketing conditions.”⁸³

VI

The campaign for an International Cotton Agreement highlights the challenges inherent in international cooperation in commodity markets and the tension between protecting producers and promoting freer trade. The American domestic subsidy on cotton created significant tension between the United States and other countries that produce cotton. However much American diplomats might have wanted to eliminate these subsidies, which often served as barriers to the grander plans of these diplomats due to complaints from foreign farmers, there was little they

⁸³ “A Profile of the ICAC,” *International Cotton Advisory Committee Website*, First Accessed via the WayBack Machine on November 10, 2024. [Profile of the ICAC](#)

could do. American farmers voted in American elections, whereas foreign farmers did not. Thus, the United States Government remained accountable to American interests at the expense of global ones.

It might seem paradoxical that the same interest group that so desperately wanted tariff reduction would also insist so adamantly on trade provocations, such as cotton export subsidies. However, interest groups are usually only consistent in their self-interest. American cotton farmers wanted low tariffs on manufactured goods because it made the implements they purchased cheaper and eliminated the incentive for other governments to impose tariffs on American cotton. Thus, a low-tariff environment was desirable for export-dependent cotton farmers. However, this did not mean that cotton farmers were all eager for a fair and equitable international trading environment. They were happy to support unfair trade practices that benefited them. That being said, the long-term campaign to promote free trade among cotton interests did produce, particularly among the interest group's elites, educated and powerful men who were genuinely committed to free trade. Maybe not perfectly committed, but considerably more committed to it than cotton farmers and the elites of other economic interest groups. This group, comprising men like Cordell Hull and Will Clayton, had a vision for a world of low trade barriers and free exchange, one in which the United States would economically dominate.

Chapter 6 – Perfidious Albion and Uncle Sucker

I

The British Empire presented a challenge to Southern internationalists' postwar ambitions for a U.S.-led multilateral world order. The Empire's global reach, "Imperial Preference" trade policy, and non-convertible currency prevented American exporters from reaching many of the world's most promising markets. Before the Soviet Union emerged as the U.S.'s primary postwar adversary, Washington's primary geostrategic goal was to eliminate the British Empire as an obstacle to American producers' ability to access global customers. From a cotton growers' perspective, this meant achieving global cotton supremacy. To accomplish this, Washington would leverage its economic power by offering the British a deal that they could not refuse in return for eliminating these obstacles.

The scale of the credit Washington offered the British was so significant that it faced considerable domestic opposition. It even created reticence among some cotton stakeholders. However, prominent Administration officials with deep ties to the cotton sector understood that cotton supremacy depended on reliable access to British colonial markets. The loan would not accomplish its stated objectives, as the aggressive attempt to undermine the British Empire backfired; however, it ensured that the British became America's lieutenant in the quest for a multilateral world order and a key ally against the Soviet Union.

The Anglo-American Loan Agreement of 1946, negotiated in late 1945, was designed to transform the British Empire into a market for American exporters. The Administration viewed the loan as necessary for integrating an American-friendly global British network into the American-led multilateral global order. However, opponents of the loan were concerned that the scale of the loan would strengthen Britain to a point where London could once again dominate global trade for Britain's benefit through its navy, merchant fleet, and maritime financial services. Supporters of the loan, including cotton shippers and exporters, would have to convince critics that a strong Britain was beneficial to America, as long as it was firmly understood by the British and others that the United States would set the terms of global trade. Treasury Secretary

Fred H. Vinson of Kentucky, who helped negotiate the loan and was designated by the Administration as the loan's chief public proponent, told Congress that "A peaceful and prosperous world requires the full participation of England, and of the countries closely linked with England, in the world economy."¹ Fellow supporter Senator Alben Barkley of Kentucky argued the loan would reduce Britain's geopolitical power, as the UK Government dominated the Sterling Area, "...to protect herself on account of the indebtedness she incurred as a result of the war... It is the very dominating position, it seems to me, we are trying to get her out of... so that we might have a chance to do some dominating in these regions ourselves."²

Coming out of the war, American strategists like Averell Harriman were eager to use "American aid as a tool..." for achieving American geopolitical goals.³ Assistant Secretary of State William Clayton, negotiator of both the Anglo-American Loan and the later Marshall Plan, was a prominent champion of credit's unique value as a tool for diplomacy. When the Soviets requested a substantial loan in 1945, Clayton chose to delay approval until the Soviets were desperate enough to make concessions that Clayton deemed desirable in return. He claimed that, "From a tactical point of view, it would seem harmful to us to offer such a large credit at this time and thus lose what appears to be the only concrete bargaining lever for use in connection with the many other political and economic problems which will arise between our two countries."⁴ When Clement Attlee's Labour Government came to power in an economically devastated Britain in 1945, it was time to strike against Britain. Britain's need for American credit meant that US officials, such as Clayton, whose experience as a cotton merchant had given him insight into the importance of dislodging British control of global markets for the long-term prosperity of American exporters, seized the opportunity.

¹ "Hearings Before the Committee on Banking and Currency of the United States Senate, 79th Congress, 2nd Session, on S.J. Res. 138, A Joint Resolution to Implement Further the Purposes of the Bretton Woods Agreement By Authorizing the Secretary to Carry Out An Agreement with the United Kingdom and For Other Purposes," March 5, 6, 7, 8, 12, 13, 14, 15, 19, and 20, (Hereafter "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,") 61.

² "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 61.

³ Thomas G. Paterson, "The Abortive American Loan to Russia and the Origins of the Cold War, 1943-1946," *Journal of American History* Vol. 56, No. 1 (January 1969), 73.

⁴ Thomas G. Paterson, "The Abortive American Loan to Russia and the Origins of the Cold War, 1943-1946," *Journal of American History* Vol. 56, No. 1 (January 1969), 77.

The Americans would offer a loan that facilitated British industrial recovery through American imports in exchange for Britain's dissolution of the Sterling Area. This last condition was terminated after a disastrous six-week experiment in 1947. That year, when the British Government restored convertibility between the pound and the dollar along with ending imperial preference, the British Empire was, for all intents and purposes, dead. But it only lasted six weeks. The restoration of convertibility led to a run on sterling, as colonies demanded repayment for debts in dollars. For Americans seeking a global multilateral order and security against Soviet encroachment, it was catastrophic. The global scarcity of dollars meant that the Bretton Woods system required alternative currencies, and the main alternative currency, Sterling, suffered a historic collapse when it was made convertible again. Meanwhile, by 1947, Britain had become America's chief lieutenant in the global struggle with the Soviets. Accordingly, the Americans were compelled to acknowledge that the Sterling Area served as a temporary, if long-term, necessary haven for a democratic-capitalist Britain struggling with a weak pound.⁵ If the United States wanted Britain to survive, something it very much did, she had to let her retain the Empire's lingering morsels.

The historiography of the Anglo-American Loan is closely tied to the broader historiography of the early Cold War. However, this is a consequence of changes in the geopolitical environment surrounding the Anglo-American Loan, rather than anything inherent to the loan itself. This chapter explains that the loan was negotiated to advance American economic objectives that had little to do with the Soviet Union. It was intended to grow the market share of export-dependent American industries, including those of American cotton growers. The objective was to destroy the walls of the British Empire through credit. Some Marxist commentators have argued it was for the U.S. and U.K. to share the British Empire, but this does not account for how central triangular trade was to the thinking of American negotiators and the Administration. Revisionist historians, meanwhile, such as Lloyd Gardner and Frank Kalko, have argued that the Cold War rhetoric that came to overshadow all other justifications for the loan was window dressing to make the informal American empire seem necessary for guaranteeing American security. This chapter accepts the revisionists' claim that the loan was

⁵ For the importance of retaining the Pound to the Bretton Woods Economic System, see Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992* (London: Cambridge University Press, 2010), 37-40.

intended to satisfy the economic interests of export-dependent Americans, whose perspectives dominated the Truman Administration; however, it rejects the claim that the Cold War rhetoric was a conspiracy to pass the loan. Or, if it was, it was not a conspiracy hatched by the Americans.

This chapter argues that the Senate Hearings demonstrate that the Administration was very upfront about the loan being in America's economic self-interest and that its supporters did not believe any further justification was necessary to pass the loan. Indeed, it probably was not. However, the geopolitical ground shifted substantially while the loan was being debated in Congress. The Cold War had started, and the loan would now be seen through that lens. Nobody benefited more from this than the British. They received the desired loan, while the Cold War context gave London the flexibility to renegotiate aspects and conditions of the loan with Washington as friendly Allies, once it became clear they could not withstand the loan's more challenging provisions.

II

Beginning in 1931, following the British abandonment of the Gold Standard, the British Government established a system whereby, according to historian Catherine Schenck, "...members of the Commonwealth and Empire traded with each other on terms more favorably than the rest of the world." She argued that this system of 'Imperial Preference' would become "...a major target of American policymakers in the planning for the postwar trading framework."⁶ American exporters' challenges with Imperial Preference were exacerbated after London suspended the convertibility of the pound at the onset of war in September 1939, isolating British imperial trade from the rest of the world. It created a separate currency zone called "the Sterling Area," which would remain in place in some form until the early 1970s.

Schenck described the Sterling Area as such: "Members of the Sterling Area agreed to maintain fixed exchange rates with sterling, to hold the bulk of their foreign exchange reserves in sterling, and to impose exchange controls in common with Britain to protect against possible

⁶ Catherine Schenck, "The Sterling Area: 1945-1972," in *Handbook of the History of Money and Currency*, Stefano Batiliosi, Yousef Cassis, Kazuhiko Yaho, eds. (Singapore: Springer, 2020), 773.

flight from sterling to other currencies (the \$US). In return members enjoyed freer trade with Britain and freer access to British capital than most countries.”⁷ Such a system was a formidable obstacle to US cotton growers who sought unfettered access to the promising textile markets of Britain and the British Empire.

After the war, American cotton exporters wanted to re-establish their longstanding connection to the British textile industry. However, doing so would require both significant aid for the reconstruction of the British economy and the re-establishment of the pound as a stable international currency that was fully convertible to the dollar. In the immediate aftermath of the war, the latter was hampered by Britain’s inability to produce goods for export owing to its industrial devastation and wartime economic restructuring. The postwar regime could not simply discard the pound because most global wartime debts were either denominated in pounds or held as “Sterling Assets” by countries around the world, and most foreign currency reserves were still held in pounds.⁸ Thus, it was widely recognized that, even though the dollar was at the center of the Bretton Woods System, the British Pound was an essential secondary currency. Therefore, a campaign had to be pursued to shore up the value of the pound to make it convertible again.

⁷ Schenk, “The Sterling Area: 1945-1972,” 775-776.

⁸ “Sterling Assets” were a debt instrument the British Government used to pay for many of their wartime debts outside of Lend-Lease.

Countries Associated with U.K. Currency and Trade Policy

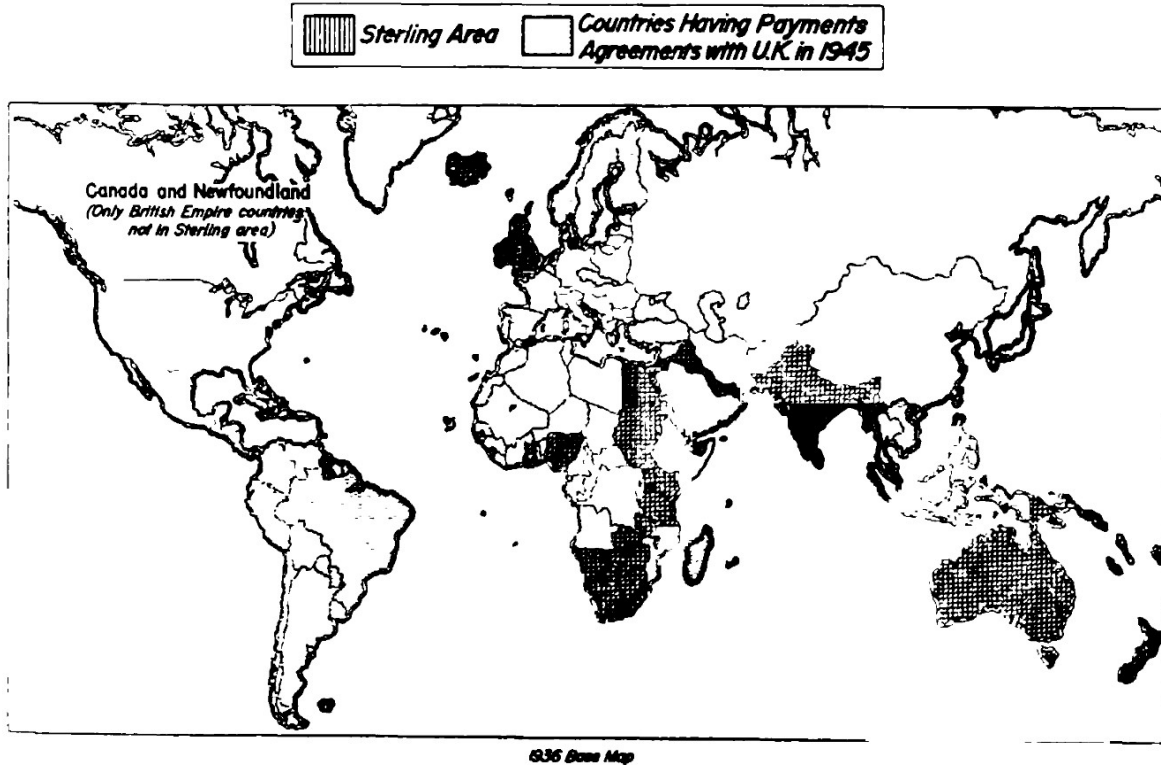


Fig. 1: "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138, 101.

Assistant Secretary of State William L. Clayton, with the departure of Cordell Hull in 1944, became arguably the most prominent Southern internationalist in the Administration. Clayton, a former partner in Anderson-Clayton Co., the world's largest cotton merchant, had argued that cooperative and multilateral trade was essential for cotton exporters for well over a decade, even when he was still a private citizen. For instance, in 1940, in the wake of the fall of France, he warned a gathering of cotton nabobs about the consequences of the Axis being able to impose their vision of world trade, "Bi-lateral, or barter, systems of international trade are cumbersome and destructive of trade itself... it will result in a serious contraction of world trade and a regrettable lowering in the standard of living." He hoped that "With an Allied Victory, international trade could be re-established at the end of the war, on a free exchange, using a portion of the huge gold holding of the United States to get the system working." He warned that "...if the rest of the world adopts totalitarian methods of trade, we will be compelled to conform if we wish to sell our surpluses. Barter means swapping goods for goods. Obviously, that can

only be done in our case by setting aside the tariff..." He argued that even if the United States could successfully do that, "This would involve such far-reaching and radical changes, accompanied by so severe a reduction in our standard of living that it is very doubtful if democracy would survive the shock. Just as one example, there would be the problem of the two million farm families in the United States whose production is normally required for export, not to mention the more direct and immediate effect on the South of the loss of our cotton exports." He concluded by asking, "Rather than undertake any such radical readjustment, would it not be wiser to trade with the rest of the world in whatever way may be open to us..."⁹

Six years later, after he had concluded the Anglo-American Loan negotiations, Clayton was asked to address the National Farm Institute in Iowa on the loan's provisions and the benefits that might accrue to the United States on February 15, 1946. Clayton argued that farmers, more than anyone, should understand the benefits of such an arrangement. He claimed, "Demand for farm products is now at a high level, and many agricultural commodities are in short supply (but not the most export-dependent ones like cotton and tobacco). It would be foolhardy, however, to conclude that the problem of farm surpluses has been permanently solved, and that foreign markets are no longer important to us." He then went on to warn the farm audience about the consequences of losing foreign demand. "I remember, and many of you remember, what happened after the first World War: The value of our agricultural exports fell by nearly 50 percent from 1919 to 1921, and our cash income from the sale of farm products fell by more than 40 percent over the same two-year period. The collapse of the foreign market was unquestionably one of the main causes of the sharp decline in our farm income."¹⁰ Thus, Clayton believed that the Sterling Area had to be eliminated to guarantee American farm exporters a reliably prosperous standard of living.

III

⁹ Fredrick J. Dobney, ed., *The Selected Papers of Will Clayton* (Baltimore, MD: Johns Hopkins Press, 1971), 53-54.

¹⁰ Dobney, 156-157.

The British were not ignorant of American self-interest and had long been concerned that American domestic interests would undermine the efficacy of any postwar global system reliant on American leadership and vulnerable to American whims. Chancellor of the Exchequer John Anderson provided the British War Cabinet with a memo on January 22, 1945, to address Ministers' concerns about the Bretton Woods Agreement. Ministers objected that the Bretton Woods Agreement depended on American leadership, and few of these Ministers believed the United States to be responsible enough to manage such a system. Anderson responded that he had it on good authority from the State Department that "...the State Department at least contemplates a large and early reduction in American tariffs and does recognize that the quickest contribution the Americans can make to the restoration of world trade is to take imports." He was also convinced that "The United States Government is committed to putting at the disposal of the world a substantial number of dollars..." Accordingly, he believed the United States was at least rhetorically committing itself to leadership. However, Anderson cautioned that the proof was in the pudding. He stated that "...unless the United States is going in practice to behave like a big creditor nation and import goods from the rest of the world, as well as lend money, schemes for maintaining the machinery for maintaining equilibrium in the Balance of Payments might easily break down again."¹¹ The British were right to be concerned, as whatever ideals American representatives may have had, it was always subject to revision by the exigencies of domestic American politics.

In September 1945, the United States terminated the Lend-Lease aid program. The justification, as provided by Leo Crowley, Head of the Foreign Economic Administration, before the House Committee on Banking and Currency, was that Lend-Lease was not intended to "...assist in the task of relief, rehabilitation, and reconstruction in Europe or elsewhere. Assistance to our allies for reconstruction must be provided by another mechanism."¹² Shortly after this cancellation, which shocked the new British cabinet, the British and Americans began negotiations on crafting such a mechanism. Will Clayton and Fred Vinson represented the United States, while Lord Halifax and Lord Keynes represented the United Kingdom. By December, a

¹¹ John Anderson, Chancellor of the Exchequer, "Memorandum of the Chancellor of the Exchequer: The Bretton Woods Conference," January 22nd, 1945. The National Archives Online, Cabinet Papers, Finance and the Economy, Bretton Woods, First Accessed on November 21, 2024. www.nationalarchives.gov.uk/cabinetpapers

¹² Hearings Before the Committee on Banking and Currency House of Representatives 79th Congress, 1st session, on H.R. 3464 and HR. 3490, July 11 and 12, 1945, 7.

package was agreed to that passed Parliament relatively quickly. The difficulty would be getting it through Congress.

On Tuesday, March 5th, 1946, not quite a year after VE Day, the Senate Committee on Banking and Currency began a series of hearings to consider the \$3.75 billion Anglo-American Loan package that had been negotiated the previous December. The Senators on the Committee were some of the most influential figures in Washington, and the committee was generally split between Republican skeptics and Democratic supporters. The Republican committee members were led by corn-belt skeptics of multilateral trade, such as Robert A. Taft of Ohio (a man who had sought his party's presidential nomination in 1940 and would do so again in 1948 and 1952), Hugh Butler of Nebraska, and Arthur Capper of Kansas. These men would form the nucleus of the Senate Republican opposition to international aid over the next several years and be derided by opponents as "isolationists." Democratic supporters of the aid package, meanwhile, were from cotton and tobacco regions, such as future Vice President Alben Barkley of Kentucky, John Bankhead of Alabama, and William Fulbright of Arkansas. The ensuing hearings and debates indicate what Washington's postwar foreign policy objectives were before the Cold War came to dominate all thinking.

The agreement, concluded on December 6, 1945, provided for the United States to offer a \$3.75 billion line of credit to the UK Government. The purpose of the loan was to "...facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the United Kingdom to assume obligations of multilateral trade, as defined in this and other agreements."¹³ This was, generally, consistent with a conversation held between President Franklin Roosevelt and Prime Minister Winston Churchill in Quebec in 1944, where Roosevelt agreed with Churchill's assessment that "...If the United Kingdom was once more to pay its way, it was essential that the export trade... be re-established," with American assistance after lend-lease was terminated.¹⁴ In return for the loan, the United Kingdom agreed to pay 2% annual interest

¹³ "Anglo-American Financial and Commercial Agreements," December 6, 1945. FRASER: St. Louis Federal Reserve Archives [Anglo-American Financial and Commercial Agreements. December 6, 1945.](#)

¹⁴ "Record of Conversation Between the President and the Prime Minister at Quebec on September 14th, 1944," Lend Lease Folder, President Harry Truman Confidential Papers, Box 18. President Harry S. Truman Presidential Library, Independence, MO.

and not use these funds to liquidate debts to third parties. This was particularly important because, during the war, the British had accrued substantial debts to places like India and Egypt in return for the privilege of stationing troops there. Clayton believed that “much of their debt to those countries should be written off and that what was left should be at an extremely low rate of interest.”¹⁵ Regardless of the practicality of such a measure, the United States Government did not want its loan to satisfy a debt it viewed as a form of inter-imperial accounting.

The benefits to the Americans accrued from three specific provisions. Firstly, the loan contract, by explicitly mentioning that the funds should be used to purchase American exports, gave American exporters privileged access to Britain and the rest of the Sterling Area. This does not mean it was a “tied” loan, like most Export-Import Bank loans, which would restrict the use of the loan to purchasing American-made items. However, it was understood that the UK would significantly increase its imports from the US. Secondly, it tied the British to the Bretton Woods Agreement, which the Americans viewed as being in the American national interest. Ratification of the Agreement was uncertain in Parliament, and accepting this loan implied acceptance of the Bretton Woods Agreement. Thirdly, and perhaps most importantly, there was a specific provision that Britain would have to terminate the wartime currency and trade controls that characterized the Sterling Area, thereby opening it up to external imports.¹⁶ Will Clayton was somewhat surprised that the British so quickly accepted this last provision and suggested that the British negotiators, Lords Keynes and Halifax, did not go “about the convertibility clause of the loan with a great deal of care or intelligence.”¹⁷

Clayton and Treasury Secretary Fred Vinson had corresponded with each other as early as June 1945 about the necessity of this loan. Clayton argued that the British financial problem “...threatens the not only delay but, indeed, the ultimate success of our economic foreign program. It is, therefore, definitely to our interest to give Britain the financial help required to bridge the transition to peacetime equilibrium.” However, Clayton argued that any assistance must be grounded in “...conditions that would ensure a sound advance towards our post-war objectives.” Clayton had suggested the following conditions: 1) Eliminating the “Sterling Area dollar pool arrangement.” 2) “Elimination of Empire preferences,” which Clayton expected the

¹⁵ Dobney, 147.

¹⁶ “Anglo-American Financial and Commercial Agreements,” December 6, 1945, Articles 2, 3, 7.

¹⁷ Dobney, 146. Keynes’ exhaustion and declining health could explain this.

British to “.... Resist most strenuously.” 3) “Britain must continue domestic import controls over non-essentials to reduce the transitional strain upon her balance of payments and hence the amount of financial aid required.” And 4) Other countries, like Canada, should be expected to participate as additional lenders.¹⁸ As a testament to either Clayton's negotiating skills, the British's sheer desperation, or some combination of both, all the key conditions were included in the final arrangement.

Treasury Secretary Fred M. Vinson of Kentucky, who would soon be confirmed as the Chief Justice of the Supreme Court, opened Senate proceedings with a lengthy statement that summarized the Administration's foreign economic policy and the case for how the British loan fit into it. He argued that the United States was committed to a “...policy of international cooperation.” He argued that the breakdown of international trade, “...was an important factor in prolonging and intensifying the great depression,” and that “...the economic warfare of the 1930s was part of the master plan for aggression by Germany and Japan. Admitting that we should learn from experience, we have urged the United Nations to adopt a comprehensive policy of international cooperation to restore world trade.” However, Vinson argued, a free world would not just automatically spring up from the ashes of depression and war, it was necessary to secure “prompt economic reconstruction, orderly currency arrangements, and the reduction of trade barriers.” Vinson continued that world peace depended on a “...world that is working and trading – in a world in which economic warfare is eliminated.”¹⁹

In his testimony before the Committee, Vinson argued that a reconstructed world with sound currency and low trade barriers not only guaranteed peace but was necessary for American prosperity. He argued that “Our own program of maintaining high levels of production, employment, and national income”-by which he meant the New Deal-“is dependent on our success in expanding world trade.” He emphasized that for “large segments of agriculture and industry,” singling out raw cotton, leaf tobacco, and copper, “exports mean the difference between prosperity and depression.” Furthermore, Vinson argued that the almost doubling of national productivity during the war meant that “....we must learn to use an industrial plant nearly twice as great as before the war.... (and) we have reached record levels of production in

¹⁸ Dobney, 148-149.

¹⁹ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 2-4.

nearly all of our major crops.” Thus, necessitating access to “...foreign markets that will buy some of our increased output.” Reliable access to foreign markets depended on “...the full flow of trade among nations...” but that could not resume without “...the prompt application of currency and trade principles...” which required cooperation from an England that, currently, could not “...secure her essential imports of food and raw materials.”²⁰

Vinson explained how the \$3.75 billion loan to the UK fit into these overall plans. He presented an economically prostrate Britain that needed material aid in the immediate term to “...secure the imports she must have.” Meanwhile, to “maintain the living standards of her people and the functioning of her industries...” Britain would need assistance in recovering her export trade. Vinson explained that Britain “...paid for 55 percent of her imports by her merchandise exports. About 24 percent of her imports was paid for with the net income from British investments in all parts of the world. Another 17 percent of her imports were paid for out of the net receipts from shipping, insurance, banking, and other services.” All of which had been sharply curtailed by the war. Much of her industry had been destroyed during the Blitz, while the rest had been transformed from civilian to military purposes. She had sold a significant portion of her global investments to help pay for war debt, and she had lost a substantial amount of her shipping, which affected not only tonnage but also her insurance industry, due to hostile actions during the war.²¹ Clayton, meanwhile, in his testimony, argued that “Unless something drastic is done, the people of Great Britain will not have for several years anything like the funds they need to buy the foreign goods they need, or what they bought before the war.”²² He concluded that “To a country like England, unique in her dependence on overseas supplies, the deterioration in her economic position is even more serious than the destruction from bombing.”²³

Clayton claimed that Britain’s desperate position, if unaided, would require “...tighter belts than even during the war years.” Furthermore, he argued that it was not only the British who would suffer, but “...an enforced sharp reduction of British purchases abroad would mean that the world’s largest customer for food and raw materials had sharply cut its orders. Perhaps in this general shortage of goods that does not sound serious. But what is it the world is short of?

²⁰ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 4, 5.

²¹ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 5.

²² “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 113.

²³ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 10.

Not raw cotton, nor raw wool, nor tobacco. These are, in normal times, three of the largest British imports. They are in surplus now.” Clayton showed that, in 1937, the British imported \$500 million worth of goods from the United States, with the largest portion consisting of raw cotton. “It would not be pleasant to contemplate a reduction by three-fifths in those orders, say in the year 1948 (an election year).” Clayton argued that, even more important than the direct reduction in exports the United States faced from a depressed Britain were the “...increase in trade restrictions and discriminations that would accompany the cut.” Clayton claimed, “Under the circumstances, Britain would be forced to buy in the country she could pay regardless of cost.” Across the Sterling Area, “...dollars are rationed...(so) American suppliers can make sales only if their customers get official licenses, and licenses will not be issued if the same goods can be bought without the use of dollars, even at a higher price.” However, Clayton said, “This is not because the British Government seeks to discriminate against Americans. It is simply because she is compelled to buy from countries which will take British goods in payment.”²⁴

Secretary Vinson argued that Britain was forced to choose between two alternatives to recover, or at least salvage, her standard of living. Firstly, she could “... join the economic program of the United Nations,” which Vinson had summarized earlier as the Administration’s foreign economic policy. Britain would “...remove her wartime currency and trade controls without waiting until her exports have been restored... and her increased exports would in time pay for her imports.” The alternative policy was for the UK to “...form an exclusive British economic bloc in which trade inside the bloc is encouraged through preferences and pressures and trade outside the bloc is discouraged through discriminations and controls. We would be one of the countries outside the bloc.” And, of course, with the Sterling Area, the UK already had the foundation laid upon which an exclusive economic bloc could be built.²⁵

IV

The Sterling Area emerged from the Sterling Bloc, which itself developed relatively organically after the First World War among the British Dominions and Colonies, primarily due

²⁴ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 113, 114.

²⁵ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 10.

to their shared currency and banking systems. British international banks, headquartered in London, had penetrated most of the interior of the colonies, facilitating the colonies' continued use of either the pound or a currency that, for trade purposes, maintained full convertibility to the pound. As shown in Figure 1 below, the non-Canadian Dominions and Colonies primarily traded with the UK and other British possessions. This encouraged the use of Sterling to denote both international transactions and to hold reserves. Meanwhile, many of these governments had most of their debts in London, meaning London was at the center of their financial worlds.²⁶

TABLE 1.—*Distribution of the External Trade and Debt of British Empire Countries*
[Average of 1928-29]

Country	Percentage of total domestic exports to		Percentage of total imports from		Public and related debt held in the United Kingdom—1930 (in millions of pounds sterling)		
	United Kingdom	Other British	United Kingdom	Other British	Government	Railway	Total
Australia.....	41.0	12.1	40.0	9.2	432	2	434
New Zealand.....	74.7	10.0	46.7	21.4	110		110
South Africa.....	¹ 49.6	¹ 9.2	44.0	12.7	118	20	138
Eire.....	94.4		78.0	2.0			
British India.....	21.1	14.3	44.8	8.7	261	90	351
Canada.....	28.8	8.6	15.2	4.8	101	227	327
Colonies and protectorates...	27.7	13.5	27.1	25.1	}	29	96
Mandates and other areas....	43.5	15.8	19.8	13.0			

¹ Excluding gold. If gold is included approximately 79 percent of South Africa's exports in 1929 were sent to the United Kingdom, and 11 percent to other British countries.

Source: Percentage figures computed from actual trade statistics given in the Statistical Abstract for the British Empire, No. 67, 1928-37. Debt held in the United Kingdom taken from Sir Robert Kindersley, *Economic Journal*.

Figure 2: Donald F. Heatherington, "The Sterling Area (A Study of Monetary and Exchange Policy)," *US Department of Commerce Internal Information Service* Vol. 2, No. 32 (November 1945), 4.

The relatively informal Sterling Bloc was formalized in September 1931, when the United Kingdom withdrew from the gold monetary exchange standard. The dominions and colonies had to decide whether to fully align themselves with Sterling or attempt to tie their national currencies to gold. The latter course was probably untenable because so many of their reserves and debts were held in Sterling. Going off Sterling would have, according to historian

²⁶ Donald F. Heatherington, "The Sterling Area (A Study of Monetary and Exchange Policy)," *US Department of Commerce Internal Information Service* Vol. 2, No. 32 (November 1945), 1-4.

Donald Heatherington, "...meant the establishment of a new system with which (these governments) were largely unfamiliar and would have placed them at a competitive disadvantage in British markets as compared with producers in countries that followed Sterling downward." The only exceptions were South Africa and Canada. The former, due to its reliance on British export markets, was forced to devalue in order to remain competitive and, eventually, returned to the British pound. The Canadian monetary authorities, meanwhile, had to account for the American dollar in their trade relations, which meant that the Canadian dollar traded at a significant premium to the British pound until the Americans themselves devalued in 1933. At that time, the Canadian dollar was devalued but retained its independence from the British pound and the US dollar. Henceforth, the Canadians would be part of the "dollar area" instead of the Sterling Bloc. To the countries in the Sterling Bloc, life without the gold standard generally continued as usual, because it was always the relationship with sterling that mattered, and countries were free to change the rate at which their currencies were pegged to sterling. Heatherington argued the Sterling Bloc grew during the Great Depression, "as each successive international crisis was accompanied by an increase in membership or a tightening of existing bonds. The attractive power of the bloc mainly came from the stability shown by sterling and the apparent recovery in sterling countries..." along with dissatisfaction with other monetary standards. Members of the Sterling Bloc would come to include not only traditional British possessions but also countries such as Iceland, Sweden, Portugal, Finland, Greece, Iran, and Estonia.²⁷

Heatherington argued that the emergence of the Sterling Bloc "...was both welcomed and feared by financial authorities (in London)." The system "...created a stable exchange area within which British financial interests might be made effective, but it also substantially increased the responsibilities of London." The UK became the "central reserve bank for the entire bloc..." and thus might be compelled to draw down its own reserves to maintain "...the stability of not only the pound sterling but all the currencies tied to it." European Union members may recognize this dilemma as the primary challenge faced by the EU since the Treaty of Maastricht in 1992. How do you maintain an economic union without a political union? Given that the political decisions of one rogue actor can affect all the other members of the monetary

²⁷ Heatherington, 5,6.

union. According to Heatherington, UK authorities eventually took the position that "...it was prepared to accept whatever advantages and responsibilities emerged from the sterling bloc system..." but Sterling Bloc countries were forced to "...assume certain responsibilities."²⁸

The Sterling Bloc was neither fully closed nor self-sufficient, but it did discourage external trade. Depending on how you define trade with Canada, which still maintained considerable sterling reserves despite being outside the Sterling Bloc, only between 6 and 8 percent of the bloc's imports came from external sources. In many ways, at least during the closed international trading system of the 1930s, the existence of the Sterling Bloc enabled member countries to expand their trade in ways that would not have been possible if they had just devalued like the United States had.

Taxonomically, the onset of war in August 1939 shifted the name of the network of countries that pegged their currencies to the British pound from the "Sterling Bloc" to the "Sterling Area." The main distinction between the bloc and the area is that the bloc never imposed exchange controls. In contrast, according to Heatherington, the Sterling Area was a "... a system of cooperative exchange control operated by an association of separate countries on the basis of a currency which since the beginning of the war has not been freely convertible."²⁹ During the 1930s, sterling was freely convertible into gold or other currencies, whereas it was not fully exchangeable from August 1939 until 1972. The objective of the Sterling Area was entirely defensive, aimed at preserving British holdings of international currencies.³⁰ According to Will Clayton, this was orchestrated by members agreeing "...to relinquish specified currencies, specifically dollars, to (a currency exchange) pool against payment in sterling, and to limit demands on the pool to amounts absolutely necessarily required for essential payments." Clayton argued that the Sterling Area generally benefited the Americans during the war as it ensured, "...the application of all the dollar resources of the area to the most essential wartime uses.... (which) reduced the total burden of lend-lease."³¹ However, Clayton believed the

²⁸ Heatherington, 7.

²⁹ Heatherington, 9.

³⁰ Heatherington, 10.

³¹ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 115.

Americans could not “contemplate in peacetime the perpetuation of a system that discriminated against the trade of the United States in the richest markets of the world.”³²

American cotton exporters were particularly aggrieved by the Sterling Area as member governments had, according to Heatherington, “....agreed to confine external purchases to items which could not be obtained within the Sterling Area itself.”³³ Rigid import controls were imposed to prevent a drain on the exchange pool. The Sterling Area meant American cotton farmers would be shut out of their traditional British market by short-staple cotton exported from India in the course of normal trade. American cotton exporters would have to rely on aid mechanisms to export cotton to Sterling Area markets.

In Vinson’s testimony, he showed that the Sterling Area was terrible for American exporters. “As it is now, Australia cannot use her sterling receipts to buy American cotton; but she can use the receipts to buy cotton in India or Egypt.” Countries in the Sterling Area are only able to purchase American goods by getting “...the permission of England,” ensuring that “...the trade of all Sterling Area countries with the United States is subject to the will of Britain.” Meanwhile, Vinson brought the committee’s attention to “blocked sterling.” During the war, the British Government paid for goods and armies in places like India and Egypt with sterling, as it did not have the means to pay in dollars. By the war’s end, England could “...not export enough to let those countries use all of their sterling to buy goods. In effect, the accumulated sterling balances were blocked from use.” \$13 billion worth. Vinson argued that it was essential to ensure that countries in the Sterling Area could purchase significant volumes of American goods with their \$13 billion worth of sterling acceptances. “We do not want England saying to India and other countries holding blocked sterling that ‘these balances will be freed only to buy goods in England.’ That would mean the exclusion of many American products from the sterling area.”³⁴

Vinson showed the Committee that the Anglo-American Loan Agreement required London to “remove promptly the various wartime restrictions and discriminations.” Britain would assure “American exporters the opportunity to sell their goods in competition with the exports of other countries on fair and equal terms.” According to the terms of the agreement,

³² “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 115.

³³ Heatherington, 10.

³⁴ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 11, 12, 14.

“Exports...from the United States to England will be paid for in dollars, or if they are paid for in pounds, the sterling can be converted into dollars.” A significant part of the credit would be “...used to buy goods of which we already have a surplus, like cotton.” It also ensured that Sterling Area countries would “...have complete freedom to use its dollars as it wishes.” They would no longer have to deposit the dollars they received from exporting goods to America into the dollar pool. Meanwhile, the “blocked sterling allowances would be settled by the British... (and the) payments on these balances now or later will be free for making purchases in any country, including the United States.” The agreement would also clear the way for triangular trade to re-emerge. Clayton argued that, “...she will make all sterling that accumulates in London fully convertible within 1-year after the effective date of this agreement and available in any currency that the owning country may want it in, either dollars or pesos or francs. So, in that way, we open up not only our markets, but the countries from which Britain gets her goods.” Furthermore “...England has agreed that she will support the American proposal for an international trade organization to reduce trade barriers and eliminate trade discriminations.” In short, by agreeing to the Anglo-American Loan, the British overcame any hopes that Britannia would rule the waves anymore, and reluctantly accepted their new geopolitical position as America’s chief lieutenant.³⁵

It fell to William Clayton to outline the geopolitical consequences if the United States did not make this loan to the UK, and the UK was forced to adhere to the Sterling Area rigidly.

“Our real choice is to either put up a fight or to work out an agreement to end the system. If we decided on a fight we could start out to set up our own dollar area, with its own system of preferences, bilateral deals, and exchange discriminations. We and the sterling area could start putting pressure on countries to adhere to our respective blocs. Since we both trade in every part of the world we would be in controversy everywhere. The United States is the most powerful country in the world, and if an economic dogfight is what we are in for I am sure we can do more damage than we suffer. The point is that kind of a dog fight makes no economic sense whatsoever. Neither we nor the British can get prosperous by unfair competition against each other for shares of a wholly inadequate world trade. We are, after all, the two largest factors in the trade of most third countries, as well as of each other, and if we are in constant controversy with each other no part of world trade is going to expand. The only way we can go forward, either of us, is to work together with each other and with all like minded countries to expand trade all around the circle. That is what the financial agreement before you is intended to make possible.”³⁶

³⁵ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 14, 52, 23, 130, 23-24.

³⁶ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 116.

After being pressed by Taft to explain whether bringing the Sterling Area into the multilateral world order was a good idea for American cotton exporters, given Brazil's ability to undersell American exporters, Clayton argued that the multilateral world order was in the best interest of cotton producers because, "...if the cotton picker is a success, and I believe it will be, and we let cotton and other farm products of that character go to a natural basis in large-scale mechanized farming, we will then be in a better position to compete..." Taft then asked him point-blank as to whether he supported an export subsidy on cotton (such as the one the CCC had imposed in late 1944), to which Clayton responded, "I have always been against export subsidies. It is a form of economic warfare which stirs up bitterness and trouble. I do not think it is the way to meet the situation."³⁷ Taft then pressed by demanding, "What are we going to do with our cotton?" Clayton calmly responded that "I think the world situation is going to resolve it for us... We had about a surplus of eleven million bales some time ago, and now we have a surplus of eight million."³⁸ What Clayton could have said was that, regardless of the Brazilian threat, as indicated by the figure below, American cotton growers needed export markets. They could not afford Britain to be driven into "...making every kind of bilateral agreement around the world she can." As she could only expand these agreements outside the Sterling Area to "...countries willing to take payment in British goods."³⁹ Given that the Americans had a manufacturing sector that competed with Britain's, it would be very difficult to establish a permanent bilateral agreement between the two countries. Thus, Britain would be shut out of sourcing its cotton from the United States. She would have to rely on cotton-producing sterling countries like India and Egypt, or countries willing to take British manufacturing goods in return, like Brazil.

³⁷ Clayton had argued publicly against export subsidies, particularly when cotton was competing with Latin American cotton, since at least 1940. In a speech called 'The World Cotton Situation' in 1940, he had called for an end to "waving of the big stick. We must play the commercial game fairly. We must stop subsidizing our trade where it comes into competition with theirs." Frederick J. Dobney, ed., *The Selected Papers of Will Clayton* (Baltimore, MD: Johns Hopkins Press, 1971), 52.

³⁸ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 120.

³⁹ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 129.

Significance of Export Market to U.S. Production of 8 Important Commodities in 1937 or 1938

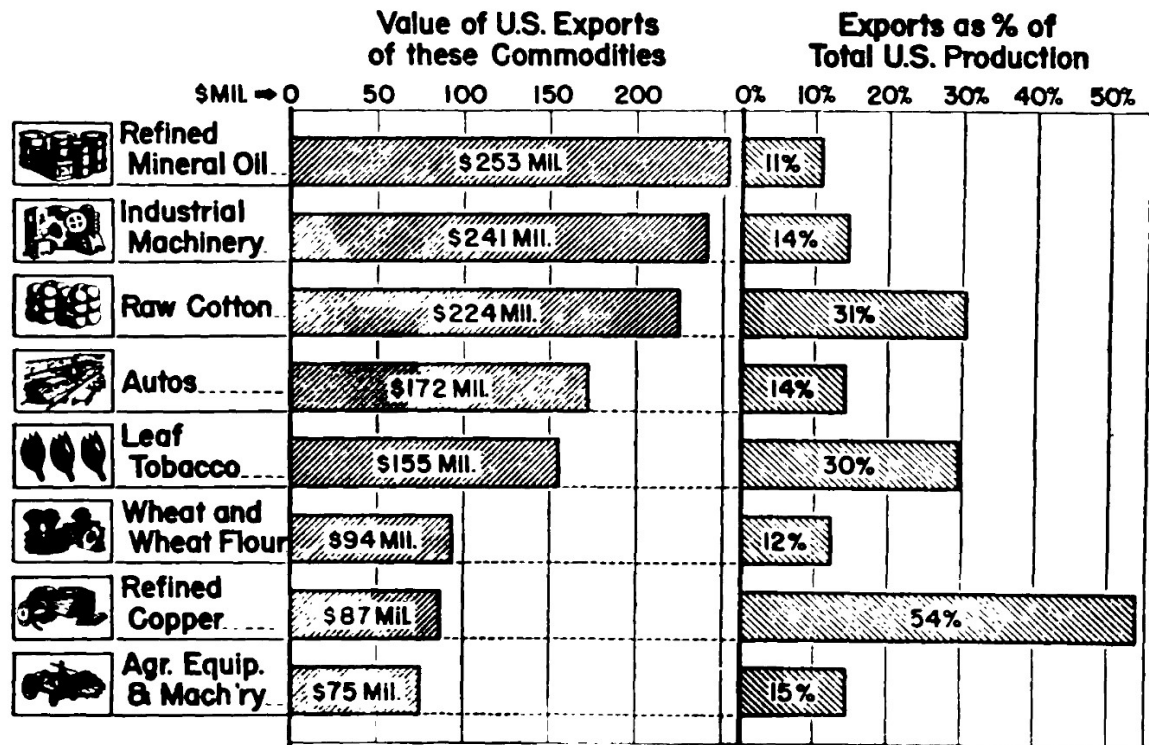


Fig. 3. "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 107.

However, as evangelical as Clayton may have been about the possibilities of the cotton harvester, he understood it represented a threat to the traditional geographic footprint of American cotton farming. Senator Buck (R-DE) asked whether the benefits of the cotton picker would only accrue to "...certain parts of the country?" Clayton responded that "There is some hilly country where they have to pick cotton (by hand) and the cotton picker will not work on those hills. It works best on delta lands." Clayton may or may not have realized it at the time, but he had indicated that the emergence of the cotton harvester meant the death of most south-east cotton farming. The cotton industry would follow the cotton harvester to the flat and semi-arid

plains of the West, which was already the more export-dependent cotton-producing region. Senator Taft blithely remarked that Brazil had "... a great supply of..." this sort of land.⁴⁰

V

The *New York Times* expected that Republicans would "form the chief (Congressional) opposition" to the passage of the loan, but they were also concerned that some Democrats might join them.⁴¹ The Republican members of the committee opposed the loan on five main points: (1) The size of the loan was unnecessary, (2) that the United States had also suffered greatly during the war and had provided material aid, like oil, that could never be recovered, (3) that most of the wartime British debt was to her colonies, (4) that the Sterling Area had little effect on America's ability to export, and (5) that it would create an inflationary crisis in the United States.⁴²

The points above, however, paled in comparison to the importance Republicans and those few skeptical Democrats attributed to what might be called the "Uncle Sucker" narrative. The basic premise among Americans of the "Uncle Sucker" myth was well described by Sir John Anderson, Churchill's Chancellor of the Exchequer, who described it as a "...theory, in fact entirely baseless, but widely held on the other side of the Atlantic, that when an American and a Briton get together on a deal, the American is always outsmarted." This is the insecurity of the provincial, and more than any specific provision of the loan opposition among the populace and within the Republican Party tended to be based on the Uncle Sucker myth. Abe Murdock (D-UT) claimed to understand Vinson's argument for the loan as if Great Britain was blackmailing the United States into giving them the loan by threatening, if the United States did not provide them with the loan, to "...continue the trade practices and exchange practices she has indulged in since the war." Accordingly, rather than dealing directly with Great Britain, maybe the United States should "...enter into bilateral agreements," with members of the Sterling Area. Murdock was worried that the Great Britain that presided over the Sterling Area was "...so powerful she can destroy the entire economy of the world, including this country....(and did not want to) enhance

⁴⁰ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 121.

⁴¹ "For the British Loan," *New York Times*, Feb. 3, 1946, E2.

⁴² Their insistence that the Sterling Area had little effect on American export ability probably stemmed from their experience as representatives of core interests rather than peripheral ones.

that power by placing three and three-quarter billion dollars in the hands of Great Britain to distribute among the countries she exercises such great power over.”⁴³

Opposition politicians were hardly the only Americans who embraced the Uncle Sucker narrative. In a confidential private opinion poll conducted shortly after the passage of the loan, the fiercest criticism of the loan came from those who believed that the British were always making the Americans “...prey to sharp dealing.” Representative quotes included those who believed the Americans were always “...pulling Britain’s chestnuts out of the fire,” or “The British are far too good diplomats for us and can beat us at any game.” One surveyor claimed that, “There is a great dislike in this country for England and her methods of making us ‘toe the mark for her.’” Most respondents that opposed the loan were certain “... it would never be repaid.” And that American negotiators “...should have driven a harder bargain.” However, not all opposition came from such provincial corners. Others opposed the loan because they viewed the British as family, and “...lending eventually provokes much hostility on the part of the borrower toward the lender.” Some were also concerned about making “...an investment in the British Empire.” An Empire many respondents viewed as coercive, violent, and “...our chief trade rival.” Few farmers however could be counted among the opposition, as in a related but independent survey 80% of farm leadership groups believed that “Farm prosperity was...dependent on the extension of world markets.” Far more than any other group.⁴⁴

The Uncle Sucker theme pervaded opposition Congressional interrogation. Some questioning was obsessed with ensuring the agreement forced the UK to pay her interest on the loan promptly and could not weasel out of making an interest payment. The agreement provided for a formula by which the Americans would grant “a waiver of interest payments” in extraordinary circumstances, such as when the IMF certified that British annual exports did not reach 60% of their pre-war exports. It is worth recalling that the interest was only 2% and a very minor part of the overall loan. Lord Keynes had, in fact, hoped that “The Americans might have felt it an advantage...in relation to other transactions....by forgiving interest. The amount of

⁴³ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 19, 30, 31.

⁴⁴ “What People Say About: Immigration, World Food Program, Foreign Trade Relations,” Bureau of the Budget, Report No. C 66. October 30th, 1946, 45, 46, 47, 27. Harry S. Truman Confidential Files Series, Bureau of the Budget Immigration, World Food Distribution, Foreign Trade Relations 1946 Folder, Box 5. Harry S. Truman Presidential Library, Independence, MO.

money at stake cannot be important to the United States, and what a difference it would have made to our feelings and our response?” Keynes was right, as the interest payments were hardly economically important to the United States, particularly given the trade benefits it would accrue, but the principle that the United States would be repaid for aid rendered was what mattered. Taft argued that “...he does not regard... (the agreement having any) check on the payment of interest.” And that, in fact, “The Government of the United Kingdom would not find any difficulty in determining...(facts) necessary for postponement of interest.” Republicans were also concerned that the United States Government might lose money on the loan. Beyond the threat of the UK getting interest waived in a given year, they were worried that, even if the interest was promptly paid, the Americans were giving the British a tremendous discount. Taft argued that “Even if the interest is paid, I object to the idea that we are not losing money on it.” As, according to Taft, the money the United States would have to borrow to float the loan would be borrowed at 2.5%, which was the figure the US borrowed 28-year money at, and the British would only be charged 2% interest. Accordingly, “...we are making a special concession to Britain beyond anything we give to any country in the world because of the other conditions of the loan.”⁴⁵

The Republican opportunity to damn the loan by way of the interest-payment provisions was caused by the Administration’s determination to present the aid package as a loan. The Administration, aware of the Uncle Sucker myth, was nervous about appearing to the American public to have given in too much to the British and had to strike a deal that appeared hardnosed. However, the decision to present the aid package as something that resembled a commercial loan meant the opposition interrogated the British as a bank might interrogate a prospective borrower. When, in reality, even according to Senator Taft, “...if the loan is a benefit... there might be the argument to give it to them with no interest.” However, justifying the Administration’s concern to not appear too generous, Taft continued, “But I do not think (an interest-free loan) is based on sound judgment.”⁴⁶

The specific premise of the “Uncle Sucker” narrative in this context was the concern that Britain had used its apparent weakness to hoodwink the Americans into loaning them, on

⁴⁵ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 37, 40, 79, 43.

⁴⁶ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 43.

generous terms, the funds needed for the British to reestablish its dominance over global trade. These critics had a hard time imagining Great Britain as anything other than the most extraordinary maritime power that had ever existed, an empire “upon which the sun never sets,” and were concerned that the American administration had become the British cat's paw. In his questioning of Secretary Vinson, Murdock pointed out that Vinson had stated in his testimony, “...we are to make this loan to her and it is to serve her purposes...while she reconverts her industries to peacetime production and resumes her usual place in world markets.” Murdock believed he had found the smoking gun. “...there is no one in this room...who doubts that England did in world trade exercise a very dominant position, and that that was her usual position in world markets prior to the war. Now, in using this term, that she resume her usual place in world markets, I assume that is what you have in mind, that she return to that usual position?” He continued, now that he was on a roll, “We are all familiar with the expression that Britannia rules the waves. Now, she did that not only with her navy at one time but also with her great merchant fleets. I am wondering if you had a resumption of that place in world trade in mind when you said ‘her usual place.’” In the face of this assault, Vinson was reduced to merely claiming that “I will say frankly to you I still want the flag of this country to wave proudly over land and sea.”⁴⁷

It fell to William Clayton to make a powerful case for why the UK believed it to be in their national interest to pursue multilateralism, and not to merely dominate world trade as it had. “The British Empire was made great by trading with all the world...If you look at the map of the world if there is any spot that ought to have multilateral relations it is those islands called the United Kingdom where they have forty-five million people and where they grew only forty percent of their food before the war, with no raw materials except coal. They imported from the whole world. Look at that spot on the map and you will agree that the system they need to maintain themselves is a system that will allow them to trade with the entire world.”⁴⁸

Many opponents believed that the United States could access Sterling Area markets more economically and effectively, without the threat of a re-emergence of British hegemony, through smaller direct loans to countries in the Sterling Area. Taft argued that “...a loan to Egypt, for

⁴⁷ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 60, 61.

⁴⁸ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 131.

instance, a small fraction of this loan, would open up Egypt in a hurry...” Vinson pointed out that the reason smaller loans made little sense was that the large loan to Britain was to “...make sterling convertible. This in turn will make it easier for countries selling to England to buy anywhere in the world, including the United States.” “The countries of the Sterling Area generally depend on their sales to England to pay for their purchases from other countries.” He continued, “For example (the self-governing dominions) exports to England in 1938 amounted to \$694,000,000, their imports amounted to \$567,000,000. Our exports to those nations in 1938 amounted to \$189,000,000. Our imports amounted only to \$33,000,000. The difference of \$156,000,000 was largely paid out of the exports they sold to England, and even then only because sterling was convertible.”⁴⁹

Another aspect of the Uncle Sucker narrative, and one that is a continuing theme in foreign policy discourse in the United States, was the lack of gratitude countries like Britain had for American efforts. Senator Ernest McFarland (D-AZ) argued that “There is one line of argument here that we are helping Great Britain out to repay her for what she did. There is no question in your mind that we paid our full share in the war, is there?” He continued that “There are those who talk about what Great Britain is worth to the United States, but we don’t hear much about what the United States is worth to Great Britain?” When Secretary Vinson argued that the loan application was an indication of how much the United States was worth to Great Britain, McFarland responded, “Well we don’t hear much about it.”⁵⁰

While not hostile to the loan, McFarland wanted better terms. He suggested the Administration consider amending the terms of the loan, along the same lines as some Canadians were advocating for, to insist the Americans get permanent rights to the bases built by the Americans in Britain during the war “...instead of having 99-year leases...” which had been stipulated by the Aviation Agreement. Building on the Uncle Sucker narrative, in response to Vinson’s argument that this was something being handled independently of the loan by the State Department, McFarland argued that “Well, I don’t think this is a bad time to work it out before we make another loan.” He argued further, “You won’t find Great Britain making deals unless it is in her favor. We are the only ones that deal in that kind of terms.” His interrogation continued

⁴⁹ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 65.

⁵⁰ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 77-78.

by asking, “Don’t you think it is good business to get what we can out of it?” When Vinson responded, “I don’t know how you are going to get anything out of it,” McFarland sputtered, “Well, I have suggested a way, I am suggesting a way Mr. Drysdale, a Canadian, suggested. Are we less American than the Canadians?”⁵¹

It turned out that Canadians felt their pride pricked by what they perceived as British ingratitude, just as the Americans did. Canada was still a colony in the minds of the British even if it was not. According to *Regina Leader-Post* columnist B.T. Richardson, the British would naturally assume the Canadians, as colonists, would offer the loan to them “...as a gesture of generosity with no understanding that the policy in Ottawa, for good or ill, must be dictated by Canadian self-interest.”⁵²

The British, however, appeared quite grateful to Canada for the loan they offered, which seemed to insult the Canadians even more. The Canadians negotiated the same loan as the Americans did, with a smaller overall principle. The repayment terms were identical, with the same interest rates. However, according to Richardson, “Whereas the British Parliament seethed over terms of the American loan, (it) has welcomed with relief and satisfaction the Canadian loan on the same terms.” Although Canadians might be expected to enjoy the comparatively better press they were receiving in London, the fact that Britain was not upset with the Canadian deal was, in some ways, more frustrating than being treated like an unscrupulous shark. It felt infantilizing, like Canada was not to be treated like an equal to either the United States or Britain. To Canadians who harbored a deep colonial insecurity, it was infuriating. In some ways, the proposed Canadian amendment to force the British to include airbases appears like an attempt by the Canadians to elicit an irritated reaction from the British.⁵³

American lawmakers were also concerned that the new Attlee Labour Government would use the loan to nationalize industries and make permanent the state control of exports and imports that Britain had been forced to rely on during and after the war. Robert Taft demanded, “There is nothing in the agreement that prevents government trading, is there?... and you have a

⁵¹ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 88-90.

⁵² B.T. Richardson, “Proposed Line of Credit,” *Regina Leader-Post*, March 15th, 1946, Leader-Post Editorials Page.

⁵³ B.T. Richardson, “Proposed Line of Credit,” *Regina Leader-Post*, March 15th, 1946, Leader-Post Editorials Page.

socialist government (in Britain) that is nationalizing steel, nationalizing the mines, and so on. Why is not the export business a subject of nationalization on the same theory? And while we are not asking them not to, what is more vital to English life than anything else?" Clayton could only acknowledge that "...as economic conditions improve...we hope they will...get back to private trading." Taft suggested that Clayton was, perhaps, "...dreaming." For cotton exporters, this meant their only British customer would be the state-owned Raw Cotton Commission for the foreseeable future.⁵⁴

State control of imports and exports raised an interesting aspect of the multilateral world order, as it was conceived. In 1946, when these hearings were held, it was widely believed that the Soviet Union would be a regular participant in this world order. However, as Clayton explained, "We know that it is an integral part of the Communist system to carry on Government trading." How was a communist country expected to engage in trade and exchange within a multilateral global system established on capitalist principles? Clayton explained that a multilateral agreement was being proposed where "...in these countries that use state trading, they shall do so without discrimination and that they shall buy and sell on economic grounds rather than political."⁵⁵ Clayton might not have been dreaming that the UK would embrace a non-discriminatory private commercial policy, provided they could afford it, as the Labour socialists were generally of the liberal Fabian variety, meaning they could accept a distinction between the economic and political. However, Clayton was "dreaming" if he believed a real communist society could embrace a division they would understand as artificial.

In the process of his defense of the loan, Clayton was frequently pushed by Republicans to defend the idea of a multilateral world order. He distinguished between trade competition among private individuals and trade competition among governments when making his case for the multilateral world order. He argued that "Competition by private persons is normal and natural and we should have it. That is natural competition between quality, service, and price... I hope we will always have it. But competition between governments, where one government is setting up an economic bloc and is pulling and dealing with all the countries of the world to get them into that bloc; and another country is trying to do the same thing- that is entirely different.

⁵⁴ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 122.

⁵⁵ "Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138," 122.

It is a vicious thing. The other is not vicious. That sows the seed that leads to dangerous discord between countries. When you try to work out your trade with the world through political arrangements and mix them up, you are getting on dangerous ground.” Uncharacteristically, Taft fully agreed, calling it a “...good political argument....stronger than the economic argument” for the multilateral world order. However, Taft was concerned that the multilateral world order, as designed and advertised, contained the seeds of its own destruction. Specifically, he was concerned about issues such as bilateral commodity agreements. Were they not discriminatory and politically motivated? Clayton responded that these sorts of agreements were “...legacies of the First World War. The Second World War has made them much worse. A third war would give us complete regimentation all over the world.” Accordingly, he hoped that “...if we can go two or three generations without another war, we can get away from all these things that are consequences of the war.”⁵⁶

VI

Opposition to the bill did not, alas, only emerge from Congress or some Anglophobic public. Bernard Baruch, one of the most prominent informal American statesmen of any party, opposed the loan. Baruch had visited London at Roosevelt’s behest in January of 1945, spent several weekends with Prime Minister Winston Churchill at Chequers, and was even invited into several cabinet meetings as an observer. He grew gravely concerned about the British obsession with her “...economic future and the question of American financial aid.” Baruch believed that this “...pessimism... was both unrealistic and dangerous... (and) threatened to rob Britons of their native self-reliance, and impelled them to lean upon the United States.” Baruch believed that Britain was stronger than she had allowed herself to feel, and that “the defeat of Germany and Japan, and their elimination from world trade, would give Britain a tremendous opportunity to swell her foreign commerce in both volume and profit.” This was not to suggest that Baruch did not think the US should provide what he characterized as a “cylinder head loan” from the United States, but that it should be relatively small. Baruch was led to believe that Churchill agreed with him. Unfortunately, at least according to Baruch, Churchill’s agreement “...that only a modest amount of assistance was required from America – a view shared by Beaverbrook and Bracken – was not the prevailing view in Whitehall. Throughout the government (especially

⁵⁶ “Committee on Banking and Currency of the United States Senate, Hearings on S.J. Res. 138,” 124-125.

John Maynard Keynes), there was a strong sentiment that the United States should provide financial assistance on a major scale.” Beaverbrook and Bracken were interesting choices to include here, as they were well-known for being staunch opponents of the British ratification of the Bretton Woods Agreement. It seems highly unlikely, even given Churchill’s staunchly imperialist views, that Baruch had a clear understanding of Churchill’s instincts in this matter, and that Churchill would have been genuinely swayed by the anti-Bretton Woods camp in the summer of 1945. Baruch might have believed that Churchill was impervious to Keynes’ view that the United States should offer “...between five and eight billion dollars – as a loan, if necessary, but preferably as a gift, though ‘honeyed up not to appear so,’” but this seems unlikely.⁵⁷

Baruch is an unreliable narrator. While he might have believed himself capable of dissuading Churchill from lobbying for a massive American loan, Churchill was very capable of making his own mind up about things. Churchill also had party divisions on the subject to worry about, and the UK Conservative Party was (and is) notorious for backbench carping about its leadership. Accordingly, it is hard to discern Baruch’s influence on Churchill’s subsequent behavior. The Conservative Party retained a significant faction that opposed Bretton Woods and any compromise on the Empire. This faction certainly put up enough of a fight about the terms of the loan from the Opposition benches in both the Commons and Lords to make trouble for the new government. It is possible that Churchill instigated this, after all, he frequently criticized aspects of the loan in the Commons; however, it is equally likely that the tail was wagging the old English bulldog here. Churchill, as a defeated leader, had to retain his party’s support, so he probably behaved as he felt necessary to secure his leadership. Besides, Churchill’s subsequent behavior suggests he believed Britain needed the loan.

The atmosphere of the debate in Washington had changed by May 1946, when the Anglo-American Loan Agreement was coming up for a vote in Congress and was being debated by the full membership of both the House and Senate. These debates occurred against the backdrop of a major postwar peace summit, at which the fault-lines among the victors were publicly displayed. Beginning on April 25, the foreign ministers of the four major victors in the European theater—the United States, the United Kingdom, France, and the Soviet Union—met in Paris to discuss

⁵⁷ Bernard M. Baruch, *Baruch: The Public Years* (New York: Holt, Rinehart, and Winston, 1960), 347-349.

the outlines of a peace treaty to be negotiated among all belligerents later that summer. Although progress was made, it became clear that the disagreements between the Soviets and Americans about what a restructured Europe would look like at the London Conference the previous fall had not been resolved over the winter. And they appeared even more bitter. Secretary of State James Byrnes was particularly irked by the Soviet insistence on Italian reparations. According to Byrnes, “The Soviet Government has insisted on reparations for itself of \$100,000,000....(and) she insists upon being paid out of current production. We would have to finance the production, and therefore I refused to agree with the proposal.”⁵⁸ Paris Conference participant Jacques Reinstein clarified further, “If we agreed to anything like that, the Congress would just cut off the money for our civilian supplies to keep Italy going and to rehabilitate it.”⁵⁹ Soviet Foreign Minister Vyacheslav Molotov, however, argued in *The New York Times* that the breakdown of negotiations was a consequence of the emergence of an “Anglo-American Bloc” that aimed to weaken Soviet influence. He considered the Italian reparations request “...very modest...(and) a reminder that there can be no impunity for aggression and invasion of a foreign territory.” Molotov pointed out that the French agreed with him, but that an Anglo-American Bloc of “...countries that did not experience an enemy invasion of its own territories...” were dictating what the Soviets could ask for. Meanwhile, Molotov further observed an emerging Anglo-American consensus on issues such as the status of the Italian colonies, where Molotov accused the Americans of deferring to British proposals, causing them “...to fall under British control.” Furthermore, Molotov accused the Anglo-American Bloc of trying to dictate support for a peace treaty with Germany based on the Vandenberg Proposal (demilitarization and disarmament of Germany for twenty-five years), which Molotov claimed “...may lead to weakening of inter-Allied control aimed at preventing a recurrence of German aggression, while the weakening of such control is, of course, absolutely impermissible.”⁶⁰

⁵⁸ James Byrnes, “Report on the Second Meeting of the Council of Ministers,” First Part, April 25 – May 16· 1946, *The Avalon Project*, Yale Law School. [Avalon Project - A Decade of American Foreign Policy 1941-1949 - Second Meeting of the Council of Foreign Ministers, Paris](#). First Accessed December 11th, 2024.

⁵⁹ Jacques Reinstein Interview by Thomas Dunnigan, “The Paris Peace Conference 1946,” *Association for Diplomatic Studies and Training*, [The Paris Peace Conference — 1946 – Association for Diplomatic Studies & Training](#). First Accessed December 11, 2024.

⁶⁰ Vyacheslav Molotov, “Vyacheslav Molotov’s Statement on Paris Conference of Big Four Foreign Ministers,” *The New York Times*, Tuesday, May 28, 1946, 16.

The same day that Molotov's statement was published in *The New York Times*, word came from Germany that the American Deputy Governor of Germany, Lieutenant General Lucius Clay, was blocking reparations shipments from the American Zone to the Soviet Union. Clay justified this action, according to Harold Callendar of *The New York Times*, because "...parts of the Potsdam Agreement providing that Germany be treated as an economic whole have apparently broken down through a lack of Russian cooperation..." Regardless of the merits of the claim, sharp disagreements were emerging between the English-speaking powers and the Soviets over the future of Germany. The French Government, led by the Republicans but dependent on the Communist Party for support, was concerned that these disagreements would "...split Germany, and therefore Europe, in two."⁶¹ An emerging understanding developed among the British and Americans that their visions for postwar Europe were far more reconcilable than either's were with the Soviets. Thus, it was understandable that they would act in relative concert in Big Four negotiations. Although it was hardly a true bloc, one can understand how a paranoid dictatorship like the Soviet Union might view it as one. As rhetoric heated up in D.C. and Moscow, Britain began to be viewed much more sympathetically in congressional corridors, and the justifications for the loan to Britain started to shift among its supporters. The conditions of the loan that Clayton and Vinson had seen as so appealing —the purchase of American surpluses and dismantling of the Sterling Area to guarantee American access to global markets —became less important than economically reinforcing a critical partner in the emerging geopolitical conflict with the Soviet Union.

If Molotov was encountering slightly more assertive negotiators on the American side, less willing to side with the Soviet Union over the UK, it was probably because he was. By the time the ministers met in Paris in April 1946, thinking within the State Department had begun to shift, and they were less inclined to view the Soviets as friendly partners. Events were generally conspiring to recast the United States and the UK as allies against an encroaching menace. These events had already begun at the highest diplomatic levels but began to trickle out during and after the loan was first presented to Congress.

⁶¹ Harold Callendar, "Molotov Statement Tied to Embargo on Reparations By US," *New York Times*, Tuesday, May 16th, 1946. Accessed on Times Machine, December 11, 2024.

On January 31, 1946, Joseph P. Kennedy met with now-former Prime Minister Winston Churchill in his box at Hialeah Race Track. Throughout the discussion, Churchill informed Kennedy about the theme of his upcoming American speech, which would become known as the “Iron Curtain Speech.” He emphasized that the United States and the United Kingdom must stand “firmly together” against the Soviets. Churchill connected the speech to the loan by arguing that “...England desperately needed the loan, and if she didn’t get it, the very Left Wing of the Labour Party would point out the injustices of the capitalistic system of the United States and it would not be long before it would be wiped out in England. Then another force would be created to help wipe it out in the United States.”⁶² A month later, Kennedy would argue, in a telegram to the influential *New York Times* columnist (and frequent Kennedy confidant) Arthur Krock, “Of necessity I heartily favor the loan to Britain.” He claimed, “England, after all, is our best customer in foreign trade. The English people and the English way of life is the last European barrier against communism. We must help the English Government hold that line.”⁶³

More substantively, on February 22 of 1946, George Kennan sent his famous “Long Telegram” from Moscow to the State Department in which, among a great many other things, he argued that the Soviet Union believed itself to live in “...capitalist encirclement, with which in the long run there can be no permanent peaceful coexistence.” Kennan was responding to a query from Washington regarding an “election” speech given by Stalin in January 1946. The speech surprised Western observers by being unabashedly Marxist-Leninist. Years of deep contact between Moscow and Washington D.C., in which Stalin downplayed his ideological perspectives to win Western favor (and he was likely aided by a willing suspension of disbelief among New Dealers in Washington), meant that many American officials seem to have come to the preposterous conclusion that Stalin was not really a communist. And, thus, his otherwise boilerplate Marxist-Leninism was seen as a significant deviation and a return to the bad old days. This is not to say they were wrong to be threatened; only that they were wrong to be surprised.

⁶² Joseph Kennedy, “Memorandum of Conversation with Winston Churchill at Hialeah Race Track on January 31, 1946,” in Amanda Smith ed., *Hostage to Fortune: The Letters of Joseph P. Kennedy* (New York: Viking Press, 2001), 623.

⁶³ “Telegram from Joseph P. Kennedy to Arthur Krock, February 28th, 1946,” in Amanda Smith ed., *Hostage to Fortune: The Letters of Joseph P. Kennedy*, 623.

Kennan's overall argument was that the Soviet Union believed its future depended on winning an existential conflict with the capitalist world, and that "everything must be done to advance the relative strength of the USSR in international society. Conversely, no opportunity must be missed to reduce strength and influence, of capitalist powers." Kennan presented Moscow as engaged in a long-term, often subtle, campaign to lead the global revolution Lenin had promised. However, this would not resemble the fascist threat. "Soviet power, unlike that of Hitlerite Germany, is neither schematic or adventuristic. It does not work by fixed plans. It does not take unnecessary risks." He argued that "World Communism is like a malignant parasite that feeds on diseased tissue," but it would "respond to the logic of force." Thus, the key to resisting communism was to ensure that internal capitalist societies were healthy and to be willing to credibly threaten Western military force when necessary. He argued that citizens of European countries were "...tired and frightened by experiences of the past, and are less interested in notions of abstract freedom than security." Accordingly, the United States must offer guidance and moral clarity to them, "...otherwise the Russians will." This telegram marked the beginning of a shift in thinking at the State Department, which ultimately led to the emergence of the "containment" doctrine.⁶⁴

Simultaneous to the Kennan telegram, details of the Gouzenko Affair would leak across the world. Igor Gouzenko was a Soviet GRU Agent in Canada who defected in September of 1945 out of fear that he was about to be purged by Lavrentiy Beria. He brandished documents detailing a mass-scale sophisticated spy network that penetrated every corner of the Canadian Government, including the Department of External Affairs. Even a Member of Parliament, Fred Rose (the Leader of the Communist Party and Labour Progressive Party) was identified. Gouzenko's defection was kept secret to avoid arousing suspicion or causing any diplomatic rows with the Soviets at a sensitive time. However, it appears that Kim Philby, Head of Counterintelligence at MI-6 and a Soviet spy, kept his Soviet handlers well informed of the details of Gouzenko's defection. The details were eventually leaked to the press, probably by J. Edgar Hoover, in early February of 1946. In response to public outcry for information, the Mackenzie King Government in Ottawa organized the Kellock-Taschereau Parliamentary

⁶⁴ Telegram From the Charge in the Soviet Union (Kennan) to the Secretary of State, Moscow, February 22, 1946, "The Long Telegram," George Washington University NSA Archive, [George Kennan's "Long Telegram"](#) First Accessed December 1, 2024.

Commission, named after the two well-respected Supreme Court Justices who would chair it, to publicly investigate the veracity of Gouzenko's claims and espionage networks across Canada. Gouzenko began his testimony before the Commission on February 13th, 1946.⁶⁵ The result was frequent press dispatches that displayed the Soviet espionage machine for the Western world to see, some of which were undoubtedly imagined.⁶⁶ Imagined or not, however, Western audiences and governments saw the Gouzenko Affair as proof that the Soviets were preparing for war against the West while the Senate Banking and Currency Committee was holding hearings on the Anglo-American Loan.

Meanwhile, on March 5, Winston Churchill addressed a crowd at Westminster College in Fulton, Missouri, alongside President Harry Truman. In his address, he distinguished between the "western democracies" and those states where "the power of the State is exercised without restraint, either by dictators or by compact oligarchies operating through a privileged party and a political police." He claimed that it was essential to recognize the similarities between the British and American governments because "Neither the sure prevention of war, nor the continuous rise of world organization will be gained without what I have called the fraternal association of the English-speaking peoples. This means a special relationship between the British Commonwealth and Empire and the United States." He then went on to describe an alliance between the United States and United Kingdom where each armed forces were closely integrated and that "let us make sure that that great fact (of the 'fraternal association') is known to the world, and that it plays its part in steadying and stabilizing the foundations of peace. There is the path of wisdom. Prevention is better than cure."⁶⁷

This was necessary, according to Churchill, because of the Soviet Union and communism. Churchill claimed that all the capitals behind "...the iron curtain... are subject, in one form or another, not only to Soviet influence but to a very high and, in many cases, increasing measure of control from Moscow." He argued that the Soviet agenda was clear. He pointed to "the Communist parties, which were very small in all these Eastern States of Europe,

⁶⁵ Amy Knight, *How the Cold War Began: The Igor Gouzenko Affair and the Hunt for Soviet Spies* (New York: Carroll and Graff, 2005).

⁶⁶ Though a lot of it was true, as the uncovering of Kim Philby and the later declassification of the Venona Telegrams would testify to.

⁶⁷ Winston Churchill, "Sinews of Peace," Address to Winchester College, March 5, 1946.

have been raised to pre-eminence (by the Soviets) and power far beyond their numbers and are seeking everywhere to obtain totalitarian control.” Churchill argued that “...this is certainly not the Liberated Europe we fought to build up. Nor is it one which contains the essentials of permanent peace.”⁶⁸

This speech, against the backdrop of the Gouzenko affair, the Kennan telegram, and increasing Soviet diplomatic aggression, altered how Americans, both high-ranking officials and ordinary citizens, viewed the British. The British Empire was now no longer just a barrier to American exports, but also a bulwark against communism. Accordingly, the justification for the loan could change. The official messaging would not happen quickly enough to affect the early debates over the loan, but by the time the vote on the loan came up in the summer it was now no longer a loan to open up British markets to American exporters, but a loan to stabilize a key American ally.

When Truman made his statement presenting the loan to Congress in early March 1945, he did not mention the Soviets at any point. The loan was “...good business. Good business for the industries of Americans, good business for our farmers, and good business for our workers.” He argued, “The British Loan Agreement is an important step in rebuilding foreign trade and in creating jobs in America.” It was the only “...alternative to trade warfare between nations...”⁶⁹ However, by May 1946, the soon-to-be First President of the World Bank, Eugene Meyer, was before the Senate committee, claiming that the loan was necessary because “we cannot maintain this country as the only free economy in the world.”⁷⁰ Internationalist Republican Senator H. Alexander Smith of New Jersey, meanwhile, claimed that the British were eager to restore freedom to their markets and that “I believe in a kind, firm, and earnest way we must prove to the Russians that we favor and always uphold those freedoms we fought for.”⁷¹ Meanwhile, the *Manchester Guardian* published an article in the aftermath of the “Iron Curtain speech” that “the

⁶⁸ Winston Churchill, “Sinews of Peace.”

⁶⁹ Harry Truman, “Statement by the President Upon Receiving a Resolution Endorsing the British Loan Agreement,” March 4, 1946. Harry Truman Presidential Library Digital Archives, [Statement by the President Upon Receiving a Resolution Endorsing the British Loan Agreement | Harry S. Truman](#).

⁷⁰ “Loan a Wise Risk: Meyer Testifies,” *New York Times*, May 30, 1946, 7.

⁷¹ “Loan Approval Forecasted,” *New York Times*, May 13, 1946.

loan has taken on quite a new and possibly false function as an investment against Russian imperialism.”⁷²

Even Bernard Baruch appears to have been convinced that the situation had changed. While Baruch appeared to still oppose the loan, he chose not to testify or publicly oppose it. Why that is has become the subject of some rumor and innuendo, because many who opposed the loan believed that Baruch’s credibility might have destroyed any hope the loan had of passing. Keynes argued, before his death in April 1946, that Baruch refused to testify as a personal favor to Churchill, but Baruch denied this as a rumor. Still, historian Richard Toye points to a cable between Churchill and Attlee from March 16, 1945, which explained the Baruch situation as follows: “I have had long talks with Mr. Baruch, and you can tell the Chancellor of the Exchequer that I do not think he will take any action against the loan. This does not mean that his view about it has changed but he considers the Russian situation makes it essential that our countries should stand together. He is of course in very full agreement with me on that.”⁷³

It was not only the supporters of the loan that were eager to cast the loan in an anti-Soviet light. James S. Allen of the American communist magazine *New Masses*, who understood the loan as a mechanism for ensuring the British shared “...the Empire with the American expansionists,” nevertheless claimed the loan was a “masterstroke in the world politics of isolating the Soviet Union and preparing for war.”⁷⁴ Thus, to Allen and other pro-Soviet commentators, the loan formed the financial backbone to the Anglo-American Bloc that Molotov warned about.

However, this did not mean that passage of the loan was now inevitable, as opposition to the loan began to consolidate around anger towards British actions in Palestine that were considered anti-Zionist. There were two specific actions in Palestine that critical voices pointed to. Firstly, the British were barring entry to Palestine for many Jews fleeing Europe. This refusal happened against the backdrop of more information about the holocaust coming out, and antisemitic postwar pogroms like the one in Kielce, Poland, during the first week of July 1946.

⁷² Richard Toye, “Churchill and Britain’s Financial Dunkirk,” *Twentieth Century British History* Vol. 15, No. 4, Issue 4, (2004), 350.

⁷³ Toye, 354.

⁷⁴ James S. Allen, “What About the British Loan,” *New Masses* Vol. LIX, No. 9, May 28, 1946, 12. First Accessed on Marxists.org December 11th, 2024.

Meanwhile, Operation Agatha, the British military campaign to destroy Jewish terror groups in Palestine, appeared like an overreaction. Operation Agatha reminded Americans of what the British Empire looked like in practice, and some became increasingly reluctant to support a loan that might facilitate similar behavior in the future. Despite continuing antisemitism in the United States, the uncovering of the details of the holocaust had made most Americans a lot more sympathetic to Jews, and skeptical of state-sponsored security actions against their organizations.⁷⁵

The other British action in Palestine that created a backlash in the United States was a piece of poor judgment on the part of the UK Foreign Secretary, Ernest Bevin, at the British Labour Party Conference in early June 1946 when, in response to President Truman's request that the British allow into Palestine up to 100,000 Jews fleeing Europe, publicly stated that he only made this request... "because they do not want too many of them in New York." Dr. Abba-Hillel Silver, a prominent American Jewish activist, connected this statement to the Anglo-American loan at a significant Jewish-American rally at Madison Square Garden. "In view of this shocking record of broken pledges and the repeated violation of solemn obligations, American citizens have the right to turn to their representatives in the Congress of the United States, who are now discussing the granting of a loan to Great Britain, and inquire whether the Government of the United States can afford to make a loan to a government whose pledged word seems to be worthless. They should also inquire whether American money, including that of the Jewish citizens of the United States who have given such superb evidence of their loyalty and patriotism during the war and whose sacrifices helped to save a collapsing British Empire, should be used to back up a government whose Foreign Minister has repeatedly given evidence of a virulent anti-Jewish bias."⁷⁶

The outlook for loan passage was grim enough in the House owing to British actions in Palestine that it took a public statement from Rabbi Stephen S. Wise, an outspoken Zionist and someone the British had just denied a Palestine Visa too, to break the deadlock. Wise argued that "...despite his disapproval of British action in Palestine, he believed the loan deserved passage

⁷⁵ Clifton Daniel, "Palestine Troops Accused, Defended." *New York Times*, Saturday, July 6th, 1945, 2.

⁷⁶ "U.S. Zionist Leaders Charge Bevin with Anti-semitism at Huge Protest Demonstration," *Daily Bulletin of the Jewish Telegraphic Agency*, June 13th, 1946, 2. Jewish Telegraphic Agency, [U.S. Zionist Leaders Charge Bevin with Anti-semitism at Huge Protest Demonstration - Jewish Telegraphic Agency](#).

as it was in the interest of the United States.” Meanwhile, Republican Representative Charles Eaton (R-NJ), who was the ranking Republican on the House Foreign Affairs Committee, warned the House about the introduction of “...extraneous issues...” into the debate. Meanwhile, New York State Democratic Chair Paul Fitzpatrick argued that “...the same spirit that...actuates America in desiring to make this loan should spur the British Government to insure that Palestine be immediately opened up as a homeland for the suffering Jews of Europe.”⁷⁷

In the lead-up to the House debate on the loan, the British tried to show as much goodwill as possible. On July 4th, they announced that, regardless of the loan’s fate in the House, Britain would use some of its scarce dollar resources to “...permit American manufacturers to export to the United Kingdom limited quantities of their products...” despite existing blanket prohibitions of such sales, “...to prevent irreparable loss of public acceptance and familiarity with many American branded products.” The emphasis on ‘manufactured goods’ was a clear signal to the core, particularly in the mid-west, where anti-British sentiment and protectionism tended to be most potent, that Britain was an eager customer of their goods.⁷⁸ Ultimately, the loan passed comfortably, and the need to secure a bulwark against communism was cited among its supporters in the House. As James Wadsworth (R-MA) argued, “...our children will be proud America was strong in support of righteousness.” Meanwhile, Majority Leader John W. McCormack (D-MA) argued that “Every country in the world is watching the outcome of this vote... (and) if our public officials charged with responsibility fail through indifference, uncertainty or fear... then we leave those countries who look with friendly eyes towards Washington no alternative than to be subjected to the sphere of influence of Moscow.” Meanwhile, Rep. Clare Booth Luce (R-CT) argued that “The British Empire was America’s buffer state.”⁷⁹

Idealism, however, was unlikely to prevail among most Southern Democrats, who never forgot that the real purpose of the loan was to open up British markets, and thus necessary to achieve cotton supremacy. And passage of the loan in both houses depended on support from

⁷⁷ John Crider, “British Loan Gains in Count of House; Saturday Vote Set,” *New York Times*, Thursday July 11th, 1946, 1, 8.

⁷⁸ John H. Crider, “Britain Will Buy U.S. Goods To Save Trademark Value,” *New York Times*, Friday July 5th, 1946, p. 1. First viewed on Times Machine on December 16th, 2024.

⁷⁹ John H. Crider, “House Vote on Loan Today Called Decision on U.S., Soviet Leadership,” *New York Times*, Saturday July 13, 1946, 1, 6.

Southern Democrats. There is no doubt that Senator Arthur Vandenberg (R-MI), historically a leader along with Robert Taft of the isolationist Republicans, publicly endorsing the loan on the Senate floor was a critical moment in convincing enough skeptical Republicans to support the loan to ensure passage. However, Senate and House Democrats were also divided, and the bill's passage relied on support from the South in both chambers. The loan was not a universal winner across the cotton belt, but the need for cotton exports was strong enough that the overwhelming majorities of all the southern state Congressional delegations supported the measure. Support was stronger in the House than in the Senate, a consequence perhaps of the higher degree of partisanship in the House; however, most Southern Senators supported the measure in the Senate as well.⁸⁰ The upshot is not so much that the cotton bloc all moved in the same direction, but that enough cotton stakeholders in the South believed it was in the best interests of southern cotton growers and, perhaps, the United States as a whole, to give it enough support to pass. And, crucially, to defeat some amendments that would have made the loan unworkable.

The fact that the loan was eventually justified on anti-Soviet grounds would aid the British, who quickly backed away on the loan's key condition to restore convertibility. A year after the loan's passage, the loan forced Britain to re-establish sterling-dollar convertibility but, according to the Chancellor of the Exchequer, almost as quickly as convertibility was restored, "...a dangerous run on transferable sterling had started and that, unless prompt action was taken, the rate of drawing would continue to accelerate and the Credit would be rapidly exhausted." The Chancellor proposed that "...immediate action should be taken...to limit the convertibility of sterling," in violation of the terms of the Anglo-American Loan Agreement. Bevin, the Foreign Secretary, said that "...we should make it clear to the United States that it was not our intention to repudiate the terms of the Anglo-American Financial Agreement, but that we were compelled to take this emergency action, as a temporary precautionary action under *force majeure*." Bevin was confident that, "the United States would share our view that it was essential to the well-being of the whole world that sterling should be retained as a strong and reliable currency." And that, therefore, the United States would not use this decision as an excuse to deny them access to

⁸⁰ House Key Vote Tables, 1946. Senate Key Vote Tables, 1946. Congressional Quarterly News Features, 1951.

the rest of the line of credit.⁸¹ Given that the loan was now intended to secure the British Empire against communism, rather than opening up the Empire for American exports, the British could claim that the fate of the free world depended on the United States accepting their decision as a *fait accompli* and not punishing them for it. Turning the justification of the loan from an economic weapon to blast open the Sterling Area into a measure for securing the free world against the Soviets did not ultimately help the Americans who wanted to see the loan pass. But it did help the British.

VII

As William Appleman Williams wrote in his *Tragedy of American Diplomacy*, American arguments for a hard-headed strategy of American economic expansion are confused with the need for a security perimeter. During the Senate hearings on the Anglo-American loan, when it was unlikely much discussion of containment had yet percolated yet among senior members of the State Department, let alone among senior Treasury officials, there was almost no discussion of the Soviet Union. After all, Churchill would only give the Iron Curtain speech during the loan hearings. At this early stage, the loan was justified as needed to open British markets to American exporters. However, by May of 1946, that line of thinking had generally been replaced by one that emphasized the need to secure Britain against possible Soviet encroachment. This probably suited British purposes more than American ones as, when sterling collapsed in mere weeks after convertibility was achieved in 1947, the British once again imposed their exchange controls to protect the pound. And they got away with it, despite it being in complete violation of their loan conditions. They got away with it because, by 1947, the special relationship had been sealed. The United States would not allow the pound to collapse, even if it meant the sterling area would continue to be an obstacle to American exporters. Britain was too important as an ally against communism.

Williams' framework encourages observers to imagine that the anti-Soviet turn in the discussion of the loan was a conspiracy to use security fears to camouflage American economic rapacity. However, Churchill is just as likely to be seen as the figure who turned the discussion in

⁸¹ United Kingdom Cabinet Papers, "Conclusions of a Meeting of the Cabinet Held at 10 Downing Street, S.W. 1, on Sunday the 17th of August, 1947 at 5 p.m." National Archives Digital Collections, the Cabinet Papers, Finance and the Economy, Bretton Woods System in Practice, [CAB\128\10\ - File Name : 0022.PDF](#).

this direction as Will Clayton. The truth is, although American economic ambitions with the loan got forgotten after March of 1946, that is as much a response to a changed environment. The Soviets were perceived as more sinister, obdurate, and obnoxious as the thrill of victory wore off and the complicated negotiations began over what the future of Germany, Europe, and international institutions would look like. Molotov's rhetoric was, at times, wholly paranoid and disconnected from reality. The American public could hardly fail to notice that Soviet and American approaches to the postwar settlement were entirely at odds. Furthermore, the public became aware that the Soviets had established a global espionage network targeting their nominal allies. No doubt the Americans appeared haughty and hypocritical to the Soviets, but the Soviet approach to postwar negotiation guaranteed the emergence of an Anglo-American bloc. Had they sincerely wished to avoid such a confrontation, they would have been better diplomats.

The Soviets were on solid ground when they claimed that the US seemed a lot more eager to offer credit to Western Allies than to them. After all, they too had requested a loan from the United States Government in the closing months of the war, but the US Government claimed to have misplaced the official request. The truth is that there was probably skepticism that any such loan would pass Congress, nor would the United States have been able to demand enough from the Soviets in return for such a loan to warrant its consideration. Additionally, the Soviet Union (or Tsarist Russia) was rarely a significant customer for American exports. It was one thing to offer a loan to the British, but to the Soviets as well? And, if such a loan were before Congress, a lot of Capitol Hill would echo with the sound of anti-Soviet rhetoric. Trying to hold the alliance together amidst such a tumult would have been a challenge, one easier just to avoid. Still, the decision to argue that the loan was not offered to the Soviets owing to a clerical error was bound to engender some hurt feelings in Moscow. Only more so because, while the Senate was debating the Anglo-American Loan, a French delegation arrived in Washington to negotiate a substantial loan of their own, while Adolfe Berle was advocating a significant American loan to Italy. Although both these loans would be processed through the Export-Import Bank, as opposed to the exceptional circumstances that surrounded the Anglo-American Loan Agreement, an observer did not have to suffer from the pathological paranoia of 1940s Moscow to imagine the United States was financing the creation of an anti-Soviet capitalist security bloc.

Although Stalin was generally outwardly calm and measured toward the Allies, his security apparatus had returned to full swing to re-secure authoritarian control after peace was declared. Recognition of this reminded the West that the defeat of fascism was not the same as the defeat of totalitarianism. Kennan's telegram made the State Department aware that Molotov was not some rogue actor but that he was representative of a paranoid totalitarian regime with global ambitions. The combination of tightened controls in Eastern Europe, the Soviet reluctance to vacate the Iranian oil fields, and Stalin's return to Marxist-Leninist rhetoric made the State Department a willing audience for Kennan's analysis. Meanwhile, the apparent Soviet intransigence in Europe, along with the revelation of a global Soviet spy network, made ordinary Americans an eager audience for Churchill. Accordingly, it was only natural for the politics of the loan proposal to become confused with the emerging U.S.-Soviet rivalry.

All loan proponents benefited from the confusion of security issues with economic ones. However, the British benefited more. This meant that if they were to ever default on either payments or conditions, Washington would be honor-bound to permit it, which is precisely what happened. The British could renege on the most crucial condition of the loan with little pushback. By publicly linking the British loan to Western freedom, Winston Churchill not only convinced reluctant Americans of the necessity of the loan but also compelled the United States to be a generous and flexible creditor. Britain could both get its loan and maintain the Sterling Area. It seems that the Uncle Sucker crowd was right after all, and perfidious Albion outfoxed the Americans—maybe not the negotiators, but the American people.

Still, overall, the Anglo-American Loan Arrangement was good for cotton producers. The failure to eliminate the dollar pool and the sterling exchange controls meant it was hardly the panacea it was intended to be, but American credit ensured that the British were buying significant volumes of American raw cotton. However, this was a pretty poor consolation prize given the initial hopes for the loan. The United States retained its significant cotton market share in the UK through 1949, but its ability to do so depended on Congressional appropriations for further financing of both the Anglo-American Loan and the subsequent Marshall Plan. Congressional appropriations that depended on a reliable internationalist bloc. As of July 1, 1949, the UK Raw Cotton Commission purchased approximately 49% of Britain's cotton requirements from the United States. In July of 1949, that amounted to approximately 35,000

bales per month. The balance was spread across the world, but tended to be concentrated in purchases from Brazil, Sudan, and East Africa.⁸²

Whatever the initial hopes were for the loan to spur British industrial recovery, three years after the loan was issued, British exports continued to struggle to generate foreign exchange. In May 1949, at least one measure indicated that ninety percent of its textile exports were destined for members of the Sterling Area. And, of the other tenth, about half went to Canada, which had significant sterling assets with which to pay for those imports.⁸³ This meant that the pound was becoming significantly weaker, while the dollar was strengthening, making American imports much more expensive for British consumers. By the summer of 1949, the pound was overvalued, and British competitiveness depended on official devaluation of the pound. Even the Americans accepted this, understanding that it would be detrimental to American exporters in the short term, and they encouraged the British to consider devaluation in the early summer.

However, probably owing to pride, the British government delayed devaluation until September of 1949. Although black market currency exchanges had the pound trading more than thirty percent lower than its official value, the British soldiered on. It was only after a summer of lead and lag speculation by British importers, which drained away Bank of England dollar reserves, that the Attlee government finally agreed to the devaluation. Economist Alain Naef demonstrates that the speculation compelled the government to devalue because it created an exchange crisis, and “devaluation... is the only way out of an exchange crisis.”⁸⁴ Naef argues that the British government's refusal to devalue at the beginning of the summer cost it “valuable reserves.”⁸⁵ In the short term, American exporters were the most harmed by the decision to devalue. However, the Americans understood that their long-term interest depended on an economically sustainable Britain that could purchase American exports with foreign reserves it

⁸² Dudley Windel, “Cotton and General Economic Review,” July 1, 1949. D.W. Brooks Papers, Europe - Cotton Agents, Folder 7. Richard B. Russell Library for Political Research and Studies, University of Georgia, Athens, Ga.

⁸³ Dudley Windel, “Cotton and General Economic Review,” July 1, 1949.

⁸⁴ Alain Naef, *An Exchange Rate History of the United Kingdom* (London: Cambridge University Press, 2022), 27-29.

⁸⁵ Naef, 29.

earned through its own exports. Unless the pound was competitive, that was never going to happen.

The pound-dollar problem persisted. In 1952, Averell Harriman, now Director of Mutual Security, commissioned an intergovernmental review of American foreign economic policy since the war, anticipating the new administration taking office in 1953. The scope of the final review's contents suggests that the members' primary concern was the ineffectiveness of the international exchange system and the continued existence of the Sterling Area. The analysts acknowledged that the Sterling Area would be perpetual, to the detriment of American exporters, unless the British pound could be reliably strengthened.⁸⁶ It would take another six years for the Sterling Area's walls to weaken, and the British to allow some limited convertibility of pounds into dollars on current accounts. This was only for people who lived outside the Sterling Area, however. For those inside the Sterling Area, they would have to wait until after the Bretton Woods exchange system collapsed in 1972.

⁸⁶ "Proposed Staff Review of American Economic Foreign Policy," 5. Documents Folder, RG 43, Records of International Conferences, Exhibitions and Commissions, International Conference on Trade and Employment, International Trade Organization Subject File, Box 109. NARA II Archives, College Park, MD.

Chapter 7: The Export-Import Bank and Global Cotton Supremacy

I

The British inability to meet their obligations under the Anglo-American Loan Agreement dashed hopes that a global, multilateral world order would be achieved relatively quickly following the war. Thus, for American cotton exporters, cotton supremacy would depend on overcoming the considerable trade barriers on an *ad hoc* basis to ensure that they liquidated their surpluses. Fortunately, the United States possessed an exceptional tool for such purposes, the Export-Import Bank. With the onset of the war in Europe, the Administration fully embraced the Eximbank as a useful diplomatic and military tool to contribute to Allied Victory. Meanwhile, after the war ended, it was adopted as one of the primary tools for global industrial reconstruction. American cotton exporters eagerly participated in this, as they understood that global industrial recovery meant permanent markets for American cotton...even at the expense of the American textile industry.

In August of 1940, President Roosevelt sent a telegram to Congress requesting that they consider increasing the capital and reducing restrictions on the Export-Import Bank of Washington. He claimed, “As a result of the war in Europe, far-reaching changes in global affairs have occurred, which necessarily have repercussions on the economic life of both the United States and the other American republics. The course of the war, the resultant blockages and counter blockades, and the inevitable disorganization, is preventing the flow of these surplus products to their normal markets.” He continued, “Until liberal and fair trading on a commercial

plane is reopened distress may be continued. I, therefore, request that Congress give prompt consideration to increasing

the capital and lending power of the Export-Import Bank of Washington by \$500,000,000, and removing some of the restrictions on its operations to the end that the bank may be of greater assistance to our neighbors south of the Rio Grande, including financing the handling and orderly marketing of some part of their surpluses.”¹ He hoped that the Eximbank would become one of the key instruments in his Good Neighbor Policy, and a tool of the Administration’s foreign policy and economic development agenda more broadly. American cotton exporters were well-positioned to benefit from this partnership, as many countries intended to industrialize through textile industry development that would require raw cotton to feed their spindles. The hope for American cotton exporters was that these new textile markets would rely on American cotton.

The extreme disruption to international trade that accompanied the outbreak of the Second World War in 1939 forced the Eximbank to focus most of their efforts on the American Republics, and functioned as one of the key players in the Good Neighbor Policy. Large and small low-interest dollar loans were distributed to governments and firms across the region for economic and commercial development. The war meant that, like the United States, most of these countries had been cut off from their traditional transatlantic supplier and customer bases. They needed each other as both markets and as suppliers of necessary raw materials. Firms in

¹ Telegram from President Roosevelt to Congress, July 22nd, 1940. Hearings Before the Committee on Banking and Currency, House of Representatives, 76th Congress, 3rd Session, 3. Placed into the record on August 6th, 1940.

places like Puerto Rico, Venezuela, Honduras, the Dominican Republic, and Haiti all took advantage of the expanded facilities.

The Good Neighbor Policy paid dividends for the Americans at the end of January 1942, when Latin American countries, after the Rio Conference, severed diplomatic relations with the Axis countries and joined the Allied war effort. In return, the United States promised a significant expansion of economic support. Many of which were organized through the Eximbank, and many were directly related to the prosecution of the war. This included the construction of joint bases and a \$1,000,000.00 loan to Haiti for the purposes of establishing sisal and henequen farms on the island to replace existing farms then occupied by Japan.² However, not all of these loans were intended to benefit the United States. The Good Neighbor Policy was explicitly not transactional. It aimed to foster a mutually beneficial relationship between the United States and Latin America, based on cooperation and trade rather than coercion and military confrontation. The Eximbank's ability to offer generous commercial credit was part of this, and it stood the US in good stead when it needed its own assistance from Latin American republics. The Eximbank would also help American exporters.

After war broke out in 1939, it became clear to officials at the Eximbank that "The delays and uncertainties of wartime shipping have created a situation in which many United States exporters and their customers abroad find it extremely difficult to arrange their transactions on a mutually satisfactory basis."³ The Export-Import Bank's value in facilitating exports during

² "Synopsis of Credit No. 336" Credit No. 336 Haiti Agricultural Corporation Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 7. NARA II Archives, College Park, MD.

³ "Questions and Answers Regarding The Export-Import Bank of Washington Letter of Credit Plan For Financing United States Exports Under War Conditions," Washington D.C.: National Foreign Trade Council, October 7, 1942. 306 Special Bank Export Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 11. NARA II Archives, College Park, MD.

challenging circumstances was evident during the Great Depression, making it particularly useful for trading amid war.

In October of 1941, two months before the attack on Pearl Harbor, the Eximbank had already notified governments in Latin America and the Caribbean that “We feel it is desirable that trade with countries in the western hemisphere be facilitated to the end that those countries may be enabled to procure essential requirements for the development of their resources and the stabilization of their economies.”⁴ Accomplishing this meant the Bank would create “...special lines of credit for banks in the other American Republics...for those exceptional circumstances where neither the importer nor exporter is willing to assume the risks incidental to the delivery of goods to the ports of destination.”⁵ These loans would cover the import to the American Republics of “...United States Industrial and/or Agricultural goods...”⁶

The “Special Bank Export Credit” provided lines of credit to Latin American banks at U.S. banks to purchase American goods. When a customer of a Latin American bank wished to buy an American export, the foreign bank in question would draw on this line of credit on the client’s behalf. A letter of credit would then be issued by the American bank, guaranteed by the Eximbank, which would pay the American supplier for the goods upon completion. Then, if the goods did not arrive at the designated foreign port within four months of the American supplier being paid, the loan would be canceled, and the Eximbank would bear the loss. If the goods did

⁴ “Export-Import Bank of Washington Circular to American Republic Governments,” October 28th, 1941. 306 Special Bank Export Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 11. NARA II Archives, College Park, MD.

⁵ “Export-Import Bank of Washington Circular to American Republic Governments.”

⁶ “Export-Import Bank of Washington Circular to American Republic Governments.”

arrive, payment back to the American bank was expected within 60 days.⁷ Congress appropriated \$50,000,000.00 to the Eximbank for these purposes.

G.H. Galloway, an Eximbank official, claimed that “This... (was a) most unusual wartime credit because in guaranteeing ocean shipment... we competed with commercial cargo for steamer space during a time when military operations left few vessels for the South American trade.”⁸ However, customers of the Special Bank Export Credit at least got priority on those few vessels that were available for the South American trade, as the Eximbank’s officers were willing to “...cut across usual procedure and contact the Cargo Clearing Office of the War Shipping Administration in New York City directly for steamer space on the grounds that the United States Government had a contingent interest in the goods.”⁹ The effort was amazingly successful. Galloway claimed that, given “...the nature of (the) shipping guarantees,” the Eximbank assumed their “...losses would be substantial,” but they were only forced to pay out on two shipments that did not arrive in time. Both were U.S. Steel Export Company shipments to firms in Columbia, totaling \$82.87.¹⁰ The lesson in this for would-be exporters was that Uncle Sam always gets paid.

The Export-Import Bank was also a useful tool for the economic development and stabilization of America’s neighbors. For instance, the Cuban economy was in disarray by 1941, which Eximbank officials attributed to “The low price of sugar in the late 1930s and paralysis of the sugar market between September 1, 1939, and the end of December 1940...”¹¹ In 1941, the

⁷ G.H. Galloway, “Synopsis of Credit No. 306,” October 3rd, 1946, 1. 306 Special Bank Export Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 11. NARA II Archives, College Park, MD.

⁸ G.H. Galloway, “Synopsis of Credit No. 306,” 5.

⁹ G.H. Galloway, “Synopsis of Credit No. 306,” 5

¹⁰ G.H. Galloway, “Synopsis of Credit No. 306,” October 3rd, 1946, 5

¹¹ “Synopsis of Credit No. 294,” Credit No. 294 Republic of Cuba Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 7. NARA II Archives, College Park, MD.

Cuban Government negotiated with the Eximbank for two loans totaling \$25,000,000. The first was an \$11,300,000 loan to “finance the production of a special quota of not more than 400,000 Spanish long tons of Cuban sugar from the 1941 crop, and thereby to assist in stabilizing the economy of Cuba.”¹² The other loan was allocated for public works to modernize and stabilize the industry. Cuba’s economy depended on the export of sugar, and the war had significantly disrupted its European markets. Just like the American South, Cuba’s economic dependency on a raw material for export meant that the whole country was economically vulnerable to wild price swings. While the sugar loan was undoubtedly constructive for the Cuban economy, whatever benefit to Cuban sugar that accrued through the Eximbank’s stabilization loan, and thus whatever good feeling in Cuba was purchased through the loan, was undone through the U.S.

Government’s Office of Price Administration’s sugar price ceiling that was imposed in August 1941. This forced Cuban sugar prices down in the American market and led to what one *New York Times* article called “...a bitter reaction among the (Cuban) sugar men... and other branches of national life.”¹³

The Eximbank Cuban sugar loan, like the CCC loan in the United States, was a “marketing assistance loan,” but without the nonrecourse component. The American one was popular among producers due to the price floor that the loans helped facilitate. However, the Cuban producers received a price ceiling rather than a price floor, which defeated the loan’s purpose. The price ceiling also restricted American access to sugar, as shortages became commonplace. These shortages were so significant that sugar became one of the first items rationed by the US Government after the US entered the war. Accordingly, the United States

¹² “Synopsis of Credit No. 289,” Folder 289 Cuban Sugar Stabilization Institute. RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 7. NARA II Archives, College Park, MD.

¹³ “Cuba Opens Fight on Sugar Ruling,” *New York Times*, Thursday, August 14, 1941, L15.

Government subsidized a stabilization loan to Cuban sugar producers to increase prices that was undone by a price ceiling, creating a series of shortages that could only be rectified through rationing. In 1942, the US Government purchased the entire Cuban sugar crop in fear of further shortages.

While loans on Latin American agricultural products were a valuable tool for fostering goodwill, when not undone by shortsighted domestic legislation, the U.S cotton industry was more interested in financing cotton exports to major global textile markets. The problem was that many of those textile markets were currently at war, and before American entry into the war the Neutrality Acts forbade U.S. military support. However, the Eximbank sought to improve trade with belligerent textile markets. In December of 1940, the Eximbank came to terms with the Central Bank of China on a line of credit, secured against a promissory note signed by the Republican Government and a shipment of tungsten ore, for \$50,000,000. Interest was charged at 4% and the term was until February of 1948. The loan was for the purpose of “Creating U.S. Dollar Exchange in order to purchase in the United States agricultural and manufactured products for export to China.”¹⁴ As the 1939 Neutrality Acts were still in force when this loan was negotiated, the Chinese Government was not allowed to use the loan to purchase military equipment. However, it was allowed to purchase significant volumes of raw cotton for its idle spindles.

As parts of Europe and North Africa were liberated from 1941-1945, the Eximbank issued loans to liberated governments. For instance, the Government of the Ethiopian Empire, which had been liberated in 1941, received a loan for \$500,000 in August of 1944 to facilitate the

¹⁴ “Synopsis of Credit 283,” July 9th, 1946, 283 Central Bank of China Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 7. NARA II Archives, College Park, MD.

purchase of American commodities, like cotton, to develop a country described as having a “...very primitive economy,” where grain was historically raised “...by their primitive methods of cultivation to cover their own requirements,” while internal exchange relied on the Austrian “Maria Theresa thaler” and salt.¹⁵ Foreign capital was “...never encouraged,” as “The Government always regarded concession seekers with extreme suspicion.” The US Government was eager to help the Ethiopians industrialize, rather than have them return to their previous agricultural based economy, which benefited American cotton producers.

II

At the conclusion of the Second World War, Leo Crowley, the Head of the Foreign Economic Administration, referred to the Export-Import Bank as “The vehicle that this country has for postwar rehabilitation...”¹⁶ Fred Crawford, meanwhile, described the Export-Import Bank in 1945 as “...a bridge we are building that will perhaps take us to the time that the Bretton Woods machinery becomes operative.”¹⁷ Until “ordinary trade conditions” resumed, the Export-Import Bank of Washington would remain the key instrument the United States had to facilitate global economic reconstruction, and to ensure that this reconstruction was accomplished through the use of American commodity exports. For these purposes, Congress passed the Ex-Im Bank Act of 1945, which appropriated 2.8 billion dollars to increase the bank’s lending capacity. After 1945, the Eximbank possessed more resources for achieving American foreign policy objectives

¹⁵ “Synopsis of Loan 353” and “Economic Survey of Ethiopia,” Loan No. 353 Empire of Ethiopia Folder, RG 275 Export Import Bank of Washington, Credit Files, 1934-1951, Box 8. NARA II Archives, College Park, MD.

¹⁶ Hearings Before the Committee on Banking and Currency of the House of Representatives, on H.R. 3464 and H.R. 3490, 79th Congress, 1st Session, July 11 and 12, 1945, 9. (Hereafter “Hearings Before the House Committee on Banking and Currency on H.R.s 3464 and 3490.”)

¹⁷ “Hearings Before the House Committee on Banking and Currency on H.R.s 3464 and 3490.” 11.

and the commercial goals of American exporters. The fact that the Truman Administration consisted of many prominent Southerners from cotton regions meant that these goals were rarely mutually exclusive.

Congress's hearings on the 1945 Ex-Im Act, which generally reflect overwhelming support for it, suggest that using the Export-Import Bank to export large volumes of cotton was top of mind for representatives across the country. Republican Fred Crawford of Michigan, for instance, opened the congressional questioning of Leo Crowley, who the Administration had designated as the bill's chief advocate in congressional hearings, by asking him, "Is the Export-Import Bank operating in such a way that it can help finance the export of cotton?"¹⁸ Crowley answered, "We can if anyone wants to buy it."¹⁹ It turned out that many were.

Raw cotton was the largest single commodity financed through Export-Import Bank loans following the war. As of December 15th, 1947, 48 banks had outstanding notes with the Export-Import Bank totaling \$187 million. Of that, \$65 million was raw cotton, and \$7 million was tobacco. They were the only agricultural goods with notes on them at that time and were shorter-term, with lower interest rates, than the industrial equipment. American banks that participated in these loans tended to specialize outside of New York, indicating the degree to which banking was still a local endeavor, as few banks had the expertise to be both manufacturing and agricultural creditors. For instance, the National Bank of Detroit possessed no cotton notes, and the Irving Trust Company had very few. Meanwhile, the Second National Bank of Houston had nothing but cotton drafts.²⁰ These \$65 million worth of financed raw cotton

¹⁸ "Hearings Before the House Committee on Banking and Currency on H.R.s 3464 and 3490." 10.

¹⁹ "Hearings Before the House Committee on Banking and Currency on H.R.s 3464 and 3490." 10.

²⁰ W.D. Whittmore, "Memorandum to the Board of Directors," January 6, 1948. 387 Finland Cotton Folder, 387 Finland Cotton Credit, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

exports, in addition to the \$43.2 million of the US 1945 raw cotton crop that was exported as part of UNRRA relief aid, were intended to be the feedstock for global cotton supremacy.²¹

As discussed in an earlier chapter, Canada had become one of America's chief markets for cotton exports by 1945, and American cotton exporters sought to protect their market share in Canada while growing its demand for American cotton. America's northern neighbor had approximately 108 cotton textile mills, primarily concentrated in the central Canadian industrial corridor of Ontario and Quebec, which ran on American raw cotton. In 1940, total Canadian textile production was approximately \$115,000,000.²² In 1947, the Government of Canada, under the guidance of Finance Minister D.C. Abbott, approached the US Eximbank for a \$300,000,000.00 revolving line of credit that the Canadian Government could use to purchase American machinery and raw materials. Much of the \$150,000,000.00 that was earmarked for the purchase of "machinery and equipment" was intended to purchase, upgrade, and repair textile equipment, while \$30,000,00.00 was specifically set aside for the purchase of American raw cotton.²³ Aside from the obvious direct and immediate benefit accruing to American cotton exporters through the \$30,000,000 purchase, the loans for capital improvements were anticipated to improve Canadian productivity and thus increase Canada's future demand for American raw cotton.

²¹ "5th Report to Congress On operations of UNRRA Under the Act of March 28, 1944, September 30, 1945. Washington D.C: Government Printing Office, Office of the Historian, [5th Report to Congress on Operations of Unrra Under the Act of March 28, 1944 : As of September 30, 1945..](#)

²² Dominion Bureau of Statistics Census of Industry General Manufacturers Branch, "Report on the Cotton Textile Industries in Canada," Canada Department of Trade and Commerce, Ottawa: Government of Canada Publications, 4.

²³ "Agreement," Appendix B, 433 Dominion of Canada Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 10. NARA II Archives, College Park, MD.

Meanwhile, the postwar recovery of European manufacturing depended on access to raw cotton. Many of the continent's industrialized economies still depended on the textile industry, so a return to normal volumes of employment and production would depend on having raw cotton as feed for those mills. Thus, the end of the war meant the opening up of a significant export zone for American cotton shippers, much of it occupied by American troops, to absorb American surpluses. A substantial portion could be delivered through UNRRA Aid, but the Government was also eager to re-establish private trade channels. However, the Bretton-Woods exchange system never provided an adequate supply of dollars abroad. Thus, governments husbanded their dollars closely and did not want local importers carelessly using these scarce dollars to purchase American imports. Therefore, a vehicle was necessary for Americans to manage exports without damaging foreign governments' already tenuous foreign exchange positions. Until the Marshall Plan, the only institution capable of overcoming such obstacles was the Export-Import Bank.

On October 8th, 1945, the Executive Committee of the Eximbank authorized an extension of \$100,000,000.00 worth of credit "...to banking institutions or other entities in countries of Europe for the purposes of financing the purchase in the United States and the export of United States cotton."²⁴ The Committee had been approached by "... the Department of Agriculture, by cotton shippers, and finally by several foreign governments, for facilities to finance the export of United States cotton on credit terms somewhat longer than were acceptable to the trade or to commercial banking institutions."²⁵ The Committee planned to use the \$100,000,000 to "...export 800,000 bales of United States cotton to Belgium, Czechoslovakia, Denmark, France,

²⁴ "Resolution on Cotton Loan 387 to Czechoslovakia." Loan No. 387 Czechoslovakia Cotton Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

²⁵ "Synopsis of Credit No. 387," September 20th, 1946. Special Cotton Credit \$100,000,000 Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16, NARA II Archives, College Park, MD.

Italy, the Netherlands, Norway, Poland and perhaps other countries in Europe.”²⁶ The Committee would allocate these lines of credit “... to separate foreign banks within established limits for each country, these limits to be fixed by the foreign countries in conjunction with their assurances regarding provision of dollar exchange.”²⁷ Meanwhile, the Committee insisted that “Repayment is to be guaranteed by the foreign banks and the respective foreign governments and, where necessary, supported by assurances re availability of dollar exchange.”²⁸ The Eximbank would carry 85 percent of the debt, while each of the American commercial bank and the cotton shipper were expected to carry 7 and a half percent.²⁹ Letters were sent out to at least fifty American cotton shippers informing them that the Eximbank had “....executed or intends to execute agreements with certain foreign banks and the governments of their countries establishing credits to finance the exportation of cotton from the United States.”³⁰ Representative credit lines included \$5 million to Finland, \$25 million to Italy, \$20 million to Czechoslovakia, and \$7 million to Hungary. They also agreed to a \$10 million line of credit for the Nederlandse Bank N.V. to purchase cotton, but the bank chose not to utilize the facility.³¹ Through this credit, the Eximbank hoped to finance the purchase of American raw cotton to fuel the reindustrialization of Europe, thus liquidating American surpluses and growing American market share.

²⁶ “Synopsis of Credit No. 387,” September 20th, 1946.

²⁷ “Export-Import Plan for Financing Exports of Cotton to Certain Foreign Countries,” October 24, 1945, 2. 387 Special Cotton Credit 100,000,000 Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

²⁸ “Synopsis of Credit No. 387,” September 20th, 1946.

²⁹ “Export-Import Plan for Financing Exports of Cotton to Certain Foreign Countries,” October 24th, 1945.

³⁰ “Export-Import Plan for Financing Exports of Cotton to Certain Foreign Countries,” October 24th, 1945.

³¹ Correspondence from Export-Import Bank of Washington D.C. to Anderson, Clayton, and Co.” April 2, 1946. Cotton Export Credit Anderson, Clayton, and Co. Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 15. NARA II Archives, College Park, MD.

³¹ Correspondence from W. D. Whittimore to L.R.W. Soutendijk, November 14th, 1946. Netherlands Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16, NARA II Archives, College Park, MD.

Even the presence of the Red Army did not discourage the Eximbank from making cotton loans. And, at least in one case, a communist coup did not affect its repayment. In 1945, the Eximbank authorized a \$20,000,000 credit to the Czechoslovak Government to purchase 130,000 bales of American cotton.³² Bank officials believed that the Czech economy depended on restarting its textile mills, which required 50 to 100,000 tons of raw cotton for a year's worth of production. UNRRA was committed to providing 26,000 tons through aid, but the balance would have to be financed through the Eximbank.³³ Access to the line of credit was set to expire after a year, but Eximbank extended it for at least three months on two occasions. The Czech communist coup occurred amid repayment, but the new Communist regime assiduously ensured that the Americans were repaid. However, once firmly established in power, the nationalization of private industry and the growing Cold War made the Eximbank leery of any further loans, a situation made clear in Hungary.

In January of 1947, the Hungarian Government, then controlled by the non-communist "Smallholders Party" despite still being occupied by the Red Army, applied on behalf of two large Hungarian Banks for a \$7,000,000 line of credit to purchase American cotton. Hungary had been devastated by the war and was in the process of what appeared to be a very slow recovery by the time it applied for the loan. The country had been largely agricultural, and the breakup of the large estates at the end of the war was causing considerable dislocation. Meanwhile, Hungarian textile manufacturing was only beginning to catch up with its pre-war productivity. The country had lost about a third of its spindles during the war, but according to senior State

³² "Resolution on Cotton Loan 387 to Czechoslovakia." Special Cotton Credit \$100,000,000 Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

³³ Export-Import Bank of Washington, "Press Release October 23, 1945." Special Cotton Credit \$100,000,000 Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

Department official Dean Acheson, "...the (remaining) mills have pushed spinning activity to a high level by operating twenty-four hours a day seven days a week."³⁴ Before the war, Hungary had imported about 50% of its raw cotton from the United States, and its textile firms had begun to make a few cash purchases in the United States in 1946, but scarce foreign exchange necessitated financing further purchases through the Export-Import Bank. The Hungarians believed that they could get spindles operating at about 80% of prewar capacity, which meant the employment of 50,000 desperate people. They estimated that, for this, Hungary would need to import approximately 24,000 tons of cotton, and the Eximbank could finance the purchase of about 8,000 tons.³⁵ The loan was to be split 50/50 between the Hungarian Commercial Bank of Pest and the Hungarian General Credit Bank.³⁶ The Export-Import Bank agreed to the loan on April of 1947 and sent documents out to the Hungarian banks on April 30th.³⁷ The financing of the loan would be interrupted by Matyas Rakosi's communist coup.

Matyas Rakosi, the Stalinist leader of the opposition Hungarian Communist Party, used his infamous "salami tactics" to engineer a coup with the assistance of the occupying Red Army and the Communist Party (AVO) in May of 1947. The new government, led by a compliant Smallholder named Lajos Dinnyes, oversaw the government until a rigged election in August gave power to Rakosi's Communists. The new government, because of the importance of the

³⁴ Correspondence from Dean Acheson to American Legation Budapest, April 3, 1947, 2. 387 Hungarian Cotton Credit Folder, RG 275 Export Import Bank of Washington Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

³⁵ Correspondence from A. Szasz to Mr. August Maffry, February 20, 1947, 387 Hungarian Cotton Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

³⁶ "Memorandum to the Directors – Re: Credit No. 387 – Various European Countries (Cotton) Application No. 84 – Hungary \$7,000,000," March 24, 1947. 387 Hungarian Cotton Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

³⁷ "Correspondence from the Export-Import Bank of Washington to Hungarian Bank of Pest," April 30, 1947. 387 Hungarian Cotton Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

Hungarian textile industry to both employment and foreign exchange, “..attached great importance to the cotton credit from the Export-Import Bank...” according to the American Legation in Budapest.³⁸ These officials believed the Hungarians had sufficient cotton for their industry until February 1948, but would then require financing for new shipments. The loan had not yet been funded by the time of the coup because the Hungarian Banks’ representatives had not yet supplied the legal opinions that funding was contingent upon before fleeing the country during and after the May coup. The American Legation suggested that, “...to avoid an attack against the Hungarian banks involved, as well as against the U.S. Government, because of a suspension of the cotton credit, the Export-Import Bank (should) allow U.S. cotton shippers to accept contracts for delivery in February...”³⁹ Very quickly after the coup, the Dinnyes and then Rakosi regimes “...supplied the required legal opinions...”, but the Export Import Bank found them “...defective.” August Maffry, the Vice-President of the Eximbank and point man with the Hungarians, argued in July that “...if the Bank now indicates to the Hungarians that the legal opinions in hand are defective and thus invites them to repair the deficiencies...” it would be indicating that it intends to do business with the new Hungarian regime. Maffry, however, argued that circumstances had changed sufficiently that, even if the Export-Import Bank wanted to pursue the loan, every aspect of the loan would have to be reconsidered, especially since the original banks involved were “...under threat of nationalization.” He concluded that, “Without wishing to put the matter on a personal basis, I submit that the Export-Import Bank not do business with a country which cannot be freely visited by a member of the bank.”⁴⁰ This

³⁸ August Maffry, “Memorandum to the Board of Directors, Re: Hungarian Cotton Credit,” July 28, 1947. 387 Hungarian Cotton Credit Folder, RG 275 Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

³⁹ August Maffry, “Memorandum to the Board of Directors, Re: Hungarian Cotton Credit,” July 28, 1947

⁴⁰ August Maffry, “Memorandum to the Board of Directors, Re: Hungarian Cotton Credit,” July 28, 1947.

justification seemed to sway the Eximbank from making any further loans to communist countries.

By the end of 1947, the Eximbank was also very carefully weighing its loans to non-communist countries that were, nevertheless, subject to Soviet coercion. For instance, the Eximbank made several cotton loans to banks in Finland between 1945 and 1947. The Finns had recovered well since they had surrendered in 1944, which was remarkable given its immediate 1944 "...economic situation, resulting from (1) the loss of 12 percent of its territory containing resources and industrial establishments, (2) the necessity to resettle 460,000 refugees from the ceded area, (3) annual reparations payments amounting to 10% of its national income, (4) serious shortages of food, transportation equipment, raw materials, fuel, and power, and (5) general disorganization of finances and production."⁴¹ Although the Finns were not major textile exporters, they did have a small domestic market they wanted assistance in recovering after the war. The Eximbank offered a line of credit that began at \$2,000,000 in 1945 and was extended to \$12,000,000.00 by 1948.⁴²

Bank officials were concerned about the 1948 cotton loan extension to Finland, along with the consideration of another "... \$40 million dollars from the Bank for reconstruction purposes..." because "Finland is still within the Russian sphere of influence and because for more than a year no sizable loans have been made to iron curtain countries...".⁴³ The necessity of

⁴¹ "Economic Report on Finland," 1. 387 Finland Cotton Credit, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

⁴² "Memorandum to the Board of Directors, Re: Application from Republic of Finland for additional credit under Export Cotton Credit 387-B." 387 Finland Cotton Credit, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

⁴³ Edward S. Lynch, "Memorandum to the Board of Directors, re: Finland," August 13th, 1948." 387 Finland Cotton Credit Folder, RG 275, Export Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

paying Soviet reparations had forced the Finns to radically reshape their export economy from a pre-war emphasis on timber. As part of the terms of surrender, the Finns were expected to make delivery of \$300,000,000 gold dollars worth of "...metal manufactures, ships, and wood products."⁴⁴ However, according to American intelligence officials, "...more than half of the reparations deliveries consisted of commodities not previously exported by Finland..."⁴⁵ The result was that Finland borrowed \$373 million, chiefly from the US and Sweden, to build the necessary industries to pay back Soviet reparations.⁴⁶ This meant that, at least until the reparations were fully paid in the mid-1950s, the Soviets were a constant presence in Finland ensuring that they met the terms of surrender. In the end, the Eximbank decided to offer the credit extensions to Finland, after the National Advisory Council informed the Export-Import Bank that it "...had no objection to the consideration by the Export-Import Bank of a cotton credit to Finland..."⁴⁷ The hope was that it would facilitate a Finnish separation from the Soviet sphere of influence after reparations payments were completed. However, as American intelligence officials would conclude some years later, "Finland was faced with the problem of finding foreign markets for the type of goods formerly delivered as reparations."⁴⁸ Unfortunately, according to these same officials, "Western markets were unable to absorb significant quantities of these products, particularly metal products and wood products... Therefore, Finland was forced to turn to the U.S.S.R. where export possibilities were greater than in the West."⁴⁹ The

⁴⁴ "Intelligence Memorandum: Finnish-Soviet Five Year Trade Agreement," CIA/RR IM-392, 24 August 1954, 2-6, Central Intelligence Agency Office of Research and Reports, First Accessed on CIA Reading Room, January 9, 2025. https://www.cia.gov/readingroom/docs/DOC_0000494214.pdf

⁴⁵ "Intelligence Memorandum: Finnish-Soviet Five-Year Trade Agreement," CIA/RR IM-392, 24 August 1954, 2-6.

⁴⁶ "Intelligence Memorandum: Finnish-Soviet Five-Year Trade Agreement," CIA/RR IM-392, 24 August 1954, 2-6.

⁴⁷ Edward S. Lynch, "Memorandum to the Board of Directors, re: Finland," August 13th, 1948.

⁴⁸ "Intelligence Memorandum: Finnish-Soviet Five-Year Trade Agreement," CIA/RR IM-392, 24 August 1954, 2-6.

⁴⁹ "Intelligence Memorandum: Finnish-Soviet Five-Year Trade Agreement," CIA/RR IM-392, 24 August 1954.

result was that Finland was forced to make trade deals with the U.S.S.R. that embedded them in the Eastern Bloc trade network despite the considerable role played by the US Government in postwar Finnish reconstruction.

While the Cold War might have restricted the Eximbank's ability to project cotton supremacy in parts of Europe, in other places the Cold War encouraged it. For instance, the onset of the Cold War made West German economic recovery an American security issue. Thus, in 1947, the Eximbank made significant loans to the Joint Import-Export Agency of the US/UK Zones of Germany (JIEAG) to facilitate German reconstruction. On August 19th of 1947, the Bank agreed to a 19 million dollar line of credit to "...facilitate the exportation from the United States and importation in the United States – United Kingdom occupied zones of Germany of United States cotton."⁵⁰ The War Department, State Department, and Parliament endorsed the loan, with the War Department, in particular, attaching a great deal of urgency to it. By the time the loan was made, tens of millions of dollars' worth of CCC cotton had already been shipped to West Germany. In some ways, the JIEAG operated as a cotton broker, as that appears to have been its primary line of business. As a sign of cotton's centrality to the JIEAG's operations, the \$36,396,438.06 of CCC raw cotton it controlled on June 30th, 1947 was its only significant asset.⁵¹ Thus, cotton loans to West German reconstruction liquidated immediate surpluses,

⁵⁰ "Agreement Between Export-Import Bank of Washington, American Cotton Supply Corporation (Joint Export-Import Agency U.S U.K Zones of Germany," August 19, 1947, 1. 387 German Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

⁵¹ "Memorandum to the Board of Directors, Re: Credit Application No. 68, Financing Imports of Cotton Into Germany," Exhibit A – Balance Sheet of Joint Export-Import Agency U.S. U.K. Zones of Germany, July 28, 1947. 387 German Cotton Credit Folder, RG 275 Export Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

guaranteed future American market share, and contributed to the country's liberal capitalist development. Actions that would preview the goals of the 1948 Marshall Plan.

III

While America's traditional cotton export markets had been in Europe, changes in the first few decades of the century had made Japan and other Pacific countries comparable markets to those in Europe. American cotton supremacy would depend on American raw cotton becoming the basis of Asian textile production; therefore, the Eximbank waged a two-front postwar campaign to both assist Asian textile industries in their recovery and to grow American market share. The real prize was China, which until the 1940 Eximbank loan described earlier had largely relied on internal cotton production.

In January of 1946, the Export-Import Bank built on their earlier 1940 cotton loan to the Bank of China negotiated a further \$33,000,000.00 line of credit to the Bank of China to purchase American raw cotton. According to Bank officials, the loan originated after "The United States Department of Agriculture...(recommended) the Eximbank consider extension of credit covering the exportation of raw cotton from the U.S.A. to China." The USDA explained that, "...the U.S. Government had accumulated a large stock of short-staple cotton which is used by very few countries other than China."⁵² China's textile industry, which had approximately 3.9 million operating spindles and was the country's largest manufacturing industry, faced an existential challenge at the conclusion of the war. Before the Japanese invasion, Chinese textile mills had sourced their cotton almost entirely domestically. However, a decade of war, both civil and against the Japanese invader, had led to an "...extensive disruption of internal transportation

⁵² "Synopsis of Credit No. 388," February 27, 1947.

trade... (meaning) China has had to depend on imports for over a third of the cotton in its mills.”⁵³ The United States was happy to meet Chinese importers’ needs, and the Eximbank’s credit to China was eagerly embraced by the industry. The American Cotton Cooperative Association, for instance, sold \$400,000 worth to Chinese buyers in April of 1946,⁵⁴ while C.W. Capps and Company made at least ten large sales to China in the summer of 1946.⁵⁵

The Eximbank’s ability to extend, forgive, and otherwise prove flexible in its payment arrangements ensured that American cotton exporters, including the CCC, were not reliant on cash purchases in China, something made difficult by both the global credit environment, delayed recovery from the Japanese occupation, and the ongoing Civil War. It was particularly valuable to American cotton exporters when the country experienced a major foreign exchange crisis in 1948, that left the Bank of China unable to make payment on its outstanding cotton drafts to American exporters.⁵⁶ Given that many of these drafts were initially facilitated through the Eximbank, the Bank was in a position to both ensure the American exporters were paid while extending the loan for one year.

This extension was part of a broader 1948 American campaign to stave off communist victory in the Civil War by relieving the economic and military pressure on the Chinese Nationalist Government. The Chinese Central Bank claimed that in the summer of 1948 their

⁵³ Economic Cooperation Association, “Economic Aid to China Under the China Aid Act of 1948,” Washington D.C., February 1949, 60, U.S. Aid Digital Archives, [Economic aid to China under the China Aid Act of 1948](#).

⁵⁴ Correspondence from W.G. Ammons to E. H. Galloway, April 20, 1946. Cotton Export Credit American Cotton Cooperative Association Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 13. NARA II Archives, College Park, MD.

⁵⁵ “Commitments in Favor of C.W. Capps and Co.,” 287 C.W. Capps and Company Folder, RG 275, Export - Import Bank of Washington, Credit Files, 1934-1951, Box 15. NARA II Archives, College Park, MD.

⁵⁶ “Supplemental and Amendatory Agreement,” 1948, 2. Chinese Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

⁵⁶ “Commitments in Favor of C.W. Capps and Co.,” 287 C.W. Capps and Company Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

“...exchange position was precarious in the extreme...”⁵⁷ The Chinese Ambassador to the United States had requested the extension facilitated by the Eximbank on the payment of the cotton drafts to allow Chinese Banks “...a breathing spell...during which period the combined efforts of the China Aid Program and our self-help measures may be expected to stimulate sufficient export proceeds and remittances to alleviate the acute stringency of foreign exchange of our banks...”⁵⁸ In 1948, China was “...in the grip of the longest inflation in modern history.” The Americans believed the major problems were the combination of low foreign trade and “...a continuation of deficit financing to support the Civil War against the Communists...”⁵⁹ American observers believed the inflation, “...caused production and other constructive business activity to stagnate and contributed to a popular loss of confidence in the National Government. While the military strength of the Communists was increasing, Military defeats were sapping nationalist strength, sinking morale among the troops amid a crumbling economic front in the rear of the government’s troops.”⁶⁰

The dire economic situation in China led to the American Government passing the “China Aid Program,” to “...assist in retarding the current economic deterioration and thus give the Chinese Government further opportunity to initiate the measures necessary to the establishment of more stable economic conditions.”⁶¹ In January 1948, the Economic Cooperation Assistance Program (ECA) authorized \$275 million in aid to China, \$69.8 million

⁵⁷ “Memorandum to Board of Directors, Re: Credit No. 388 Bank of China Extension of Maturities,” 388 Chinese Cotton Credit Folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 16. NARA II Archives, College Park, MD.

⁵⁸ “Memorandum to Board of Directors, Re: Credit No. 388 Bank of China Extension of Maturities.”

⁵⁹ “Memorandum to Board of Directors, Re: Credit No. 388 Bank of China Extension of Maturities.”

⁶⁰ Economic Cooperation Association, “Economic Aid to China Under the China Aid Act of 1948,” Washington D.C., February 1949, 1, U.S. Aid Digital Archives, [Economic aid to China under the China Aid Act of 1948](#). First Accessed January 13, 2025.

⁶¹ Economic Cooperation Association, “Economic Aid to China Under the China Aid Act of 1948,” Washington D.C., February 1949, 1.

of which was allocated for the import of U.S. raw cotton into China.⁶² Accordingly, between 1946 and 1948, the United States Government, through the ECA and the Eximbank's earlier 33 million dollar line of credit, had facilitated the financing and import of over \$100 million of American cotton into China. However, it would not be enough to slow down the progress of Mao Zedong's Communists.

Although the ECA Program provided a lot of necessary aid for Chinese civilians and the Chinese economy, it did little to address the key economic and military problems the Chinese Nationalists faced in the Civil War. Inflation had exacerbated the already tricky business conditions, and the ECA was never intended to stabilize the currency. Meanwhile, it also did not include any military aid, meaning the Nationalists were forced to rely on their dwindling supplies of military equipment, while the Soviets kept Mao well stocked. Accordingly, although Chinese civilians desperately needed imports, the inability to stabilize the currency meant that none could be purchased, leaving Chinese society eating hand-to-mouth from American aid. Meanwhile, the Soviets were financing the Communists, with aid no doubt secured through reparations payments in Europe that were financed by the Americans, and thus the Nationalists faced a terrific spiral of unstoppable inflation, the inability to make foreign exchange payments, and a withering military. While Chiang-Kai-Shek's Government lost internal support due to its corruption, frequent cruelty, and incompetence, the structure of American aid did little to assist its key economic and military problems.⁶³ The Communist victory in China meant that, along with eastern Europe, American cotton exporters had now lost access to the largest textile-producing country in Asia.

⁶² Economic Cooperation Association, "Economic Aid to China Under the China Aid Act of 1948," Washington D.C., February 1949, 10.

⁶³ An English-language examination of the Chinese Civil War and Revolution can be found in Frank Dikotter, *The Tragedy of Liberation: A History of the Chinese Revolution, 1945-1957* (London, U.K.: Bloomsbury Press, 2013).

Fortunately, for American cotton producers, the Americans had their own forces occupying the other key Asian cotton export market.

IV

The United States Government and the American Army used the Export-Import Bank to jumpstart the Japanese economy. In 1948, the United States Eximbank organized, and participated at a level just under 50%, in a \$60 million loan to the Occupied Japan Export-Import Revolving Fund (established the previous August), led by an American-designated Controller, for the financing of Japanese cotton imports from the United States. The Eimbank and other participants, like Chase National and the City Bank of New York, would offer "...irrevocable commercial letters of credit...(covering) cotton of United States origin shipped to, or intended to be shipped to, Japan..."⁶⁴ If the fund were to default on making payments, the Fund was penalized with a much higher rate of interest unless it shipped most of its gold to the United States before defaulting. If, while in the United States, the Fund decided to liquidate its gold to the United States for dollars, the United States would apply the proceeds to the credit balance at the lower rate of interest.⁶⁵ The deal was a win-win-win for the Eximbank. \$60 million of cotton would be exported, it and the other major American banks would profit, and if they were in any danger of defaulting a significant amount of Japanese gold would flow to the United States.

⁶⁴ "Agreement Between Occupied Japan Export-Import Revolving Fund and Controller Thereof and Export-Import Bank of Washington, Bank of America National Trust and Saving Association, The Chase National Bank of the City of New York, The City National Bank of New York, and J. Henry Shroeder Banking Corporation," May 13, 1948, 6. 443 Occupied Japan Export-Import Revolving Fund cotton folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 10. NARA II Archives, College Park, MD.

⁶⁵ "Agreement Between Occupied Japan Export-Import Revolving Fund and Controller Thereof and Export-Import Bank of Washington, Bank of America National Trust and Saving Association, The Chase National Bank of the City of New York, The City National Bank of New York, and J. Henry Shroeder Banking Corporation," 10.

Given that the United States Army was stationed across Japan, any Japanese Government would have had a hard time canceling this debt. The document was signed by the Controller of the Fund (Paul Churchland), the Presidents of the participating banks, and the Supreme Commander for the Allied Powers (SCAP) General Douglas MacArthur.

MacArthur's broad proconsular authority in Japan meant that "All imports to and exports from Japan will take place exclusively under (his) direct control... in accordance with the policies formulated by the Far Eastern Commission." In the directive he received outlining his authority, MacArthur was given strict instructions to prioritize an import program that provided the minimum goods necessary to "...prevent such widespread disease and unrest as would endanger the occupying forces," and "Imports required to accomplish the objectives of the occupation." All other imports, for the time being, were suspended. Meanwhile, while encouraged to permit existing private production for export if, for no other reason, than to be able to pay for imports, MacArthur was urged to use maximum discretion in allowing development of industries with "...character that would contribute significantly to the maintenance or development of Japan's war-making potential or if they would promote dependance of other nations on Japan for strategic products." However, "Exports of textiles and other goods which are in short-supply, especially in Asiatic countries, should be stimulated to the maximum extent practicable." This required the import of raw cotton, which happened in significant volumes after the Japanese surrender.⁶⁶

In 1947, Douglas MacArthur and the SCAP office created the Occupied Japan Export-Import Revolving Fund (OJEIRF) "...for the purpose of providing a credit base and a means for

⁶⁶ Serial No. 84: Directive Issued to the Supreme Commander for the Allied Powers Interim Import-Export Policy for Japan," August 1, 1947, 1, 3, 4. 443 Occupied Japan Export-Import Revolving Fund cotton folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 10. NARA II Archives, College Park, MD.

financing, primarily on a self-liquidating basis, Japanese imports and exports of commodities and services which are required for the achievement of the objectives and policies of the occupation and accordingly transferred to The Fund and its Controller gold valued at \$104, 000,000, silver valued at approximately \$18,000,000 and (indicating the dearth of US Dollars) US dollars valued at \$378,000.”⁶⁷ The Fund would take over from the United States Commercial Company (USCC), that handled all non-textile trade between Japan and the United States, and the Commodity Credit Corporation (CCC), which handled the textile trade, during the first two years of occupation. The vision was by “Utilizing some \$137,000,000 of gold and silver of Japanese ownership as a credit base, it is hoped to obtain loans which may reasonably approximate up to \$500,000,000,” to “pay for the raw material imports needed to produce manufactured exports, the proceeds from which can then finance continuing trade.”⁶⁸ \$60 million of which would be used immediately to import raw cotton from the United States.

The textile industry was a pre-war powerhouse of the Japanese industrial economy, and a sector heavily relied on by the Japanese for exports to finance critical foreign exchange. Like Great Britain, Japan is a small archipelago with little arable land. Accordingly, it relied on manufactured exports to pay for agricultural and natural resource imports, meaning the postwar economic well-being of Japan depended on recovering its textile sector. The textile sector also had the benefit, from the American perspective, of not significantly contributing to Japan’s ability to wage war. In the early stages of the occupation, the Commodity Credit Corporation executed two contracts with the SCAP and the provisional Japanese Government to finance the

⁶⁷ “Press Release #75: Export-Import Bank of Washington,” April 21, 1948, 1. 443 Occupied Japan Export-Import Revolving Fund cotton folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 10. NARA II Archives, College Park, MD.

⁶⁸ “Correspondence from the Acting Political Advisor in Japan (Sebald) to the Secretary of State,” September 16, 1947. Office of the Historian of the United States, Foreign Relations of the United States, 1947, The Far East, Volume VI, Occupation and Control of Japan, Document 263.

purchase of American raw cotton from its own stocks, which it had accumulated through the nonrecourse loan.⁶⁹ In the first two years of the occupation, approximately \$485 million worth of goods were imported from the United States, with \$133 million of that amount being raw cotton.⁷⁰ These arrangements had served to liquidate American surpluses and allowed the Japanese economy to limp along from 1945-1947, but by 1948 MacArthur had more ambitious plans.

MacArthur hoped that the Eximbank's financing of \$60 million worth of raw cotton would form the foundation of Japan's global economic recovery. He hoped that it would lead to the export of \$150 million of processed cotton the following year, the proceeds from which he planned to use as a credit base to purchase \$220 million of American raw cotton in 1949.⁷¹ The scale of these 1949 plans indicates that MacArthur intended to use that \$60 million loan to very quickly make Japan the world's largest textile manufacturer.

MacArthur believed that his new OJEIRF would be far more effective at building a robust Japanese textile industry than the USCC's and CCC's Japanese operations had been. To MacArthur, these organizations had struggled to liquidate Japanese textile stocks in the first two years of the occupation, only managing to sell about \$145 million worth of products "...to governments under favorable conditions," due to their officers being "inexperienced" and the CCC's insistence on being repaid in US dollars. The Jacobs-Symes-Comer Commission, invited by MacArthur to investigate the problems of the Japanese textile industry, made several suggestions for reforming the Japanese textile industry. They recommended the establishment of

⁶⁹ And thus increasing demand for American cotton and raising cotton prices.

⁷⁰ "Memorandum to the Board of Directors, Re: Export-Import Bank," March 8, 1948, 4. 443 Occupied Japan Export-Import Revolving Fund cotton folder, RG 275, Export-Import Bank of Washington, Credit Files, 1934-1951, Box 10. NARA II Archives, College Park, MD.

⁷¹ "Memorandum to the Board of Directors, Re: Export-Import Bank," March 8, 1948, 4.

a "...resourceful merchandising program with skilled textile salesmen for sale of future Japanese production in key markets of the world, particularly in their normal outlets, the Orient and colonial markets." Dollar shortages meant that Japanese textiles had struggled to sell in their traditional markets as, "...many buyers in Europe, Asia, and report they cannot now buy Japanese textiles because they are short of dollars."⁷² The shortage of US dollars among prospective customers of Japanese textiles mattered because the USCC financed the purchase of raw cotton for Japanese consumption through CCC loans that required repayment in US dollars. Every yard spun from CCC cotton had to be sold for dollars, even when that cotton was mixed with cotton garnered from other sources like India. So, the commission argued that to pay back these loans the Japanese textile industry would have to sell their goods "...in the U.S.A to pay for raw cotton imports." Thus, if the Japanese intended to continue to import American raw cotton, dollar shortages meant that Japanese companies would compete with American textile manufacturers for the American market. MacArthur also noted that the American textile industry exported \$572, 200,000 worth of cotton cloth around the world, and intended for "...Japanese textiles to successfully compete for this market." Douglas MacArthur, an Arkansan by birth if not heritage, would take the ultimate revenge on behalf of American peripheral cotton producers against a core-based American textile industry that had so frequently benefited from policies that had harmed the periphery before 1933. He would use American cotton to fuel the Japanese seizure of textile markets at the expense of American textile mills.⁷³

⁷² "During the 1930s, Japan financed its purchase of raw cotton in the United States through triangular trade. When currencies were convertible, like they generally were through the interwar period, Japan sold its textiles in global/Asian markets and took the proceeds to purchase raw cotton from the USA. Accordingly, even though Japan tended to operate at a trade deficit with the United States, it did not matter. However, in the paralyzed currency environment of the postwar period, such an arrangement was impossible. (Jerome B. Cohen, *Japan's Postwar Economy* (Bloomington, IN: Indiana University Press, 1958), Chapter 8.)

⁷³ "Memorandum to the Board of Directors, Re: Export-Import Bank," March 8th, 1948, 4, 7.

MacArthur was optimistic about the chances for Japanese textiles to compete with American producers, especially on the new Eximbank-sourced cotton that would not carry any provisions against selling in sterling or soft currencies. Meanwhile, he believed that the CCC's dollars-only provision could be "nullified." MacArthur believed that, although the contract stipulated repayment in dollars, there was no reason the CCC would not accept gold already held by the Japanese. "When there have been no dollar sales in the last four or five months, why anticipate them in the immediate future and restrict sales to dollars, in view of the gold being available." MacArthur was fine selling from sterling countries. However, over the long-term, the sterling would be replaced by dollars provided that "(1) SCAP organizes a high-calibre, skilled textile export sales force, (2) SCAP sells a portion of the textile inventory in the U.S.A., (3) The Marshall Plan provides many foreign and colonial markets with dollars, and (4) SCAP succeeds in organizing barter deals."⁷⁴

MacArthur would prove to be correct. By the early 1950s, Japan had become the world's largest textile exporter, having seized a significant portion of the global market share from the United States. By 1956, Japan was displacing the American textile industry even in the American market. That year, the United States imported \$83.9 million of Japanese textiles, particularly velveteens, ginghams, and cotton blouses. This led to the so-called "cotton textile controversy" of that year when cotton manufacturers in the United States called for protection from Japanese textile imports. Representative Burr Harrison of Virginia argued that the American textile industry was suffering because, in addition to the sector's generally poor management, it could not compete with the Japanese because "...the Japanese are allowed to buy cotton cheaper than the American manufacturer can buy it, and he is taxed to make up the difference, and the

⁷⁴ "Memorandum to the Board of Directors, Re: Export-Import Bank," March 8th, 1948, 7, 8.

Japanese have a factory built for them with American money, and that American competitor is taxed to pay for that, and the American competitor has to pay a minimum wage of \$1 an hour while the Japanese pay about 17 cents an hour.”⁷⁵ Harrison was correct. The Japanese industry had significantly lower input costs and had new factories built for them after the war with American recovery funds. Meanwhile, the CCC nonrecourse loan imposed a domestic price floor on American cotton that was usually above the world price, while the Eximbank facilitated cotton exports at the world price. Thus, US textile manufacturers had to buy American cotton at a higher price than the Japanese did.

V

The Marshall Plan was organized outside the Export-Import Bank and, given its size, displaced the Export-Import Bank as the primary government tool through which the sale of American cotton exports was financed. However, the Export-Import Bank did not go away. There was business to be done aside from the Marshall Plan, and the continuing existence of the Sterling Area (as discussed in the previous chapter) meant that most of the key textile markets would be operating on a currency that was not convertible into dollars. Thus, a tool like the Eximbank was needed. In those regions, the process worked as follows: The Eximbank would pay an invoice from an export sale to either an American bank of the seller’s choice or directly to the seller. Then it would receive payment in the local currency, which Eximbank would retain in the market for American importers to utilize. The Eximbank’s ability to overcome dollar shortages meant it continued to be a primary tool for American exporters, economic

⁷⁵ Jerome B. Cohen, *Japan’s Postwar Economy* (Bloomington, IN: Indiana University Press, 1958), Chapter 8.

development, and diplomacy for many decades. Thus, as George Peek had hoped, the Bank would remain a tool for achieving bilateral trade when the trading environment prevented other types of trade.

American industrial groups were not always fond of the Export-Import Bank. The CCC loans to American farmers meant that, like the McNary-Haugen Bills of the mid-1920s, a dual price system was at work. There was a price for cotton in the United States and a price for cotton in world markets. American textile firms had to pay the elevated price for American cotton, while international firms paid the lower global price. Thus, non-American textile firms had cheaper access to raw materials grown in the United States than the Americans did. These international firms also typically employed significantly cheaper labor than American factories, particularly in emerging textile markets such as those in East Asia. The operations of the Export-Import Bank meant that the one advantage that the United States textile firms had, their control of dollars, prevented them from taking advantage of it. Because the United States Government deemed it a geostrategic priority for war-torn countries to re-establish their industrial economies through the textile sector, which provided an excellent outlet for American raw cotton held by both the US Government and private shippers, an American government agency was assisting international cotton concerns in overcoming their one disadvantage vis-à-vis American textile firms. This allowed these international firms to outcompete American textile firms both internationally and in the American market. General MacArthur was quite explicit that his goal was for recovered Japanese firms to use their privileged access to American cotton to outcompete American textile firms in both global markets and in the United States. American deindustrialization is not monocausal. However, the American Government's willingness to prioritize cotton exports over its textile companies, for defensible economic and geopolitical

interests, played a significant role in the decline of the American textile sector. The fact that the Administration that set all of this in motion consisted of prominent Southerners from cotton-growing regions might, or might not, be relevant.

Chapter 8: Conclusion – The Ironies of Southern Cotton Supremacy

From the conclusion of the Civil War until 1933, the Southern periphery was in a subordinate position to the core in the US national political economy. The core's imperium imposed protective tariffs and a tight monetary policy that privileged the manufacturing and the agricultural interests that produced for the domestic market. The export-dependent Southern periphery was reduced to opposition, managing only to win victories — often temporary — when it could capitalize on divisions within the core. In short, according to agrarian Andrew Nelson Lytle, the South had “the hind tit.”¹

In 1933, however, the Southern periphery assumed an imperium over the national economy. While initially divided internally over how aggressively it could wield its newfound power, and in what direction, the pursuit of Reciprocal Trade Agreements, the increasing power of the Export-Import Bank, and the passage of the 1938 Farm Bill meant that cotton producers were now at the center of the national economy. Comfortably situated domestically in a remade national economy, cotton exporters could deploy the enormous power of the United States Government to reshape the world economy in their favor. The sort of defensive internationalism that Southerners had hitherto practiced evolved into an imperial one to address the surplus stocks problem created by their domestic policy choices.

The pursuit of global cotton supremacy would be only partially successful, mainly because economies broken by war could not recover overnight, even with significant American

¹ Andrew Lytle Nelson, “The Hind Tit,” in *From Eden to Babylon: The Social and Political Essays of Andrew Nelson Lytle*, ed. M.E. Bradford (Washington D.C.: Regnery Gateway, 1990), 3-33.

assistance. Meanwhile, the second largest global power, the Soviet Union, had little interest in joining a multilateral capitalist world that would benefit American exporters. While the Soviets were unable to prevent the creation of an American-led bloc, they wielded sufficient power to ensure that they controlled their own significant sphere of influence, marked by antagonism towards the American one. When it became clear that the Soviets would control a bloc outside the American multilateral system, the US Government settled for pursuing cotton supremacy within its sphere. While the continued economic weakness of many targeted export markets, along with the scarcity of American dollars, prevented cotton supremacy through open trade, the US resorted to regular large-scale aid packages to ensure a demand for American cotton and to control market share. While this dissertation concludes before 1948, the Marshall Plan continued this approach to achieving cotton hegemony. Thus, while only partially successful, the Roosevelt and Truman administrations made American cotton farming both safe and profitable, ensured that American cotton farmers maintained a significant market share of the recovering and growing global industrial economy, and created a credible framework to reduce trade barriers over the long term, benefiting American commodity exporters.

Twenty years of the Southern periphery's control of the national government delivered significantly higher and more stable cotton prices. The average New Orleans spot price for the 1952 cotton crop was approximately 33 cents per pound, within the range it had been trading at for most of the previous five years. In contrast, when Franklin Roosevelt was first elected, spot cotton was selling just above 7 cents per pound. Thus, the successive Democratic administrations oversaw an almost 500% increase in the price of cotton. While some of this can be attributed to the ordinary functioning of the market, much can also be credited to state intervention on behalf

of cotton growers. The beneficiaries changed, however: in 1933, most of the South shared the famine; by 1952, a tiny cohort shared the feast.

Landowning and independent cotton farmers were the primary beneficiaries of the Democrats' cotton policies. Between 1930 and 1935, the number of owner-operated cotton farms declined, while the number of tenants increased, suggesting that independent farms were foreclosed and their owners became tenants on other properties. By 1935, however, the number of owner-operated farms had recovered and stabilized, remaining relatively constant through 1950.² While this suggests that little changed between 1935 and 1950, the stability in the number of owner-operated cotton farms belies a significant shift in cotton farm ownership across the South, marked by the rise of part-time owners, a change that accelerated after 1940.

While the actual number of farm owners did not change much between 1935 and 1950, the amount of acreage cultivated by part-time owners more than doubled. By 1950, almost a third of the total land cultivated was owned and operated part-time.³ These part-time owners were often factory workers who, according to Jack Temple Kirby, "...raised a few bales of cotton on the side, while depending on their factory wages for their main support."⁴ The creation of the Commodity Credit Corporation enabled cotton farmers to access reliable marketing credit. Now, farmers could farm with a safety net, meaning they were free to pursue other opportunities or hold other jobs during down seasons. They might even rely on better-capitalized neighbors to plant and harvest their crops using their new machinery, freeing up their own time for other

² United States Census Bureau, "Agriculture 1950: Changes in Agriculture from 1900 to 1950," 73, United States Census Historical Documents, [41667073v5p6ch4.pdf](#).

³ "Agriculture 1950: Changes in Agriculture from 1900 to 1950," 73.

⁴ Jack Temple Kirby, *Rural Worlds Lost: The American South, 1920-60* (Baton Rouge, LA: LSU Press, 1987), 290.

pursuits.⁵ Thus, subsidies for ensuring agricultural “parity” with industry became, in many cases, mere mechanisms for artificially inflating agricultural income that supplemented income from manufacturing.

The significant increase in cotton prices, combined with labor-saving technological innovations, also significantly increased the value of the average Southern farm. The onset of the Great Depression led to a significant decline in cotton farm values, which plummeted from over \$1.2 billion in 1929 to \$423 million in 1932. While cotton farm values had hardly stabilized during the early years of the New Deal, they began to rise rapidly after the 1938 Farm Bill. By 1951, America’s cotton farms were worth more than \$2.8 billion, despite having ten million fewer acres under production than in 1932.⁶ Thus, the average American cotton farmer was operating their farm for significantly fewer hours, for a crop that brought in substantially more revenue, and on a property that had risen dramatically in value.

However, it was a different story for tenants. While the number of owner-operated farms stabilized, the number of tenancies began to rapidly decline after 1935. By 1950, the percentage of farm labor involved in tenancy was the smallest it had been since 1890.⁷ In 1930, there were almost 400,000 Black sharecropping units across the South, farming over 11 million acres. By 1950, the number of Black sharecroppers had decreased to fewer than 200,000, occupying 5.5 million acres. Most of these former tenants likely entered the industrial workforce, either in the emerging workshops of the South or by migrating to the established manufacturing zones in the

⁵ John A. Cable, *Southern Enclosure: Settler Colonialism and the Postwar Transformation of Mississippi* (Lawrence, KS: The University Press of Kansas, 2024), 36.

⁶ United States Department of Agriculture, “Agricultural Statistics, 1947” (Washington D.C: Government Printing Office, 1947) 79; United States Department of Agriculture, “Agricultural Statistics 1955,” Washington D.C.: Government Printing Office, 54.

⁷ “Agriculture 1950: Changes in Agriculture from 1900 to 1950,” 72.

northeast and Midwest. A significant number had been evicted from their farms by landowners in favor of government rent checks. Meanwhile, hired farm labor across the South began to decline after the adoption of highly effective herbicides eliminated the need for most routine crop maintenance.⁸ Thus, while intervention on behalf of cotton provided significant opportunity for cotton farmers who owned their farms, for those who did not, the periphery's control of Washington offered little.

The late 1940s also marked the beginning of the period that historians Jack Temple Kirby and John H. Cable refer to as the "Southern Enclosure" movement. By the late 1940s, according to Cable, there was a shift from "labor-intensive to capital-intensive farming."⁹ Kirby explained the shift as brought on by changes in technology that landlords had invested in, using revenue earned from government rent checks, "easier credit, and higher commodity prices."¹⁰ Technological development, including mechanization, enabled the production of a cotton crop with significantly fewer labor hours. Kirby explained the scale of the productivity increases, "In 1940, 33.82 hours were needed (to produce one hundredweight of cotton). By 1946, the figure had dropped dramatically to 24.57. The real plunge came between 1949 and 1952, however: 20.7 in 1949 to 12.95 in 1950 to 10.04 in 1951 to 4.82 in 1952."¹¹ Capital became necessary to bring a crop to market productively, and only the largest farmers had capital. Throughout the 1950s, smaller farmers sold or rented their land to larger operators and migrated away from the farm. By 1960, the cotton belt was almost entirely enclosed, allowing these larger landowners to escape the monocrop trap and consider their full range of alternatives.

⁸ Kirby, 68.

⁹ Cable, 35.

¹⁰ Kirby, 72.

¹¹ Kirby, 69.

The enclosure movement divided the former cotton belt into various agricultural regions, each characterized by comparative advantage. As Will Clayton had acknowledged during his testimony in support of the Anglo-American Loan Agreement, the mechanical harvester would be more effective and productive on western lands. Meanwhile, the boll weevil would continue to threaten southeastern production. By 1950, cotton farming was more intense and industrial than it had been in 1930, and it was concentrated in a few specific regions: The alluvial plain that bordered the Mississippi River between Cairo, Illinois, and Vicksburg, Mississippi; various parts of Texas; and the San Joaquin and Imperial Valleys in California. These farms in the west tended to be larger, flatter, and drier.¹² As a result, fewer acres were under cotton cultivation in the United States in 1950 than in 1929, but the volume of production was approximately the same.¹³ Meanwhile, the enclosure movement in the previously cotton-growing regions of the Southeast led to agribusiness operations specializing in cattle, broilers (poultry), and new crops, such as pecans.¹⁴ Thus, the Southern periphery's goal of making cotton farming reliably profitable and sustainable had finally made cotton farming safe for capital. The consequence was fewer, but much more extensive, cotton farms, mainly concentrated outside the traditional Southern footprint.

While production remained relatively stable between 1929 and 1950, exports never really recovered. Despite all the government intervention to ensure cotton export market access, American cotton growers were exporting between one-third and one-half as many bales annually between 1947 and 1953 as they had between 1931 and 1933.¹⁵ Now, this was considerably more

¹² "Agriculture 1950: Changes in Agriculture from 1900 to 1950," 88.

¹³ "Agricultural Statistics, 1947," 79; "Agricultural Statistics 1955," 54.

¹⁴ Kirby, 77.

¹⁵ "Agricultural Statistics 1955," 54.

bales than had been exported during the war, but it reflects the significant challenges that cotton farmers still faced in exporting their product. The Sterling Area still presented a formidable obstacle to cotton exporters, even if, through American credit and aid programs, American cotton exporters were able to sell on a limited scale. Meanwhile, primary American textile markets in Czechoslovakia, Poland, and East Germany were lost to the Soviet Union. Accordingly, even after the establishment of the GATT and the creation of a multilateral order led by the United States, Americans' ability to sell cotton was significantly lower than it had been in 1931, when core interests were struggling to resolve the Great Depression.

Therefore, if production was approximately the same between 1947 and 1953 as it was between 1930 and 1931, and exports were only a fraction of what they had been in that same period, what explains the 500% price increase? There appear to be three factors at play: an increase in domestic consumption, inflation, and the actions of the Commodity Credit Corporation. In 1932, the last year before Roosevelt took office, American mills consumed 6.1 million bales of cotton. Meanwhile, in 1947, domestic mills consumed 9.3 million bales of cotton. Accordingly, given the paucity of export markets, this increase in domestic mill consumption was the clear driver of demand for American production in the postwar period. Meanwhile, beginning with Roosevelt's devaluation in January of 1934, the dollar's value in relation to gold dropped about 60% by 1947. Thus, inflation alone would have accounted for a 3-cent increase in cotton prices, from 7 to 10.14 cents. The most significant driver, however, appears to be the CCC nonrecourse loan. Not only did the loan establish a price floor, but it also allowed cotton farmers to market their cotton in an orderly manner. They could afford to sit on their stocks and wait out periods of low prices, knowing they only had to relinquish their cotton if prices crashed. This meant buyers would have to entice sellers into the market at prices above

the price floor. In 1947, the loan rate was offered at 26.49 cents on 7/8 inch middling, requiring prices higher than that to separate sellers from their stocks.¹⁶

Between 1945 and 1947, the system worked relatively well. Loan rates increased while domestic buyers made enough profits on their products to justify paying these artificially inflated prices. In 1948, however, buyers were either less willing or less able to entice sellers into the marketplace. The loan rate of 28.79 cents on 7/8 inch middling led to 5.2 million bales entering CCC storage. The following year, another 3.2 million bales entered storage.¹⁷ Meanwhile, prices were still below parity. Thus, by 1949, the problems remained. Neither foreign nor domestic demand was high enough to achieve parity for cotton farmers, and the state's artificial price tools risked forcing the government to take ownership of large portions of the crop.

Core Republicans continued to oppose many New Deal agricultural subsidies and hoped to dispose of them once they regained power. The more extreme members of the party, who tended to coalesce around Robert Taft, made this very clear. Murray Rothbard claimed that, when he was a College Republican, after the Republicans won Congress in 1946, he published "...a 'hallelujah!' letter in the *New York World-Telegram* exulting that now, at last, the Republican 80th Congress would repeal the entire New Deal."¹⁸ Conservative polemicist Garet Garrett complained in 1951 about the wealth the US gave the world in the form of surpluses, "It was not a surplus we gave away. It was wealth; and it is nonsense to say we could not have used it ourselves, if not in the same forms in which it was distributed abroad, then in other forms, since wealth is a thing that may assume any form. It is true that our standard of living went on rising,

¹⁶ USDA Agricultural Marketing Service, Statistical Bulletin No. 99, "Statistics on Cotton and Related Dated, 1920-1956," Washington D.C.: Government Printing Office, 1957, 8, 159.

¹⁷ USDA Agricultural Marketing Service, Statistical Bulletin No. 99, "Statistics on Cotton and Related Dated, 1920-1956," 159.

¹⁸ Murray Rothbard, "A Strategy for the Right," *The Rothbard-Rockwell Report*, January 1992.

but that is not to say it might not have advanced much more if we had employed here the wealth we gave away.”¹⁹ However, by 1940, the Republican Party had committed itself to the Farm Bill. While candidates and supporters continued to criticize it, the party’s presidential platforms endorsed New Deal agricultural subsidies. Thus, the Southern periphery’s reforms of the national economy were safe even in Republican hands.

After defeating Taft for the Republican nomination and then defeating Democrat Adlai Stevenson for the Presidency, President Dwight D. Eisenhower appointed Taft supporter, cousin, and committed free marketer Ezra Taft Benson from Utah to be the Secretary of Agriculture. Yet, even someone as ideologically opposed to the New Deal's agricultural subsidies as Benson was only able to make a slight change to the Farm Bill system. Benson, who was one of the Church of Jesus Christ of Latter-day Saints' Twelve Apostles, blended his free-market principles with his religiosity. He once stated that “Freedom is a God-given, eternal principle, vouchsafed to us under the Constitution...It is doubtful if any man can be politically free who depends upon the state for sustenance.”²⁰ While hardly as doctrinaire in practice as he was rhetorically, Benson led the charge on the 1954 Farm Bill to reintroduce the flexible parity in price support programs that the 1938 Farm Bill had enshrined but had been abandoned during the war.²¹ While many farmers and Democrats vilified him for his apparent dogmatism, the more flexible parity championed by Benson was supported by the 1938 Bill’s original author, Henry A. Wallace. According to historians Edward L. and Frederick H. Schapsmeier, Wallace believed it was a “foolish waste to produce for nonexistent markets.”²² Still, despite the new flexible parity, CCC stocks continued

¹⁹ Gareth Gareth, “Ex America,” in *The People’s Pottage* (Caldwell, ID: Caxton Printers, 1953), 80

²⁰ Edward L. Schapsmeier, Frederick H. Schapsmeier, “Eisenhower and Ezra Taft Benson: Farm Policy in the 1950’s,” *Agricultural History* Vol. 44, No. 4 (Oct. 1970): 370.

²¹ Edward L. Schapsmeier, Frederick H. Schapsmeier, 373.

²² Edward L. Schapsmeier, Frederick H. Schapsmeier, 373.

to grow. According to Edward Lotterman of the Federal Reserve Bank of Minneapolis, by the mid-1950s, “Bin sites, fields of round grain bins or Quonset huts filled with government-owned grain, sprang up on the outskirts of nearly every farm town.”²³ The same was true for cotton.

By 1955, the CCC had an inventory of 8.1 million bales. The apparent inability to rein in the size of stocks being accumulated by the CCC and other government agricultural corporations encouraged Minnesota Democratic Senator Hubert Humphrey to introduce Public Law 480, the “Agriculture Trade Development and Assistance Act of 1954,” which fundamentally reshaped American farm exports. It would give the United States Government the authority to sell government-held surpluses to “friendly nations” at the world price in local currencies. It was presented as a foreign policy tool intended to strengthen the bonds between developing nations and the United States, in an attempt to prevent them from falling into the Soviet sphere of influence. However, according to Lotterman, “...surplus disposal (was) the most important, if not the only, objective of the act.”²⁴ Beginning in 1955, government cotton export programs, primarily PL 480 but also the Export-Import Bank, accounted for as much as 50% of cotton exports in a given year.²⁵ Thus, the Southern periphery’s seizure of the national political economy in 1933 had led to permanent reforms. Even when a doctrinaire laissez-faire critic of price supports was appointed Secretary of Agriculture, government control of agriculture expanded to include more export programs. While these were undoubtedly useful Cold War foreign policy tools, they also enabled the government to dispose of American surpluses. The

²³ Edward Lotterman, “Farm Bill and Farmers: The Effects of Subsidies Over Time,” *Federal Reserve Bank of Minneapolis Website*, December 1, 1996. [Farm Bills and Farmers: The effects of subsidies over time | Federal Reserve Bank of Minneapolis](#). First Accessed on April 5th, 2025.

²⁴ “Farm Bill and Farmers: The Effects of Subsidies Over Time.”

²⁵ ERS- Foreign 202, Foreign Research Service, US Department of Agriculture, “12 Years of Achievement Under Public Law 480,” 18.

Kennedy Administration would institutionalize and expand these programs into the “Food for Peace” and United States Agency for International Development (USAID) agencies.

However, nothing lasts forever. While the structure of the political economy established by the Southern periphery during the New Deal remained largely intact until 2016, the first Trump Administration’s experiments with manufacturing protectionism and, at least rhetorically, condemnation of internationalism were indications that the Southern periphery’s system was on its last legs. Indicating the tension that still exists between a trade policy that benefits manufacturers and one that benefits export-dependent farmers, China responded to Trump’s first tranche of anti-China manufacturing tariffs in 2018 by targeting export-dependent farmers, such as soybean farmers from states like Iowa, with retaliatory tariffs. The Trump Administration muted the outcry in the farm belt by issuing \$23 billion in subsidies through the Commodity Credit Corporation. While President Joe Biden emphasized American involvement in postwar international institutions, his administration left many of the Trump tariffs in place and adopted an industrial policy to onshore manufacturing through massive subsidies. The second Trump Administration’s global trade war, meanwhile, was almost exclusively launched for the benefit of existing and hypothetical American manufacturers. While he has issued occasional complaints on behalf of American farmers, it appears that export-dependent farmers will suffer a loss of markets for their surpluses. The early 2025 cancellation of USAID will only put further pressure on these surpluses. The Trump Administration, according to Agriculture Secretary Brooke Rollins, will not be deterred from its pursuit of manufacturing onshoring by the potential damage to farmers. When pressed by Iowa farmers at a seed plant in Colfax, Iowa, in early April 2025, Rollins argued, “Hopefully our farmers and our ag community won’t be hurt by – at least in the short-term – by these decisions. But if they are, the President’s commitment is the same today as

it was five or six years ago. And we at USDA and our partners across Congress and in Washington will work around the clock to ensure we have the programs in place to do what we did the last time with the Commodity Credit Corporation, and we fully expect to do the same this time...”²⁶ At least now, from the perspective of the periphery, the Commodity Credit Corporation can protect export-dependent farmers from the ambitions of a restored and pre-eminent nationalist manufacturing core. At least for a while.

²⁶ Robin Opsahl, “Ag Secretary Brooke Rollins Says USDA Plans to Assist Farmers with Tariff Backlash,” *Idaho Capital Sun*, April 1, 2025.

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