

Dulles as Lawyer, 1930–1939

THE GOLDEN PROSPERITY of the late 1920s was, of course, already tarnished while John Foster Dulles was marveling over it. In only a short time, its intrinsic weaknesses brought collapse. Heady economic glory gave way to the disasters of the 1930s, and every economic indicator soon shouted the dimensions of the debacle: 13 million Americans unemployed by 1932, national income down from \$81 billion to \$49 billion between 1929 and 1932, one hundred thousand businesses failing in the same three years.¹

The areas of Dulles's day-to-day activity offered their own dismal statistics. At the New York Stock Exchange, the Dow Jones index for thirty industrials in January 1933 was 83 percent below the same index for September 1929: there was a room at the Union League Club in New York, which Dulles occasionally frequented, that was dedicated to the irony of Wall Street and literally papered with once-valuable securities. In the banking community, with which he was so involved, the terrain was very bleak. By 1931, two hundred U.S. banks were failing every month

and almost \$2 billion in deposits were lost in that year alone. One of Dulles's associates has recalled that in the 1930s "the goose didn't hang very high in the investment banking business." His quaintness veils a serious understatement: foreign securities issues, which had been a Dulles specialty and had totaled more than \$1 billion in 1928, plummeted to a comparatively meager \$51 million by 1932.² Dulles's other clients had problems too, as corporate profits in the United States fell from \$8.4 billion in 1929 to \$3.4 billion in 1932. And in the area of foreign trade, which was important to many of those with whom Dulles was associated, total American exports dropped a staggering 62 percent over the same period.³

In this decade of bust, as in the boom that preceded it, the essence of John Foster Dulles's life is to be found in his role as a lawyer. More of his time was spent on the commercial and financial problems of his banking and corporate clients than on anything else. The tone of his life in the 1930s and the place of this period in his overall development cannot really be appreciated without examining these business and legal activities.

I

Someone has written that the onset of the Depression must have seemed like a slowly bursting bubble to those who lived through it. The end result was a virtual collapse of entire economic systems, but the frightening proportions of failure were only gradually apparent. Dulles's continuing work for major American banking houses during the 1930s offers an interesting example of this. In a cycle that was typical of the time, he experienced an initial shock following the crash of the New York Stock Exchange, or other spectacular crises, then the reemergence of hope and a scurrying after plans and programs that would strengthen economies, and finally a realization that the bottom had practically dropped out and a search for whatever palliatives might be available.

Dulles's special area of interest in international finance during the 1920s had been Central and Eastern Europe, and it was precisely in this area that the most serious problems for American bankers first emerged in the 1930s. The economies of Hungary, Austria, and Germany were among the earliest to be hit by crisis after 1929. Their general malaise soon infected the rest of the developed world. By May 1931, the imminent collapse of Austria's largest bank, the Kreditanstalt, seemed to threaten the prostration of an important link in the world financial network.⁴

Initial reactions to the financial crisis in Central Europe were panicky.

In Great Britain, the Governor of the Bank of England feverishly insisted that something must be done to "save the ship before she sinks." In the United States, President Hoover quickly began soliciting suggestions from important economic figures—and at one point had John Foster Dulles tell him that he "regarded the situation as critical" because "there is danger of the whole system breaking down." Immediate alarm then gave way to cooler analysis, at least temporarily, and a scramble for remedial programs began. During June, central banks in the United States, Great Britain, and France arranged several credits of more than \$100 million for the Austrian National Bank and the Reichsbank in Germany. President Hoover then secured general consent for a one-year moratorium on intergovernmental debt payments, hoping to alleviate pressure on many economies. In July, representatives of the major powers began meeting in London to devise a common program for the Central European crisis.⁵

To Dulles, the troubled air of mid-1931 was reminiscent of the problems of earlier days. As plans were made for dealing with the financial crisis, he seems to have been on the lookout for another Dawes or Young Plan—and was hoping that his firm would be involved with such transactions once again. Carefully keeping in touch with developments in New York and Washington himself, he relied on Robert E. Olds, head of the Sullivan & Cromwell office in Paris, to keep up with events in Europe. In July, Olds reported to Dulles in a way that indicated the nature of their interests:

As you may surmise, all of us here are deeply interested in following as closely as possible the developments in the financial crisis precipitated by the collapse of German credit. . . . Various rumors fly about and the situation seems to change almost from hour to hour. . . . If the political factors can be overcome, it would seem reasonable to assume that further advances to Germany in some form or other will take place, perhaps through an international banking consortium organized at the instance or with the tacit approval of Governments. Under these conditions it would, of course, be highly desirable for us to get into the picture. . . . We shall lose no opportunity to edge in if we can.

Olds's ability to "edge" Sullivan & Cromwell into any new arrangements seemed considerable. Among the contacts he reported to Dulles were important officials in the French Cabinet and the Bank of France, and the American Ambassador to Paris. Having served as Assistant Secretary of State several years earlier, Olds also found it easy to arrange meetings with Secretary of the Treasury Mellon and Secretary of State Stimson during their July visits to Europe. In New York, Dulles felt the same concerns as Olds and was certainly not without contacts of his

own. "We here are very much interested in this and in its possible developments," he wrote, "and I am trying to keep in fairly close touch with the situation." Thomas Lamont of Morgan's was keeping him supplied with all fast-breaking news, "with the result that we [Sullivan & Cromwell] have established much the best service on these matters of any one in New York." Dulles was thinking of a hurried trip to Europe to get first-hand impressions and, in the meantime, was "trying to keep in touch with the Washington attitude here in New York through Eugene Meyer, Governor of the Federal Reserve Board."⁶

Although poised and ready to act, Dulles and Sullivan & Cromwell were not to repeat their involvement in the Dawes and Young Plans. No such plan emerged in 1931. The American, British, and French officials meeting in Paris all feared that the amount of money required to stabilize finances in Germany and Austria would be too great, and the French compounded the problem by showing a reluctance to help Germany in any event. Their conference was adjourned with the classic decision to form a group of experts to "study" the situation.⁷

Unable to involve his firm in a major government-supported program, Dulles did become active in one strictly private scheme to stave off complete financial crisis in Central Europe. Between late July 1931 and May 1932, the New York house of Lee, Higginson headed a syndicate which advanced close to \$500 million in short-term credits to the German Government. Dulles became legal counselor for the syndicate. Heinrich Brüning was German Chancellor during the months of these credit operations and, in later years, some of Dulles's associates looked back on the financial arrangements as ones designed to prevent the control of the German government by the National Socialists and Adolf Hitler. Dulles did come to know Brüning well during negotiations for the credit operation and maintained contact with him after his emigration to the United States.⁸

The credits provided to the Brüning government were very large, but they were far from sufficient to deal with the economic crisis confronting Central Europe by 1932. Month by month, economic leaders on both sides of the Atlantic could see stalemated governments and private bankers with limited resources attempting to cope with ever-worsening conditions. The Depression spread all too obviously around the globe, and any hopes for a quick recovery of momentum were drowned in the realization that the commercial and financial structure which had been built during the 1920s had actually collapsed. Many of the same foreign governments and corporations that had sold \$11 billion in bonds and securities in the United States during the first ten years following World

War I were now unable to meet either interest or principal payments on their obligations.

The process of defaulting on bonds and securities began neatly on January 1, 1931, when the government of Bolivia announced that it was unable to continue service on its debts. Bolivia's lead was followed by many Latin American countries during the next year, and by early 1932, Hungary became the first European country to default. Crucial backstepping from obligations by Germany came in phases between 1932 and 1934, while Czechoslovakia and Poland defaulted on their extensive debts between 1934 and 1936. Overall figures by the end of the decade underline the financial devastation involved. In 1938, 75 percent of \$1.7 billion in outstanding bonds and securities were in default in Latin America and 60 percent of almost \$4 billion in Europe.⁹

It was not surprising that Dulles, who had been so involved with the great promotion of foreign securities in the United States during the 1920s, should soon become involved with the grand-scale defaults of the 1930s. His role as a lawyer for major American banking houses, in fact, was as great in the negative phase of the interwar period as it had been in the positive. Fees from banker clients continued to contribute substantially to the income of Sullivan & Cromwell—although the pleasure of profit for the lawyers was tempered by a long view that took into account the day-to-day decline of the international economy.

In December 1931, the State Department informally contacted a number of prominent bankers concerning the alarming increase in Latin American defaults. Responding to a suggestion from Washington that "consideration be given to the establishment of some central organization to study the situation and promote its ultimate improvement," a meeting was arranged under the auspices of the Council on Foreign Relations. The Assistant Secretary of State, the Economic Adviser of the State Department, and numerous bankers and lawyers attended. John Foster Dulles was asked to preside, testimony to the extent of his banking activities.

Meeting with the bankers, State Department representatives tried to encourage the creation of a unified American agency similar to Great Britain's Corporation of Foreign Bondholders. This British agency had been organized in 1868 to provide a common front for banker negotiations with defaulting governments and corporations, one which would be sufficiently organized to attract maximum home government support. A few of the bankers meeting in late 1931, Dulles among them, were persuaded that the time had come for Americans to take such an organizational step. In a report prepared for the Secretary of State, Dulles wondered whether Washington could possibly support a myriad of fully independent bankers: "The Department of State would doubtless feel

much freer to aid the situation if it could deal with or through some central organization of high repute. . . ." But most of the investment bankers valued their independence too greatly to allow submergence in a unified agency. "With substantial unanimity" they argued that their own primary responsibility to those who had purchased foreign bonds through them could not be delegated to others. Their own knowledge of the particular circumstances of each defaulted issue, besides, led most to argue that they could best deal independently with individual problems.¹⁰

While Secretary of State Stimson confirmed his Economic Adviser's inclination to "follow the subject along," it was to take several more years of crisis in foreign investment to coax reluctant bankers into a common fold.¹¹ Instead of a unified council representing all foreign bondholders, most bankers continued to operate totally independently. At best, they organized ad hoc protective committees to deal with particular default problems. One of the first of these committees was organized shortly after the meeting at the Council on Foreign Relations when the government of Hungary suspended service on virtually all of its international obligations because of a scarcity of foreign exchange. If any exchange did become available, Budapest announced, it would be applied to service on a specified list of bond issues. American bankers were very disturbed by the Hungarian problem. At the most elementary level, they had sold \$67 million in Hungarian securities in the United States during the 1920s; to compound the problem, Budapest's list of preferred issues included none that had been sold by them. To cope with a serious financial problem and what they saw as a deliberately discriminatory program, a group of houses that included the Bankers Trust Company, Brown Brothers, Harriman, and Lee, Higginson, decided to coordinate activities and appeal for State Department Assistance. The bankers chose John Foster Dulles to advise them on legal matters.

Legal counsel's opening gambit was a letter to Secretary of State Stimson on February 16, 1932, asking for government support to achieve a "rejection of the program contained in the Government's announcement with respect to the proposed application of available foreign currency to certain other long term loans (none of which are issues brought out by American bankers), on the ground that the program is unfairly discriminatory. . . ." Stimson was willing to help and sent a cable to Budapest on February 25, 1932, instructing the American representative there to "point out to Hungarian authorities the desirability of not crystallizing priorities until actual need for decision regarding foreign exchange arises and in any event until full opportunity for presenting case is afforded." But the combined pressures of bankers and State Department were not enough. As late as 1935, all American-held Hungarian bonds were in

default. Even later arrangements made with the Hungarian government provided for service of only 1.5 percent interest on formerly 7 percent bonds. The road to resurrecting some value from Hungarian securities was a long one, and its end was far from satisfying for Dulles and his clients.¹²

Considering the intensive connection with German financing that Dulles had forged during the 1920s, it would have been strange if he had found himself uninvolved with Germany's economic difficulties in the succeeding decade. One particular medium for Dulles's continuing involvement with Germany was his role as American delegate to a series of "debt conferences" arranged by the Berlin government in 1933 and 1934. Attending with Albert H. Wiggin and Shepherd Morgan of the Chase National Bank, Dulles worked for banker clients who had arranged the sale of more than \$1.2 billion in German bonds and securities in the United States.¹³

Germany's difficulties with foreign debts began well before the first debts conference was convened in mid-1933. Faced with serious foreign exchange shortages as early as July 1931, Berlin had created a payments scheme in which only 50 percent of interest and principal payments on debts were to be made automatically. Of the other 50 percent, as much would be paid as possible after necessary imports of food and raw materials were arranged; the balance would be paid in scrip or "blocked currency" that might be redeemed in marks or held pending the availability of the particular exchange medium involved.

For two years, the German mode of debt service worked well. It proved possible to redeem a substantial amount of the blocked currency, so that creditors received the major part of interest and principal due them on a regular basis. By June 1933, however, newly appointed Reichsbank President Hjalmar Schacht was convinced that the system would shortly break down. When he greeted the bankers attending the first debts conference in Berlin, there was an icy undercurrent in his statement that the overall problem of his country's debt should be considered "on the hypothesis that Germany would declare a virtually complete transfer moratorium."¹⁴

The delegates to the conference, of course, unanimously protested to Schacht the foolhardiness of a complete German suspension. As Dulles summed up his own opinions and the general reaction, "a sweeping transfer moratorium would have political and economic repercussions which would so diminish Germany's capacity to get foreign exchange that there would be danger that the . . . position of Reichsbank would be rendered worse rather than better. . . ." Germany might damage her international credit beyond repair. Perhaps reacting to the onslaught of

criticism, Schacht went on to suggest an alternative German policy. It might be possible to continue debt servicing for certain countries, he told the assembled bankers, and specifically cited "the possibility of treating various national groups of creditors differently, on the basis of the particular balance of trade between Germany and each respective country." Nations with whom Germany had a favorable balance of trade might thus expect continued payments, since the Reichsbank would find itself with a surplus of that country's exchange medium.

Schacht's suggestion was followed by a six-month recess in the debts conference, a timing device that allowed representatives to consider Germany's problems and await word of what governments might do at the forthcoming London Economic Conference. Dulles and the American bankers needed no time to mull over the German proposal, however. Their reaction was immediate and very hostile. As Dulles wrote to Secretary of State Cordell Hull, Germany seemed to be moving toward a policy that would specifically discriminate against the United States, since the data submitted by Schacht had indicated "that of the principal creditor countries the United States was the only country with which Germany had an adverse trade position." This was a senseless policy for Germany to adopt, he argued, involving as it did a punishment of the United States for providing the goods and raw materials that Germany desired. He returned to New York discouraged and chagrined. "Perhaps," he wrote his sister Eleanor, "the best thing is to let the whole situation bust up and let each fellow handle the matter independently."¹⁵

Dulles's inclination to allow the German situation to "bust up" was temporary and he returned to Berlin for another session of the debts conference in December 1933. The London Economic Conference had failed by that time to alleviate Germany's or any other country's economic problems, wilting as it did in the face of Franklin Roosevelt's refusal to cooperate in stabilizing gold prices and currency exchanges.¹⁶ With the situation unchanged, Schacht announced that the Reichsbank had no choice but to alter debt servicing arrangements. The delegates refused to sanction any alteration in the 50 percent cash, 50 percent scrip program, but Schacht simply announced a German government decision to pay only 30 percent in cash. In addition, and of greater importance, Schacht let it be known that the Germans had taken the bull by the horns and negotiated two short-term special trade agreements with Switzerland and the Netherlands, which provided privileged treatment for holders of German scrip in those two countries.

Dulles and his American colleagues reacted with expected vigor to these special trade and debt agreements. If such preferential treatment of

certain states became accepted policy, Dulles told Schacht, American creditors would develop great hostility toward Germany. Among other repercussions, "it would be doubtful whether the American issue houses would be disposed to continue representation at the Reichsbank Debt Conferences." Dulles made some headway. Over the bitter opposition of some European delegates, Schacht arranged a special meeting between his old New York friend and the German Minister of Economics. The Minister, in turn, called a special meeting of the Cabinet at which Dulles was allowed to explain the American position. The upshot was a minor German concession, embodied in a letter from the Reichsbank President to Dulles: in the future, the Americans would be notified of any trade agreement negotiations and would be given an opportunity to voice concerns or protests.¹⁷

Pleased with this sign of German good will, Dulles immediately began working for a more solid success. In a report circulated to American bankers and bondholders, he urged that "prompt efforts should be made to secure some cooperation from the United States Government in laying before not merely the German Government but other interested foreign Governments, notably Switzerland and the Netherlands, the American position to the effect that the conclusion of preferential agreements based on trade concessions is unfair and in the long run contrary to the best interests of all the creditors." Perhaps Congress or the President could provide "some effective means of exerting pressure" on Germany that would yield more positive results. American securities holders, Dulles concluded, should realize "that it is not only Berlin, but to a considerable extent Washington, that holds the power of decision as to their treatment."

Dulles and the American bankers did reasonably well in securing Washington's cooperation during a brief recess in the debts conference. By the time they returned to Berlin in January 1934, a State Department communique had been delivered to the German government and had made "a considerable impression." Meetings with Schacht and members of the German government continued, with "vigorous and well-conceived support" from the State Department behind the scenes. When the British government and creditors began protesting German policies too, fearful of their own potential handicaps in a system where debt service depended on proper trade relations, Berlin was dissuaded for the time being. The Swiss and Dutch agreements were allowed to lapse, and no new ones immediately took their place.¹⁸

Returning from Berlin in early 1934, Dulles thought the worst of the German problem was over. An optimistic report to bondholders indicated that "a major danger" had been prevented. Consolidation of this

success was necessary, but the future looked bright. Within months, however, Dulles's optimism was mocked. Already during the conferences, the American Ambassador to Berlin, William Dodd, had found it hard to understand the bankers' pleasure in German actions. Schacht's December 1933 letter had provided no effective veto for Germany's creditors over future trade agreements, he argued, involving as it did only the inconsequential obligation of listening. Commenting on Dulles's report particularly, Dodd wrote Washington that "judging from past performance" by Germany "It is somewhat difficult to discover the basis for this optimism."¹⁹ Dodd's cynicism proved accurate. Even before the end of 1934, the German government established such restrictions on payments from the Reichsbank that all cash payments on all dollar loans, including the formerly privileged Dawes and Young Loans, were terminated. In the long run, 32 percent of all the American money lost as a result of international defaults during the 1930s was lost on specifically German bonds and securities.²⁰

The Depression's awful impact on Dulles's banking clients was displayed in another case of enormous notoriety. It was one that involved Dulles in a legal enterprise of great dimensions—geographically, financially, and chronologically.

In March 1932, surveying a crumbling economic empire from his elegant Paris apartment, the legendary Swedish "Match King" Ivar Kreuger committed suicide. At the time of his death, Kreuger controlled business interests capitalized at almost \$1.5 billion. His holdings ranged from match production monopolies in many countries to iron ore and chemical companies to great quantities of diverse government bonds. Impressive on paper, however, Kreuger's empire was actually dangerously weak. The economic problems of the early 1930s had been compounded by what the accounting firm of Price, Waterhouse termed "gross misrepresentation," i.e., faulty and faulted bookkeeping dating as far back as 1924.²¹

Financial leaders around the world reared in panic at the news of Kreuger's death and what it portended. Government committees were created in Sweden and other countries to investigate the economic disaster while private bankers and investors quickly scurried to organize "protective committees" that might offer some aid in the anticipated deluge. In New York, one such committee was formed by a group of bankers holding \$50 million in 5 percent debentures of Kreuger & Toll, an investment holding company Kreuger had organized for his government bond speculations. Under the leadership of George M. P. Murphy

and with the cooperation of Lee, Higginson, Kreuger's primary American bankers, this committee began operations by appointing John Foster Dulles legal counsel.²²

The obvious objective of any protective committee would be the safeguarding of the value of particular securities held by certain individuals and institutions. In the case of the Kreuger & Toll 5 percent debentures, this was an incredibly difficult job that was to involve Dulles in close to a decade of business machinations.

Dulles's initial advice to the Murphy Committee was to be attentive to the situation in Sweden, Kreuger's home base. Fearful that the Swedish government would attempt to manipulate Kreuger's holdings in a way that would benefit primarily the Swedish and International Match Companies, Dulles sent a Sullivan & Cromwell junior partner on an investigating expedition. With the cooperation of important European holders of Kreuger & Toll debentures, Dulles's committee successfully pressed for the appointment of a representative on the Swedish government agency that had been established to deal with Kreuger's tangled affairs. Jean Monnet, who had worked with Dulles on the Polish Stabilization plans of the 1920s, was eventually accepted by Stockholm as a spokesman for Kreuger & Toll interests.²³

With the rear somewhat protected, Dulles next entered New York Federal Court and successfully persuaded the presiding judge to declare Kreuger & Toll bankrupt in the United States. This move was a necessary preliminary to carefully assessing the company's assets in this country. Gordon Auchincloss, another former associate of Dulles's, was appointed receiver by the court and began gathering data on the company's holdings in August 1932.

Auchincloss's findings were as bad as the Murphy Committee may have feared. The paper value of Kreuger & Toll assets was impressive, he reported in early 1933, but the real value on world markets of the day was virtually nil. The more than \$100 million in German, Hungarian, Kingdom of Serbs, Croats and Slovenes, Republic of Latvia, and Kingdom of Rumania bonds that represented the company's major holdings would not fetch a small fraction of their original worth in an auction at that time.²⁴

Contemplating the grim realities, Dulles and his clients decided that an auction of Kreuger & Toll assets was out of the question in 1933. As an alternative to doing nothing, they began pressing the Swedish government and the Swedish and International Match Companies about the possibility of a fundamental reorganization of all of Kreuger's enterprises. While reorganization would involve no immediate return for Kreuger & Toll debenture holders, it might promise the reestablishment of viable

and profit-making corporations in the long run. A formal series of meetings to consider possibilities took place in Stockholm in September 1933, and found all but the Kreuger & Toll forces uninterested in going further. Kreuger's other enterprises, encumbered with debt though they may have been, were hoping to recoup losses from continual production and profit-making. They saw no reason to allow their resources to be siphoned off by the totally unproductive and particularly instable investment holding company.

Unwilling to accept initial defeat, the Americans represented by Dulles agreed to pay expenses for further meetings. As chief negotiator the Murphy Committee chose Norman Davis, who was enticed away from government service and disarmament talks by a retainer of \$75,000 and the promise of a like amount if a successful reorganization scheme were forthcoming. Davis began negotiations in Stockholm in late 1933, brought them to New York in October 1934, and completed them in New York in April 1935—and never earned his second \$75,000. Neither his own work, Dulles's active assistance, nor the friendly interest of Washington (in the person of Ambassador to Sweden Laurence Steinhardt, who became a good friend of Dulles's during the Kreuger & Toll operations) could melt down the resistance of the various Swedish and International Match forces. By July 1935, the negotiations were ended by a terminal agreement under which Kreuger & Toll transferred any interests and securities in the match industry to the Swedish Match Company for the sum of \$2.5 million. Nothing more was ever gained from other components of Kreuger's empire.²⁵

After the financial settlement with Swedish Match, the Kreuger & Toll debenture holders moved reluctantly toward an auction of assets. In late 1935 and early 1936, financial agents traveled through Europe scouting potential bidders in government offices and corporation headquarters. Virtually none seemed to exist. Then, in April 1936, in a last desperate effort to avoid a disastrous conclusion, Dulles's clients came up with a new maneuver. A formal petition was filed with the Securities Exchange Commission to allow the creation of a new holding company, the Kreutoll Realization Company. The new venture was created to purchase all Kreuger & Toll assets at an auction and then hold them for disposal at some future and assumedly more propitious date. In October 1936, the auction was held, and Dulles cast virtually every successful bid: his clients, now organized as Kreutoll Realization, put up all but \$34,000 of the \$9 million raised *in toto*.

With the auction of its assets, Kreuger & Toll ceased to exist as an enterprise in the United States, and Dulles's initial service for its debenture holders was ended. By that time, however, he had already begun

work as legal counsel for Kreutoll Realization and continued to serve it in the years ahead. In 1937, for example, he oversaw the purchase of \$22 million in Yugoslavian bonds by a Yugoslavian bank willing to pay \$4.4 million. In 1940, he successfully appealed to the State Department for pressure on the government of Greece concerning a delayed interest payment on some 1930 bonds.²⁶ The major portion of his work on affairs involving Ivar Kreuger's enterprises had come to an end with the Kreuger & Toll auction, but something more than just the memory lingered on. (As late as 1964, a Sullivan & Cromwell partner was still attentive to Kreutoll Realization's situation: in discussing the history of the company, he mentioned that \$23 million in Hungarian Land Reform bonds had still not been sold and represented a continuing "asset" of the company!²⁷)

Dulles's work on behalf of banking clients with financial difficulties was enormously profitable for himself and Sullivan & Cromwell. His legal fees for work on the Murphy Committee and Kreuger & Toll debenture holders alone, for example, came to more than \$540,000 by the end of the 1930s.²⁸ But the difficulties being faced by valued clients sometimes became too great even for the lawyers on the scene, and Dulles's role as head of Sullivan & Cromwell brought him into contact with several such situations. In an October 1934 letter to William Nelson Cromwell, for example, Dulles reminded his titular superior "that in the course of our discussion on Firm policy which took place last spring, we both felt that in view of the crippled condition of many of our clients, particularly those that have been active in the financial field, it might be necessary and desirable in the interest of the Firm to help some of them get a fresh start, if this could be done under circumstances which gave promise of successful activities along lines which could lead to desirable business for the Firm." During the initial discussion Dulles alluded to, Sullivan & Cromwell partners had tried to decide how to deal with what seemed to be the imminent collapse of the prominent First National Corporation of Boston. They had considered the possibility of putting \$50,000 into a similarly named new venture. By October, Dulles had given careful thought to a new project along the same line and was seeking Cromwell's financial cooperation.

He had in mind the support of a partnership between two old friends and business associates, Jean Monnet and George Murnane. Monnet, who was of course to become most prominent in international affairs at a later date, had already known Dulles for fifteen years by 1934. The two men had initially met in Paris in 1919, where Monnet had been an assistant to the French Minister of Commerce. After some work for the

League of Nations, he had become closely associated with Dulles in 1926 and 1927 while working with the Bankers Trust Company, Chase National Bank, and the Federal Reserve Board on the Polish stabilization plan. Subsequently, Dulles succeeded in having him selected as the foreign liquidator in the Kreuger & Toll dissolution. Monnet, Dulles advised Cromwell, "is one of the most brilliant men that I know" and "an intimate friend."

George Murnane, too, was an old friend by 1934. He had been a New York associate for years, first through his work with the New York Trust Company and then as a partner in the Lee, Higginson investment banking house. He was to remain one of Dulles's closest friends for the rest of his life.

"I have long felt that they would make an ideal combination," Dulles wrote in description of his plan, "and the fact that they are apparently coming together is largely due to my efforts in the belief that if they did so they would be exceedingly successful in becoming engaged in enterprises which in turn would produce a large amount of legal business." The two men had in mind the organization of a New York firm that would act as "financial agents" for various enterprises. Dulles was proposing that Sullivan & Cromwell put up \$50,000 in support of the plan, half of which he was willing to supply himself. Cromwell cabled back agreement and Monnet-Murnane came into existence shortly thereafter.²⁹

Aside from the interest of the early association of Dulles and Jean Monnet, Sullivan & Cromwell's financial support of Monnet-Murnane serves as another clear indication of the blighted contours of the financial community. "The crippled condition of many of our clients"—it was all too obvious to John Foster Dulles.

II

As extensive as his ties to them were, major banking houses comprised only one portion of Dulles's regular clientele during the 1930s. Substantial work for American and foreign corporations which had begun during his early days at Sullivan & Cromwell even before World War I continued into the Depression years. His corporate activities around the world gave him an even fuller appreciation of the condition of the international economy than banking work alone would have provided.

A number of Dulles's corporate clients during the 1920s continued into the 1930s. He remained a member of the Board of Directors and Executive Committee of the American Agricultural Chemical Company; a

Director and Executive Committee member of the Babcock & Wilcox Corporation; a Voting Trustee and Director of the Gold Dust Corporation; a Voting Trustee and Director of the Grand Union Company; a Director and Executive Committee member of International Nickel Company of Canada, Ltd. and International Nickel Company; a Director of S. Slater & Sons, Inc.; a Director of Tobacco Products Company; and a Voting Trustee and Director of the United Stores Corporation.³⁰

Dulles also maintained ties with a number of clients among public utilities and public utility holding companies during the 1930s. He remained legal counsel and member of the Board of Directors for the Detroit Edison Company and the North American Edison Power Company, for example, and became a Director and Executive Committee member of the Electric Shareholdings Corporation (a \$20 million investment trust); a Director of the Milwaukee Electric Railway and Light Company; and a Director of the Western Power Company.³¹ He became particularly active on behalf of these clients after the passage of the Public Utility Holding Company Act in 1935—a bill which grew at least in part out of the mad stock market machinations of people such as Dulles and corporations such as his utility holding company clients during the late 1920s. During bitter congressional debates concerning the regulatory act, the companies involved mounted an enormous lobbying campaign to persuade sympathetic Congressmen that it was a dangerous departure from free enterprise. William O. Douglas, then a young member of the Securities Exchange Commission, which was to be given supervisory powers over the companies, remembers John Foster Dulles as one of the primary organizers of this campaign. There is no hard information to indicate that Dulles actually played this role, but his sympathies were clearly opposed to congressional action. When sufficient majorities in Congress ignored business pressure in this case, Dulles went on to put in months of work accumulating and transmitting the information about his clients that was required by the S.E.C. For the first time in his career, he was forced to cancel a business trip to Europe—in order to deal with the flood of utility company work.³²

Aside from continuing corporate clients and work with public utility holding companies, a considerable amount of new work with corporations developed for Dulles during the 1930s. Information about these clients is relatively sketchy, as it is for earlier years, but it does underline further the wide range of Dulles's legal career and its truly international scope.

In 1930, for example, Sullivan & Cromwell was consulted by W. A. Harriman and Company concerning a concession for an electric light and power distribution system obtained from the Polish government several

years earlier. Having invested substantial sums of money in lengthy engineering surveys, the company had discovered that the Poles were in the process of negotiating with a French firm for a similar project. Dulles, among other actions, cabled the details of the problem to the State Department and requested that the American Embassy at Warsaw "be authorized to take a friendly interest in the situation." According to Averill Harriman, this was only one of a number of occasions on which Harriman and Company, as well as Brown Brothers, Harriman, called on Dulles for legal services.³³

Also during the 1930s, Dulles became involved with the platinum interests of Adolf Lewisohn & Sons. Although almost no details are available, this was a relationship which Dulles himself described at one point as "exceedingly complicated." In particular, it involved Sullivan & Cromwell in negotiations with the Soviet Union before the official recognition of that country by the United States in 1933.³⁴

In another case involving the Soviet Union, Dulles continued legal work for several major American insurance companies involved in court battles concerning pre-1917 policies covering Russian citizens. Deprived of their sizeable investments in that country by the Soviet government, New York Life, Equitable Life, and other companies had attempted to forego payment on a substantial number of claims by Russians who had left their country following the Bolshevik revolution. Litigation continued throughout the 1920s and came to a temporary end only in 1931. A settlement was arranged by New York Life in that year with the largest group of Russian policy holders. For an undisclosed amount the beneficiaries agreed to assign any and all claims against the Soviet government to the New York Life Insurance Company. The firm seems to have anticipated an eventual negotiation with the Soviets concerning its \$67 million in confiscated investments.³⁵

In addition to involvement with American firms concerning various international business problems, Sullivan & Cromwell had a full complement of foreign clients during the 1930s. Among those with which Dulles was personally concerned were some that had first drawn on his services during the 1920s. With the North German Lloyd and the Hansa Steamship Lines, for example, Dulles maintained contact concerning bond transactions that had been arranged in the plusher days of the 1920s.³⁶ New clients outside the United States included one close to a domestic interest: court work was undertaken for the Société Intercommunale Belge d'Electricité, a large public utilities company in Belgium.³⁷ Considerably further east on the Continent, Dulles was also legal counselor for Hans Petschek. A wealthy Czechoslovakian who spent much time in the United States, Petschek had financial interests all over Europe. For one of

his concerns, the United Continental Corporation, Dulles served as a Director and Chairman of the Board during the 1930s³⁸ (A decade later, during the early Cold War crises there, Dulles was to be greatly concerned with the internal affairs of Czechoslovakia because of his continued representation of Petschek's business interests.)³⁹

Yet another European client, one which involved Dulles in a notorious legal hassle, was the Bank of Spain. Late in 1938, this bank retained Dulles and Sullivan & Cromwell as legal counsel in the United States for the purpose of bringing suit against the Federal Reserve Bank of New York. Seeking \$15 million, the Bank of Spain was hoping to compensate itself for a financial loss that had grown out of that country's bloody civil war. In early 1938, representatives of the embattled Barcelona government had approached the United States Secretary of the Treasury concerning possible purchases of Spanish silver. The silver contemplated for sale was not the property of the government itself, however. It belonged rather to the privately owned and operated Bank of Spain, which, since 1874, was the institution empowered to issue currency in that country. The bankers claimed that the United States Treasury agreed to the purchase without formal corroboration of their willingness to sell. In subsequent days, approximately \$15 million in silver was stolen from the Bank of Spain and shipped to the United States, where cash and check payments were made to the representatives of the Barcelona government.

What the bankers were seeking in United States courts was damages for the inappropriate conduct of government agencies like the Treasury Department and the Federal Reserve Bank of New York, to which the shipped silver had been delivered. They claimed that United States officials were aware of the private control of the Bank of Spain, that they should not have been willing to engage in such a sales transaction with any but Bank of Spain officials, and that most importantly, no payments should have been made to any but individuals empowered to accept by the Bank.

Dulles seems to have hesitated before undertaking the legal work for the Spanish bankers. Perhaps the emotional climate of the day concerning events in Spain made him wary of doing work for an institution that might have seemed to be an arm of the Franco government. Perhaps not, however. After seeing the Secretary of State and receiving assurances from the Treasury Department that no substantive foreign policy issues were involved, he accepted the retainer. His legal counterpart, working for the Federal Reserve Bank, was former Secretary of State Henry L. Stimson.

Within a year, the case for the Bank of Spain had been lost and Dulles's

public image had been tarnished. As will be described below, he was to be haunted for many years by the charge that he and his firm had been willing to undertake legal work for the fascist Franco regime. His constant disclaimers concerning the strictly "private" nature of the Bank of Spain made little dent in the charges.⁴⁰

III

Dulles's career as an international lawyer was seldom deemed worthy of comment in the later, more public years of his life. While he was Secretary of State, biographical summaries of his earlier life would jump quickly from his work at the Paris Peace Conference to his church-related work in the early 1940s and his tentative relationship with the State Department during the Truman years. Only one aspect of his professional work ever received anything like real public attention—and it was such that Dulles would gladly have done without it. This involved his supposed ties to German industry and finance during the 1930s, with the concomitant issue of his relationship to the Hitler regime and fascism in general. The raising of these matters was invariably handled in exposé-style journalism and was accompanied by bitter denunciations of his pre-World War II business conduct.

Perhaps the first example of the muckraking of Dulles's legal activities came during the 1944 presidential campaign. Dulles was publically recognized then as Thomas Dewey's major foreign affairs advisor, and the possibility of his becoming Secretary of State while Germany had yet to be defeated seemed too disturbing to some journalists. Drew Pearson fired an opening salvo against him which was immediately supported by Walter Winchell as having the potential to "rock America." In what one subsequent defense of Dulles called "most scurrilous and venomous attacks," Pearson and Winchell charged that the senior partner of Sullivan & Cromwell had rendered consistent legal services to "the banking circles that rescued Adolf Hitler from the financial depths and set up his Nazi party as a going concern." They specifically suggested that Dulles had had professional ties with Baron Kurt von Schroeder. Further, Pearson maintained, Dulles had shown a strange affinity for other fascist types. He had "argued personally for Dictator Franco of Spain" and had had "legal relations with Count René de Chambrun, son-in-law of Laval, now arrested." Outside journalistic circles, Senator Guffey read the same charges to his colleagues on the floor of Congress.⁴¹

Later examples of such charges abound. In early 1947, while receiving

press attention for his role at the Moscow meeting of the Council of Foreign Ministers, Dulles's legal association via cartel relationships with the German industrial giant I. G. Farben was discussed on national radio by commentator Raymond Walsh. A Soviet-controlled broadcast in Germany at the same time referred to his ties with the Schroeder bank and, in fact, broadened the charge against him to include general profascist sentiments in the years before World War II. Citing sections of 1939 statements, it was suggested that Dulles had seen no threat from the fascist powers and had been a consistent apologist for their aggression. In 1949, too, while Dulles was running for a Senate seat against Herbert Lehman in New York, much was made of his 1930s activities: Lehman and others leveled a bombshell charge of anti-Semitism against him, and Harold Ickes, for one, raised questions about his earlier German associations.⁴²

These charges concerning Dulles's professional activities before World War II are important and deserve examination. If accurate, they suggest an important conclusion concerning Dulles's nature as a lawyer and an individual. Even if such work comprised only a small part of his long and wide-ranging legal career, it would be so morally reprehensible as to deserve singular attention. If untrue, the charges could be laid to rest as the ravings of cranks and political enemies—which is certainly the fate Dulles wished them during his lifetime.

Dulles never hesitated to issue firm denials of the charges. While he refused to get involved in public altercations—for fear, he said, of giving too much importance to his accusers—he regularly issued private rejoinders. As Chairman of the Federal Council of Churches' Commission on a Just and Durable Peace in 1944, for example, he assured its executive committee that the charges were untrue and agreed to resign the post if they thought any damage might be done to the Commission work. In 1947, answering an accusatory letter in *The New York Post*, he wrote that "Frank Kingdon's article is totally misleading and merely paraphrases the smear line which has been adopted by the Soviet communist newspapers. See, for example, the Moscow *New Times*, issue of February 28, 1947." A few months later he started specifying denials, writing "I have never had anything to do with, or even met, Baron Kurt von Schroeder. I was never attorney for the Franco regime. I was never attorney for Count de Chambrun . . . neither I nor my firm has ever represented in any way I. G. Farben. . . ."⁴³

Dulles's denials were buttressed from other sources as well. When the first charges were made against him in 1944, the editorial staff of the *Christian Century*, then actively supporting the work of his Commission on a Just and Durable Peace, hurriedly issued a biting editorial against the attackers.

The *Christian Century*, moved by a sense of outrage at this sort of attack upon an outstanding Christian statesman, has taken pains to inquire into the allegations and innuendoes which form the substance of this assault upon his character. From authentic and trustworthy sources we are able to deny outright many statements of alleged fact and the innuendoes which certain statements of fact were made to carry.

They denied any ties to German banking circles by Sullivan & Cromwell and added that "during the past ten years neither Mr. Dulles nor his firm has represented any Axis national. This was not a coincidence; it was a matter of deliberate policy." In contrast to the charges, the editors emphasized Dulles's wartime associations with the Allies, his legal work for the British, French, Dutch, and Belgians. Years later, other members of Sullivan & Cromwell also denied the charges. Allen Dulles, for example, who had found himself smeared by the same brushes, recounted the closing of Sullivan & Cromwell's Berlin "office" in the early 1930s: the rooms maintained for the firm in the Hotel Esplanade had been closed "because of Hitler. You couldn't really do an honest piece of law in Germany after the Hitlerian laws began to be passed and the Hitlerian discipline clamped down on the country. And I remember very well the reason for the closing. There was no particular incident, except that we didn't feel you could practice law there."⁴⁴

In the face of such denials, what should be made of the charges against John Foster Dulles? In some ways, it is tempting to deny them outright. It is clear, for example, that the heavy direct involvement of Dulles and Sullivan & Cromwell in German business and banking during the 1920s and early 1930s was *not* continued into the Hitler era. There is no reason to doubt the closing of the Sullivan & Cromwell office in Berlin. There is no clear evidence indicating legal work for I. G. Farben, no definitive proof linking the London or New York Schroeders to their German namesakes, no proof at all linking Dulles directly to Spain's Franco.

It is true that with the advantage of access to his personal papers, pointed questions might once have been put to Dulles. He might have been asked, for example, why the closing of Sullivan & Cromwell offices in Berlin and the supposed cessation of legal work there had been followed by continued business trips to Germany. His own correspondence and passports indicate visits to Berlin in 1934, 1935, 1936, 1937 and 1939. In early 1936, his itinerary in Berlin included consultations with Hjalmar Schacht, an old friend and Hitler's choice to head the Reichsbank; H. F. Albert, partner in a German law firm with which Sullivan & Cromwell had had frequent dealings; and officials of the Hansa Steamship Company concerning financial matters.⁴⁵ Questions might also be raised concerning the purported independence of the London-based J. Henry

Schroeder and Company. Because the British members of this family were cousins of the German, some journalists and authors have suggested that that bank served as a financial link between German industrialists and the banking centers of Great Britain and the United States.⁴⁶ On another front, the actual independence from the Franco regime of a key institution like the Bank of Spain might be questioned. Having raised these matters, however, one would be forced to conclude that the evidence for definitive statements is either so ambiguous or so limited that it is far from sufficient. The type of bitter denunciation of Dulles's business conduct that was made after the 1930s could simply not hang on such alone.

In another respect, however, there is good reason not to leave the question of Dulles's associations with Nazi Germany too hastily. A thorough study of his legal work suggests that there are some major activities which may be of key importance in this regard. To telescope somewhat, something of the spirit if not the letter of the critiques of Dulles and his business associates proves to be correct after all.

Pertinent here are Dulles's close associations with some of the most significant of the international cartels that emerged in the world economic arena during the 1920s and 1930s. Anxious to subject world markets to what they considered safe and profitable controls, producers from many countries negotiated a wide range of formal operating agreements during the interwar years. Common among them were marketing arrangements that divided world sales on the basis of territorial prerogatives or quotas, price-fixing programs, patent, and process-sharing procedures designed to eliminate technological advantages for any single participant, and actual joint operation of subsidiaries in which stock and management were shared in agreed proportions. Most of these agreements were designed to rationalize and stabilize industries thought to be strongly competitive or even chaotic. Cartel organizers argued that the existence of many independent corporations in many countries, competing intensely with each other for limited markets, raw materials, and technological advantages, created an international economic milieu in which uncertainty and wasteful competition were grievous burdens. They set off to negotiate gentlemanly agreements with counterparts in other states so that an orderly, predictable, and profitable economic system could emerge.⁴⁷

Cartel agreements became particularly pervasive during the crisis-filled days of the 1930s. With devastating weaknesses and irregularities in world economic enterprise, industrial stability became especially appealing. Further, as many governments developed autarchic commercial and financial policies that created serious barriers to normal economic activ-

ity, corporations that relied heavily on international activity used cartel associations as devices for piercing such barriers. The result was that few products used by industries or average consumers escaped the influence of cartels during the 1930s. Estimates as to the number of cartels in operation by World War II range from a minimum of 250 upwards to more than 1200. A League of Nations study concluded that 42 percent of world trade between 1929 and 1937 was under the control or strong influence of cartels. Another later study surmised that 87 percent of all mineral products, 60 percent of all agricultural products, and 42 percent of all manufactured products sold in the United States in 1939 were cartelized.⁴⁸

John Foster Dulles was very much involved with the increasing importance of cartels during the interwar years. Already in the 1920s, he was expressing annoyance at what he took to be a naive American suspicion of such economic entities. By the 1930s, his role at Sullivan & Cromwell made him an active participant in both the creation and ongoing functioning of at least two of the major international cartels of the time.

The first and most clear-cut case of Dulles's involvement with international cartels stems from a business association already mentioned. From 1922 to 1949, Dulles served as a Director and member of the Executive Committee of both the International Nickel Company of Canada, Ltd. and its American counterpart, the International Nickel Company. INCO was the largest producer of nickel in the world, with combined assets in excess of \$290 million by the end of World War I. In the early 1930s, during the period of Dulles's association with the company, a series of agreements were negotiated with the other major nickel producers of the world. First was an arrangement with two major French producers. In 1931, the Société Anonyme Le Nickel and the Société Anonyme Caledonia Charbonnages Minerais et Metaux de la Nouvelle Calédonie organized the jointly owned "Caledonickel" in France. In the same year, International Nickel entered a formal agreement with this new entity designed to eliminate competition in the distribution and sale of commercial nickel. A "Main Agreement" going into effect on January 1, 1932, with an expiration date of December 1943, granted International Nickel exclusive market rights in the United States and Canada while dividing the balance of world markets by negotiated quotas. Prices for commercial nickel were also fixed by the agreement. A second step in early 1933 brought an agreement between an International Nickel subsidiary and Norddeutsche Affinerie, a German nickel refiner, making International Nickel the distributor of the German firm's nickel production. And third, in 1934, International Nickel and its French associates reached a formal agreement with Germany's I. G. Farben. In a "Main Agreement" and a "Patent Agreement" a series of understandings was reached: Interna-

tional Nickel maintained its exclusive market privileges in Canada and the United States, while markets in the rest of the world were divided between International Nickel, the French concerns and I. G. Farben on the basis of newly negotiated quotas; license rights to a newly patented I. G. Farben nickel refinery process were granted to International Nickel, and the latter agreed in return to supply I. G. Farben with supplies of nickel-bearing materials; sales of I. G. Farben's production of the mineral were to be handled by International Nickel and Caledonickel distributors; and price schedules were also arranged. The original term of the agreement was to have been from January 1934 to December 1943, but a revised "Supplemental Agreement" was negotiated in 1937, increasing I. G. Farben's market quotas.⁴⁹

John Foster Dulles was quite clearly associated with International Nickel throughout these worldwide negotiations. As member of the Board of Directors and Executive Committee determining such policies, and as senior partner of the law firm retained by International Nickel as "legal counsel," he can be described as intimately associated with the establishment of the world nickel cartel. When the United States Department of Justice brought suit against International Nickel for violations of the Sherman Act in May 1946, in fact, Sullivan & Cromwell continued its traditional role and handled the legal defense against the antitrust action. Of particular interest in this regard is the fact that the defense tactic chosen admitted freely the existence of the enumerated 1930 agreements. The brief against the Department of Justice action rested only on a challenge to the charge that the Sherman Act had actually been violated. In 1948, after two years of consultations between counsel and government officials, "a complete accord" was reached which resulted in a "consent judgment" against International Nickel without formal trial proceedings.⁵⁰

International Nickel's network of agreements offers only one example of Dulles's role in building cartel associations during the 1930s. On another front, he was connected with negotiations among the world's major producers of chemicals and helped to organize what is often referred to as the "Grand Alliance" of the interwar years.

An enormous range of products and a constant flow of technological innovation made instability part of the very essence of chemical enterprise. Chemical producers believed that they faced enough uncertainty without having to cope with the routine difficulties of intra and international competition and had negotiated numerous cartel agreements as early as the 1870s. Substantial stabilization of the industry on a global scale, however, was interrupted by the outbreak of the Great War. In the aftermath, the damaged condition of traditional powers in the field and

the emergence of new young giants in the United States and Japan made it necessary to build anew during the 1920s. Complex new interrelationships were gradually constructed and the rationalizing process was nearing completion by the late 1930s. Hundreds of separate agreements had been arranged among virtually every major chemical producer in the world by then. Germany's I. G. Farben, Great Britain's Imperial Chemical Industries, Ltd., Belgium's Solvay & Cie., France's Etablissements Kuhlmann, Italy's Montecatini, Czechoslovakia's Aussiger Verein, Japan's Mitsui, and the United States' Dupont and Allied Chemical & Dye were all tied to each other in varying degrees.⁵¹

Dulles's involvement with this process of cartelization of world chemical producers stems from his 1930s association with one of the oldest of the field's giants, Solvay & Cie. of Belgium. Solvay's power developed on the basis of crucial technological innovations in the production of alkalies during the 1870s. A new ammonia soda process allowed the company to enjoy great advantages in supplying the chemical needs of glass, soap, paper, synthetic fiber, textile, petroleum, food, and drug companies. A worldwide network of operations was gradually created. In 1872, Brunner Mond (one of the eventual components of Imperial Chemical Industries) was organized by Ernest Solvay and granted the exclusive license to the alkali process for the entire British Empire. Similar steps were taken around the world. In addition, Solvay began undertaking cooperative projects with other major chemical producers. With I. G. Farben, for example, Solvay owned stock in the Czech firm Aussiger Verein and jointly operated the German Solvay Company. After the organization of Imperial Chemical Industries, too, Solvay's involvement in Brunner Mond brought it 25 percent of the stock and directorships in the new British giant. And in an area that would eventually involve John Foster Dulles, Solvay controlled a similar 25 percent of stock and directorships in Allied Chemical & Dye in the United States.

Through subsidiaries and direct stock control, Solvay & Cie. thus reached into every area of world chemical production by the 1930s. Its scope and influence were yet further enhanced by participation in significant cartel arrangements. In the United States, for example, the Solvay-American Investment Corporation was a holding company whose principle financial resource was 500,000 shares, or 25 percent, of the outstanding common stock of the Allied Chemical & Dye Company. Dulles and Sullivan & Cromwell were legal counsel to Solvay-American and participated in the creation of both informal and formal cartel arrangements between the Belgian and American companies. This was not always easy. Allied Chemical occasionally showed signs of resisting the impulse toward industry-wide cooperation shared by its "competitors."

During the 1930s, in fact, the company developed a reputation for old-fashioned, dog-eat-dog competitiveness. In one instance in 1933, which specifically involved Dulles, President O. F. Weber and associates on the Board of Directors maneuvered a stockholders meeting into refusing to reelect the Solvay-American representatives to the board for the subsequent year. Within weeks, a special committee representing holders of 25 percent of the common stock was organized calling for a special stockholders meeting and the ouster of several members of the newly elected board. Weber quickly publicized the fact that the committee really represented the Solvay-American Investment Corporation, and, in fact, its legal counselor was John Foster Dulles. A campaign was mounted against the special committee on the theme of the dangers of "foreign interests" having a share in the management of the company. Pledging a fight against "foreign domination," Allied's officers secured endorsements from a number of prominent business leaders "warning the American people against the possibility of foreign domination of the American chemical industry." The special committee denied the relevancy of this campaign, calling it a "red herring," but it did put off its frontal assault on the Allied Board indefinitely.⁵⁴ Twenty-five percent of the common stock was a strong handle, but not strong enough to turn the trick.

Dulles maintained constant contact with Solvay & Cie. officials in 1933 and succeeding years and remained legal counsel for Solvay-American itself. An opportunity to reverse the hostile move of 1933 came two years later when O. F. Weber retired and H. F. Atherton took over as President and Chairman of the Board of Allied Chemical. While there is no precise indication of what took place, Dulles and Solvay-American representatives began a series of meetings with Atherton which, as subsequent events demonstrated, concerned Solvay's role in the U.S. giant and Allied's relationship, in turn, to the international cartel system. George Murnane, lifelong friend of Dulles and partner in a banking firm which Dulles had helped found, was elected a Director of Allied at the April 1936 stockholders meeting. With Murnane as a conduit, Dulles and other Solvay officials began a regular relationship with H. F. Atherton: meetings took place periodically over succeeding years. In addition, and it would seem as a result, it was precisely in 1936 that Allied Chemical reestablished and reinforced its ties to various chemical cartels. It was in 1936, for example, that Alkasso, whose principal member was an Allied subsidiary, renegotiated agreements with Imperial Chemical, I. G. Farben, and Solvay & Cie. The interrelatedness of cartels in chemicals is demonstrated by the fact that in that same year, Allied entered separate

agreements involving dyestuffs production with I. G. Farben.⁵⁵ The maverick days were over, and Allied Chemical had adopted the gentlemanly behavior of its counterparts in the industry.

Dulles may have been involved with yet a third major interwar cartel as well. In the mid-1930s, he was a Director of the Consolidated Silesian Steel Company, whose only asset was stock in the Upper Silesian Coal and Steel Company. While nominally Poland's largest industrial concern, two-thirds of Upper Silesian's stock was owned by the German industrialist Friedrich Flick and one-third was owned by Americans: Consolidated Silesian was the entity that represented both the German and American interests.⁵⁶

While Dulles's ties to Consolidated Silesian are unquestionable, the relevance and significance of those ties is unclear. As to association with cartels, it is suggestive. World steel producers had developed after 1926 one of the most highly structured of all international cartels. Major American companies like United States and Bethlehem Steel conducted negotiations with European counterparts like Germany's Vereinigte Stahlwerke and the British Iron and Steel Corporation, Ltd. In addition to the giants of the field, producers of any relatively significant quantity of steel in smaller states were also drawn into the myriad cartel arrangements and those of Poland were no exception.⁵⁷ It is, to repeat, significant that Dulles was a Director of the holding company which controlled all of the stock of Poland's largest steel producer.

And in addition to the cartel issue, it is clear that Dulles was formally associated through the Consolidated Silesian Coal and Steel Company with one of Germany's major industrial figures. Friedrich Flick, it should be recalled, was a significant supporter of the Hitler regime after 1933 and was eventually tried as a war criminal at Nuremberg.⁵⁸

John Foster Dulles's ties to the International Nickel Company and the international nickel cartel, to Belgium's Solvay et Cie. and its elaborate cartel relationships in the world chemical industry, and to the Consolidated Silesian Coal and Steel Company and its possible relationship with the international steel cartel were important components of his legal and business career during the 1930s. They have considerable relevance for evaluating the nature of his career in the decade before World War II. In a technical sense, Dulles was always correct in his vehement denials of the charges that he had been willing to associate himself professionally with German business and financial concerns that had clearly lent support to the morally repugnant Hitler regime. He personally was never associated with the J. Henry Schroeder banking interests, for example,

and even his brother's position in that sphere is not legitimately suspect because no definitive proof exists to tie those banks to Germany in the 1930s. Dulles's cartel activities, on the other hand, make the righteousness of his later denials of German associations grate somewhat harshly. His two definite attachments with the International Nickel Company and Solvay et Cie. spanned the years when these clients were developing and maintaining cartel relationships with, among others, Germany's I. G. Farben. As legal counsel, director, and executive committee member for both companies throughout the 1930s, it is clear that Dulles was actively and specifically engaged in arranging those cartel relationships. Dulles's denials of ties to a prime German economic entity like I. G. Farben were technically correct in the sense that he was not directly employed by the German company—but those denials in no way suggest the possibility of the real and significant relationships among cartel associates. If, as Dulles and his supporters always later maintained, he felt considerable repugnance toward the Hitler regime and guided his firm to a decision that it was impossible to do legal business in Nazi Germany, his qualms were hardly categorical in execution. As one historian has suggested, a far more accurate gauge of the sentiment of American businessmen toward Germany during the 1930s is a measurement of their actions rather than their words: this is certainly applicable to John Foster Dulles.⁵⁹

Cartel associations underline clearly some of the key characteristics of Dulles's career during the interwar years. In one respect, they are examples of truly worldly professional activities, of a kind which make it possible to say that Dulles was, in a most fundamental sense, an international lawyer. They also exemplify the specific thrust of this particular lawyer's career: years of orientation toward the interests of major corporations and banking houses.

Depression, 1929–1934

“IT WAS NICE WHILE IT LASTED,” Charlie Wales reminisced. “We sort of royalty, almost infallible, with a kind of magic around us. 1931 was not 1929, and Charlie, the protagonist of F. Scott Fitzgerald’s *Babylon Revisted*,” was all too painfully aware of the changes. From that moment he returned to Paris and walked across the long green carpet of the empty Ritz bar, silence and depression engulfed him. Gone were the throngs of fellow American businessmen feasting on the bull market; gone was the bartender who had come to work in his custom-made car. If Charlie and his compatriots had been kin to royalty once, they had become emperors without clothing.

The plight of Charlie Wales offers insights into the experiences of John Foster Dulles. Fitzgerald’s story succeeds in pulling one away from the clichés of the Great Depression toward the realization that the impact of economic crises on individuals might take subtle as well as drastic forms. Breadlines and Hoovervilles were not the stuff of everyday life for a relatively successful businessman like Wales—nor for a very successful lawyer like Dulles. Still, the depression of the Depression had a way of piercing the armor of continuing affluence.

46. See, for example, the research material collection in "Christian Century editorial" file, DP.
47. George W. Stocking and Myron W. Watkins, *Cartels in Action: Case Studies in International Business Diplomacy* (New York: Twentieth Century Fund, 1946), 3–14; Wendell Berge, *Cartels: Challenge to a Free World* (Washington, D.C.: Public Affairs Press, 1946), 1–18; George W. Stocking and Myron Watkins, *Cartels or Competition? The Economics of International Controls by Business and Government* (New York: Twentieth Century Fund, 1948), 3–5, 408–421.
48. United Nations, Department of Economic Affairs, *International Cartels: A League of Nations Memorandum* (New York: 1947), 2; Stocking and Watkins, *Cartels in Action*, 4–5.
49. United States vs. International Nickel Co., Ltd. of Canada and International Nickel Co., in U.S. District Court for the Southern District of New York (Civil Action 36–31), May 16, 1946. (The records of the U.S. District Court for the Southern District of New York are located in the Federal Records Center, New York City. Court records include full documentation of the government case, all evidence and arguments presented by the defendants, and verdicts or final judgments.)
50. Ibid.
51. Stocking and Watkins, *Cartels in Action*, 363–429.
52. Ibid., 430–438; United States vs. Imperial Chemical Industries, Ltd., et al., in the U.S. District Court for the Southern District of New York (Civil Action 24–13), January 6, 1944; United States vs. United States Alkali Export Association, Inc., in the U.S. District Court for the Southern District of New York (Civil Action 24–464), March 16, 1944; United States vs. Allied Chemical and Dye Corp., et al., in the U.S. District Court for the Southern District of New York (Civil Action 14–320), Complaint and Consent Decree, May 29, 1941; United States vs. Allied Chemical & Dye Corp., et al., in United States District Court for the District of New Jersey (Criminal Action No. 753c), Indictment, May 14, 1952.
53. *Moody's Manual of Investments, American and Foreign: Industrial Securities 1933* (New York: Moody's Investors Service, 1933), 3176; *The New York Times*, June 2, 1933, p. 27.
54. *The New York Times*, June 2, 1933, p. 27; June 7, 1933, p. 31; June 10, 1933, p. 19; June 15, 1933, p. 25; June 17, 1933, p. 17; June 21, 1933, p. 29; June 23, 1933, p. 27; June 25, 1933, II, p. 9; June 26, 1933, p. 27; June 27, 1933, p. 23; June 28, 1933, p. 35; June 30, 1933, p. 28; July 1, 1933, p. 19; July 10, 1933, p. 22.
55. Dulles's appointment calendars are very helpful in plotting his continuing connection to the Solvay American–Allied Chemical relationship. From 1933 on, entries indicate a regular round of meetings with various directors of Solvay–American and *gérants* (owner-directors) of Solvay & Cie. itself. In

- 1935, 1936, and 1937, entries indicate regular meetings with George Mur-nane and H. F. Atherton, as well. See also *Moody's Manual of Investments, American and Foreign, Industrial Securities, 1936* (New York: Moody's Investors Service); Stocking and Watkins, *Cartels in Action*, 435–436, 478.
56. *Poor's Register of Directors of the United States and Canada, 1934* (New York: Poor's Publishing Co., 1934), 531–532; *The New York Times*, March 19, 1934, p. 12.
57. Ervin Hexner, *The International Steel Cartel* (Chapel Hill, N.C.: University of North Carolina Press, 1943), 92–109.
58. See *Trials of War Criminals Before the Nuernberg Military Tribunals and Control Council Law No. 10, Nuernberg, October 1946–April 1949*, Volume VI (Washington, D.C.: U.S. Government Printing Office, 1952).
59. Gabriel Kolko, "American Business and Germany, 1930–1941," *The Western Political Quarterly*, XV (December 1962, 713–728.

CHAPTER 7

1. See above, pp. 94–96.
2. Dulles address, April 29, 1929; Dulles to Fred M. Boyer, May 2, 1929, DP.
3. Dulles to Fred Dolbeare, November 1, 1929, DP. John Kenneth Galbraith, *The Great Crash: 1929* (Boston: Houghton Mifflin Co., 1954), 116–117.
4. Dulles address, February 13, 1930, DP.
5. Dulles "Remarks," October 20, 1939, DP.
6. Broadus Mitchell, *Depression Decade: From New Era Through New Deal, 1929–1941* (New York: Harper & Row, 1947), 60–61; Arthur M. Schlesinger, Jr., *The Crisis of the Old Order, 1919–1933* (Boston: Houghton Mifflin Co., 1957), 162–164.
7. An excellent survey of major world economic developments in this period can be found in Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973), particularly chapter 6.
8. Notes on conversations concerning moratorium and memorandum left with President, June 1931, DP.
9. Kindleberger, op. cit., chapters 7–8; Mitchell, op. cit., 444.
10. Confidential Report to the Federal Reserve Board, November 26, 1931, DP.
11. Memorandum Concerning the Central European Situation, November 1932, DP.
12. Dulles, "The Securities Act and Foreign Lending, *Foreign Affairs*, XII (October 1933), 33–45.
13. Memorandum on "The New Deal," 1934, DP.
14. See below, chapter 8.

heard of the Senate action. As early as March 1919, he had talked to William Nelson Cromwell about returning and participating in a reorganization of the firm which would make him a full partner. After the President asked him to remain in Paris, Dulles wrote to Cromwell that "I am hoping that these matters can be cleaned up so that I shall get away in early August. . . ." Even when accepting appointments to various Paris committees during the summer, he always cautioned the State Department about his intentions. On one occasion, he wrote that he would be happy to serve on the Committee on the Execution of the Treaty with Germany "if I can properly do so consistently with my intention of returning to the United States at a fairly early date."⁴ Concerned though he may have been about the Senate's coolness toward the peace settlement, in other words, Dulles's personal plans never hinged solely on actions in Washington.

And if there was any prematurity at all about Dulles's return to New York, it was never apparent in his work. Within a scant few weeks, he had thrown himself into a fast-paced stride at Sullivan & Cromwell. He began work on a series of projects that substantially set the course of his work for the next several decades.

Immediately on returning to his firm, Dulles undertook legal work for the European Textile Corporation, a newly organized syndicate of American cotton brokers and textile manufacturers. In January 1920, he traveled to Eastern Europe for the company. As one of his letters of introduction explained, "This syndicate is composed of Messrs. G. H. McFadden & Brothers, cotton brokers, the American International Corporation, Lockwood Green & Company and Lawrence & Company. Representatives of each of the above firms will accompany Mr. Dulles, hoping to make satisfactory arrangements with mills by offering cotton and taking a part of their finished product in payment. . . ." The trip was obviously successful because European Textile had become a multi-million dollar operation by the end of the year.⁵

Dulles's trip to Europe for cotton and textile clients involved other business as well. As he wrote to a friend, he was going "to make some investigations and carry on some negotiations on behalf of American bankers who desire to invest in Germany, Poland and Czechoslovakia." From Central and Eastern Europe, he did in fact report to Assistant Secretary of the Treasury Norman Davis on numerous investment opportunities. At least some of these were attractive to his banker clients, and an investment enterprise, the Overseas Securities Corporation, was organized as a result. Dulles went on to serve as its legal counsel.⁶

Also within the early months of his return to Sullivan & Cromwell,

Dulles began advising a government agency concerned with American exports. Congress had authorized the creation of the War Finance Corporation in 1918, giving it the right "to make short-term loans, of five years' duration or less, to American exporters unable to obtain funds on reasonable terms through regular banking channels." Unstable economic conditions following the Armistice led to an extension of the corporation's life and continued use of its \$500,000,000 capitalization. From late 1919 until its liquidation in 1924, Dulles served as its legal counsel. In the course of his relationship, almost \$400,000,000 in short-term loans were made to corporations and agricultural interests to assist in encouraging exports. Major aid was rendered to cotton, grain, and livestock brokers, but large loans were also forthcoming for corporations like International General Electric and International Harvester.⁷

Ties with the European Textile Corporation, the Overseas Securities Corporation, and the War Finance Corporation were all developed within six months of Dulles's return to Sullivan & Cromwell. They typified, though on a small scale, the nature of his legal enterprise for the next three decades. All involved activity in the general areas of international trade and international investment; all involved connections with corporations and banking houses that were interested in the international economy.

Dulles's legal work for corporations during the 1920s alone, for example, was very extensive. Although complete information about his activities at Sullivan & Cromwell is not available, evidence can be taken from, among other things, his correspondence and appointment calendars and several business publications of the day. A relatively full outline emerges, with Dulles's 1920s clients including all of the following:

The American Agricultural Chemical Company, manufacturer of chemical fertilizers, glues, and numerous related products.⁸

The American Bank Note Company, engravers and printers of bank notes, bonds, and stock certificates. Beginning as a strictly American operation, this company gradually absorbed similar operations around the world. In 1920, for example, Dulles assisted in the takeover of the British firm, Bradbury, Wilkinson & Company, Ltd.⁹

The American Cotton Oil Company specialized in extracting vegetable oils and byproducts and had extensive international interests. Dulles originally undertook legal work for this company before World War I.¹⁰

The American Radiator Company, which maintained plants and sales offices around the world.¹¹

Babcock & Wilcox, Inc. Dulles served as a director of this interna-

tionally active firm engaged in the manufacture of equipment used in the chemical, alcohol, and refining industries.¹²

The Carib Syndicate, Ltd., an oil investment company for which Dulles worked to secure various exploration and drilling concessions from the government of Colombia.¹³

The Coronet Phosphate Corporation.¹⁴

The Cuban Cane Sugar Corporation. Brought to the firm by William Nelson Cromwell years before, this company became one of Dulles's personal clients during the 1920s.¹⁵

The European Textile Corporation, for which Dulles continued to work until at least 1926.¹⁶

The Gold Dust Corporation. The "gold" in Gold Dust referred to two of the American consumers' more coyly named commodities: "Fairy" and "Sunny Monday" soaps. An offspring of the American Cotton Oil Company, Gold Dust began production on its own in 1923, keeping Dulles as general counsel until late in the 1930s.¹⁷

The International Nickel Company was probably the most important corporate client with which Dulles was associated during the 1920s. With net income in 1920 of \$5 million, it ranked as a giant in world business. William Nelson Cromwell had worked with the firm for years and brought Dulles onto its board of directors in 1925. In this way, Dulles also came to be associated with INCO's many other interests around the globe: the International Nickel Company of Canada, Ltd.; the Huronian Company, Ltd.; the Société Minière Caledonienne (New Caledonia); and the Nickel Corporation, Ltd. of Great Britain.¹⁸

Jones Brothers Tea-Grand Union Stores, which produced teas, coffees, and other products and maintained a large chain of retail outlets in the United States.¹⁹

The National Railroad Company of Haiti.²⁰

The Overseas Securities Corporation. Dulles's continuing role as director and counsel of this company involved periodical haggling with the State Department during the 1920s. When first organized, Overseas Securities had purchased a large interest in the Possehl works, near Vilna, Poland. In 1923, the Polish government moved to seize control of Possehl on the grounds that it had and continued to be controlled by German interests. Dulles appealed to Washington for support of the supposedly American interests involved in Overseas Securities, but the State Department seemed in doubt about the individuals behind this company and asked for a complete list of owners and directors. Over the space of several years, Dulles proved reluctant to provide the State Department with this

information and no support for the difficulties in Poland was forthcoming. From the nature of its communications with Dulles, Washington's information had apparently suggested that the real money behind Overseas Securities was German and that the United States had no responsibility for defending its interests. Dulles's unwillingness to provide detailed information, coupled with his extensive concomitant activity in Germany at the time, suggest that this was in fact the case.²¹

The Port of Para Corporation, an American company undertaking the construction of large harbor facilities in Brazil.²²

Slater Manufacturing Company, producers of woolen and cotton goods.²³

The United Cigars Store Company, producers and retailers of tobacco products.²⁴

The United Railways of Central America, another client originally obtained by William Nelson Cromwell. Dulles became associated with the firm in 1924.²⁵

In addition to the relatively routine legal work undertaken for the above corporations, Dulles's partnership in Sullivan & Cromwell brought a number of special corporate responsibilities during the 1920s.

Early in the decade, for example, he was retained by a large number of firms to process claims against the government of Germany. Corporations such as the drug giant Merck & Company, and the Duluth Superior Milling Company, among others, were anxious to recover war-risk insurance premiums that had been paid to German firms during the early years of the Great War. Dulles's expertise in the intricacies of the economic settlement that was part of the Treaty of Versailles and his post-war connections within Germany brought him much work in this area.²⁶

Another unusual series of cases brought Dulles into extensive legal work for the New York Life Insurance Company, the Mutual Life Insurance Company, the Equitable Life Insurance Company, and the Guardian Life Insurance Company. During the years preceding World War I, all of these firms had done extensive business through Russian branches. Russian laws required that the full reserves backing life insurance policies be invested within the country, principally in government and railroad bonds. As a result, a firm like New York Life had more than \$60 million invested in Russia by 1917. Following the Bolshevik revolution, all of these insurance company investments had been seized by the Soviet government. Compounding the companies' problems, a substantial number of the individuals insured in Russia had fled the country after 1917—and the families of many had proceeded to file claims for insurance