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Financial Diplomacy in American Foreign Policy and the Soviet Debt Crisis (1922-1938): Washington's Pursuit of Global Economic Hegemony

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Abstract

This study is based on a qualitative research framework that combines historical document analysis with critical socio-political interpretation. The primary source base consists of declassified diplomatic and official archival documents dating from 1922 to 1938. These materials include correspondence between the United States Department of State and various American diplomatic missions abroad. Rather than presenting a strictly chronological narrative of events, the study focuses on the economic, political, and ideological processes reflected in the archival record. Each document is examined within its broader historical context, taking into account the international political environment, economic conditions, and diplomatic priorities of the period. Particular attention is given to the relationship between official discourse, policy objectives, and contemporary perceptions of political and economic developments. In addition to qualitative content analysis, the research incorporates limited quantitative assessments based on economic data contained in the archival materials. References to monetary policy, gold reserves, foreign trade, and international financial transactions are analyzed to provide a clearer understanding of the economic structures and challenges of the era. This approach makes it possible to compare stated policy goals with observable economic outcomes using evidence drawn directly from primary sources. By integrating diplomatic, economic, and political perspectives, the study seeks to illuminate the interaction between domestic transformation and international economic relations, while also examining how these developments were interpreted

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Amerikan Dış Politikasında Finansal Diplomasi ve Sovyet Borç Krizi (1922–1938): Washington'ın Küresel Ekonomik Hegemonya Arayışı

Özet

Bu çalışma, tarihsel belge incelemesini eleştirel sosyo-politik analizle birleştiren nitel bir araştırma yaklaşımına dayanmaktadır. Araştırmanın temel veri setini, 1922–1938 yılları arasına ait gizliliği kaldırılmış diplomatik ve resmî arşiv belgeleri oluşturmaktadır. İncelenen belgeler, Amerika Birleşik Devletleri Dışişleri Bakanlığı ile çeşitli Amerikan diplomatik temsilcilikleri arasında gerçekleştirilen yazışmaları kapsamaktadır. Çalışma, olayların kronolojik aktarımından ziyade, belgelerde yansıyan ekonomik, siyasi ve ideolojik süreçlerin analizine odaklanmaktadır. Bu doğrultuda her belge, üretildiği tarihsel bağlam içerisinde değerlendirilmiş; dönemin uluslararası ilişkileri, ekonomik koşulları ve diplomatik öncelikleri dikkate alınarak yorumlanmıştır. Belgelerin içerdiği söylemler, aktörlerin algıları ve politika tercihleri arasındaki ilişkiler karşılaştırmalı bir yöntemle incelenmiştir. Araştırmada nitel içerik analizinin yanı sıra, arşiv belgelerinde yer alan ekonomik verilerden yararlanılarak sınırlı ölçüde nicel değerlendirmeler de yapılmıştır. Özellikle para politikaları, altın rezervleri, dış ticaret işlemleri ve uluslararası finansal hareketlere ilişkin kayıtlar, dönemin ekonomik yapısını anlamaya katkı sağlayacak şekilde analiz edilmiştir. Böylece diplomatik yazışmalarda ifade edilen ekonomik hedefler ile uygulamada ortaya çıkan sonuçlar arasındaki ilişki, birincil kaynaklardan elde edilen veriler ışığında değerlendirilmiştir. Bu yöntemsel yaklaşım, Sovyet ekonomik dönüşümünün uluslararası finans sistemiyle ilişkilerini ve bu sürecin Amerikan diplomatik çevrelerince nasıl algılandığını tarihsel bağlamı içerisinde ortaya koymayı amaçlamaktadır.

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1. Methodology

Within the scope of qualitative analysis, discourse analysis was employed to examine terminological shifts in the American approach to the Soviet debt question. Particular attention was given to concepts such as “solvency,” “repudiation,” “creditworthiness,” and “cash payments,” whose frequency and contextual usage reveal that Washington increasingly approached the Soviet issue through the lens of financial risk management rather than purely ideological opposition. Diplomatic developments, including the Genoa Conference and the Treaty of Rapallo, were analyzed through contemporary diplomatic correspondence in order to assess their impact on American perceptions of international financial security.

For the comparative dimension of the study, the investment shares and debt exposure of major creditor nations, including France, Great Britain, Germany, and the United States, were examined. This comparison helps explain why the United States emerged as one of the most rigid defenders of debt recognition and property rights despite holding a relatively limited share of pre-revolutionary Russian investments. The archival evidence suggests that Washington treated debt recognition and property protection not merely as legal principles but also as instruments for shaping the norms of the emerging international financial order. Accordingly, the study combines historical analysis with insights from international relations theory to examine American financial diplomacy as a multidimensional strategy of economic influence.

To complement the qualitative analysis, the study incorporates a limited quantitative component based on economic information contained in U.S. Treasury Department and State Department archival records. Several figures presented in the article were reconstructed from references to gold reserves, debt negotiations, budgetary structures, foreign trade transactions, and diplomatic assessments. Where complete statistical series were unavailable, the visualizations were developed as analytical reconstructions intended to illustrate broader historical trends identified in the archival record. Interpretative indicators, including the Financial Confidence Index, were constructed to visualize changes in American perceptions of Soviet financial reliability over time and should therefore be understood as analytical tools rather than official historical statistics.

2. Global Debt Architecture After World War I and the American Doctrine

Following World War I, the global economy entered a period of devastating financial restructuring. Between 1919 and 1923, European nations grappled with war reparations, public debts, and trade deficits. The conclusion of the war shifted the center of gravity of the global financial system from Europe to the United States. In the post-war era, the global economic order experienced a distinct rupture, not only in terms of production and trade balances but also in the institutional framework of international debt and capital flows. The relatively integrated global financial system of the pre-war era fragmented due to war-induced debt burdens, sovereign defaults, and regime changes. In particular, the exclusion of Germany and Russia from international credit networks weakened global market integration. During this process, debt relations transcended being mere economic obligations and evolved into an indicator measuring a state's capacity to pay, political reliability, and degree of compliance with the international system. Consequently, the post-war global debt architecture was reshaped around debt loyalty and fiscal discipline rather than liberal financial globalization. (Broadberry & Harrison, 2006) During this period, the United States emerged not merely as a creditor but as a global norm-setter championing the principle of the "sanctity" of property rights and sovereign debt. The decision of Soviet Russia to repudiate Tsarist debts following the 1917 Bolshevik Revolution was perceived by Washington not just as an economic loss, but as a systemic threat to international financial security. As Russia's total foreign debt burden reached a staggering sum of approximately 13 billion Rubles comprising pre-war debts, municipal loans, and war credits the repudiation of these obligations was characterized in American foreign policy as nothing short of "financial anarchy." (Financial Conditions, Foreign Credits, April 1922).

The post-war debt architecture was transforming into a structure that was no longer Eurocentric, but rather centered on American capital. However, this transformation signified not only economic superiority but also a diplomatic instrument. By the 1920s, U.S. foreign policy had evolved into policies of "debt collection" and "credit discipline." Documents indicate that the U.S. share within the total commercial and industrial investments in Russia was 5.2% (117.7 million Rubles). Although this ratio lagged behind France's dominant share of 32.6%, the uncompromising stance of the U.S. regarding the recognition of debts was viewed as a strategic necessity for the preservation of international legal standards and the security of future American investments. While the diplomatic deadlock of the early 1920s was attempted to be resolved through the 1922 Genoa Conference, the Soviet delegation's uncompromising adherence to communist principles brought the process to a standstill (US, State Dept Records - Russia, 1930-1939, April 1922).

The conditions of debt recognition and restitution of property presented to the Soviet government by the Allied Powers in the Memorandum of May 3 were, in essence, a reflection of American financial diplomacy. However, this collective creditor front formed at Genoa suffered a major blow with the Treaty of Rapallo signed between Germany and the Soviets. While Rapallo nullified financial claims between the two nations, it established a "bad precedent" for other creditor powers like the U.S. and was reported as a threat to European financial unity. By the 1930s, the contraction of foreign trade volume due to the Great Depression further destabilized Soviet solvency, bringing with it the U.S. imposition of "cash payments." In light of the data provided by archival documents, this study aims to prove that the United States' stance toward the Soviet Union was a process of rational financial risk management rather than mere ideological opposition. Following the introduction, the methodological framework will be presented, and subsequently, the anatomy of Soviet finance will be mapped out through gold reserves and foreign trade data.

3. Soviet Gold Reserves: Anatomy and Capital Erosion (1917–1924)

The financial survival of the Soviet regime in its early years depended largely on the control of gold reserves inherited from the Tsarist era and the use of these reserves as a medium of exchange in mandatory trade with the outside world. Archival documents confirm that during the October Revolution, the Russian gold fund was valued at 1,101,000,000 rubles. However, the geographical and political distribution of this fund created a strategic crisis for Bolshevik finance from day one; while 451,000,000 rubles of the fund were held in Moscow, a larger portion of 650,000,000 rubles had been transferred to Kazan for military reasons. This amount in Kazan was captured by the Czechoslovak Legion and became the financial reserve of the Kolchak government in Omsk, significantly restricting the Bolsheviks' central gold reserves (Financial Conditions, Foreign Credit, January 1920).

In January 1920, the gold fund of 409,000,000 rubles, which was brought back from Siberia, was returned to Moscow. However, during this period, a gold transfer of 121,000,000 rubles was made to Germany from the reserves remaining in Moscow, in accordance with the Treaty of Brest-Litovsk. Consequently, as of January 1920, the Soviet government had accumulated a total fund of 739,000,000 rubles, including both inherited and returned assets. The five-year period between 1919 and 1924 numerically demonstrates how the Soviets rapidly depleted their gold holdings to finance foreign trade and industrial procurement. During this period, gold valued at a total of 1,011,800,000 rubles was expended. The distribution of these expenditure items is as follows (Financial Conditions, Foreign Credit, January 1920):

Expenditure Breakdown (1919-1924)

- Foreign Trade Purchases: $701,000,000$ rubles
- Finance Commissariat Direct Purchases: $87,600,000$ rubles
- Central Bank (Gosbank) Reserves: $141,900,000$ rubles
- Miscellaneous/Unspecified Expenses: $81,300,000$ rubles

This situation proves that the massive discrepancy of 272,800,000 rubles originated from "unknown sources" (purchases, confiscations, invisible exports). The fact that only 141,900,000 rubles worth of gold remained in the State Bank (Gosbank) reserves by the end of 1924 demonstrates that the Soviet regime spent approximately 87% of its gold stock in its first seven years solely to survive and bypass the foreign trade blockade. This capital erosion serves as the most concrete justification for the United States' distrust of Soviet finances and its subsequent demand for the "cash payment" condition in the following years (Financial Conditions Foreign Credit,1920).

This detailed financial breakdown proves not only how Soviet finances depleted existing resources but also the extent of the capital pressure the regime faced in its struggle to gain legitimacy in international markets. The following graph summarizes this chaotic flow of funds, the points of transfer for reserves, and the ultimate erosion through a visual chronology, thereby materializing why Washington resorted to the "cash payment" doctrine. As can be seen in the graph below, the negative correlation between the initial fund and the final budget reveals that the Soviet Union was compelled to rapidly liquidate its most strategic asset to sustain its foreign trade (U.S. Treasury Department, Division of Eastern European Affairs, “Comparative Chart of Soviet Gold Holdings 1917–1924,” Annex to Report on Soviet Gold Disbursements, April 1924).

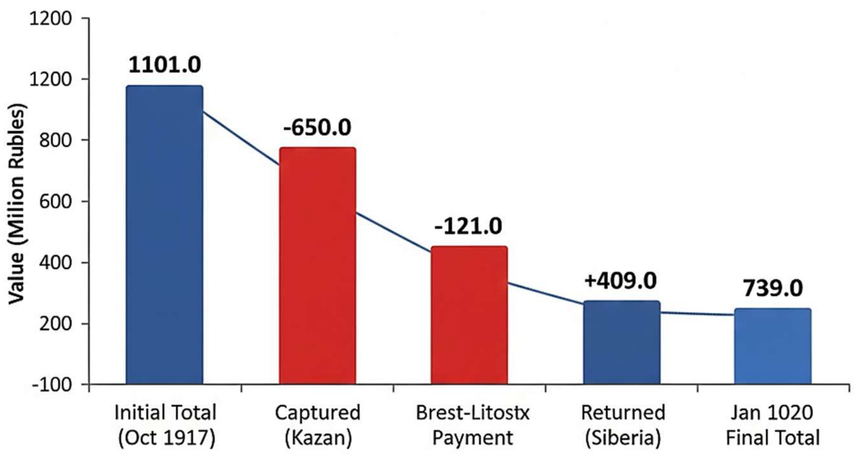

Figure 1: Dynamics of Soviet gold reserves and redistribution (1917–1920)*
* (U.S. Treasury Department, Division of Eastern European Affairs, “Comparative Chart of Soviet Gold Holdings 1917–1924,” Annex to Report on Soviet Gold Disbursements, April 1924)

Figure 1 above is based on quantitative information contained in U.S. Treasury Department and State Department archival records concerning Soviet gold holdings between 1917 and 1920. The figure represents an analytical reconstruction based on archival evidence and is designed to illustrate the structural transformation of Soviet reserve assets during the early post-revolutionary period. The values represent the initial gold reserves inherited from the Tsarist period, the amount transferred to Kazan and subsequently lost to anti-Bolshevik forces, the gold transferred under the Brest-Litovsk settlement, and the reserves returned from Siberia in January 1920. The figure was reconstructed by the author from archival data and is intended to visualize the major shifts in Soviet gold reserves rather than provide a complete accounting balance.

The gradual erosion of Soviet gold reserves between 1917 and 1920 represents not only a financial crisis but also the birth of a new form of monetary diplomacy. Every loss of gold-whether it be the seizure of the Kazan treasury by the Czechoslovak Legion, the Brest-Litovsk reparations, or the re-transfers from Siberia signified a redistribution of economic sovereignty on a geopolitical plane. This reconstruction, based on archival documents, demonstrates that the 739 million rubles in reserves remaining in Moscow as of January 1920 represented the intersection of survival and legitimacy within the Soviet "raison d'état." This liquidity became not merely a financial resource, but the material foundation of Soviet diplomacy (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934).

From Washington's perspective, this volatility proved that Soviet financial behavior was incompatible with the rising American standards of contractual and payment discipline. U.S. Treasury and State Department reports (1921–1923) consistently reiterated the principle that "recognition cannot precede the settlement of debt"; in other words, they posited cash debt payments as a prerequisite for diplomatic recognition. In this context, the Soviet leadership's dependence on a gold-based payment system for foreign trade transactions transformed gold into a diplomatic obligation: economic sovereignty could no longer be conceived independently of international financial credibility. The graph presented below visualizes the numerical dimension of this process, exposing the fundamental paradox of early Soviet finance: a revolutionary regime was compelled to rapidly liquidate its most strategic asset gold in order to preserve its political independence. The graph simultaneously illustrates the state's effort to re-establish fiscal sovereignty and the steady erosion of the very material basis of that sovereignty (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934).

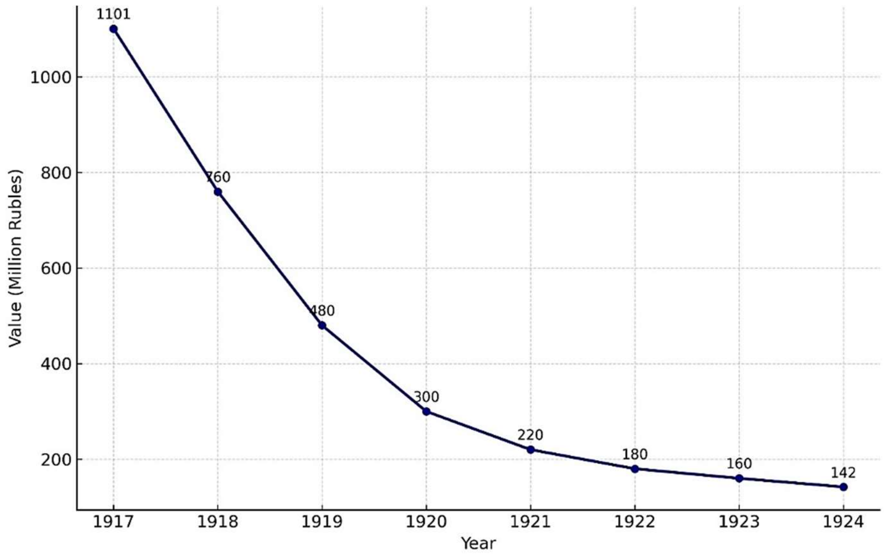

Figure 2: Depletion of Soviet gold reserves and strategic liquidation (1917–1924)*
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934)

Figure 2 above is based on quantitative information contained in U.S. Treasury Department and State Department reports concerning Soviet gold reserves between 1917 and 1924. The values were compiled from archival references to official reserve holdings and annual reserve estimates reported by American observers. The figure is intended to illustrate the long-term trend of reserve depletion and strategic liquidation rather than provide an exact reconstruction of Soviet accounting records. It serves as an analytical visualization of the progressive erosion of Soviet gold reserves during the early years of the regime.

The rapid depletion of gold reserves forced the Soviet administration not only to redefine internal fiscal balances but also to utilize gold as the primary medium of payment in foreign trade relations. In the period between 1920 and 1924, the Soviet government turned to a policy of systematic gold exports to finance the import of industrial equipment, grain, and machinery. While this policy increased import volumes in the short term, in the long term, it led to the exhaustion of the reserves that formed the collateral for the Soviet currency.

In American archival documents, this period is described as the "collapse phase of metallization." U.S. State Department reports from 1922 emphasize that Moscow's preference for paying with gold instead of credit in foreign trade was a "necessity arising from a lack of confidence." This situation led Washington to view the Soviets economically as a "regime with no access to credit, capable only of making cash payments (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credit, December 1922).

The following graph is a concrete indicator of the foreign trade pressure during this period. The data show that the Soviet economy exported an average of 9–10 tons of gold annually, primarily directed toward the British, Swedish, and German markets. By 1924, although these gold exports had financed short-term import agreements, they had permanently eroded the Soviets' foreign reserve base (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credit, July 1925).

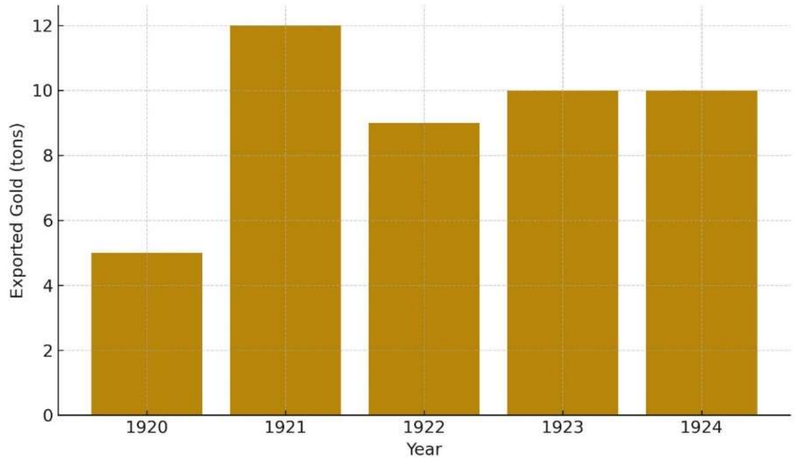

Figure 3: Annual Soviet gold exports for foreign trade financing (1920–1924) *
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credit, July 1925)

Figure 3 above is based on quantitative information extracted from U.S. State Department reports concerning Soviet foreign trade and gold transactions between 1920 and 1924. The annual figures represent estimated volumes of gold exported to finance imports of industrial equipment, machinery, grain, and other strategic goods. The data were compiled from archival references to Soviet foreign trade operations and are presented as an analytical reconstruction intended to illustrate the role of gold exports in sustaining Soviet external trade during the period.

This process also explains the economic rationale behind the United States' decision, from the mid-1920s onward, to condition diplomatic recognition of the Soviets on the "payment of debts in gold or dollars." Therefore, this brief period of gold exports was not merely a trade strategy; it also served as evidence in the eyes of Washington confirming the unreliability of Soviet financial sovereignty.

Gold exports and the Soviet foreign trade strategy raised deep suspicions in Washington regarding the regime's financial sustainability. This period of "mandatory cash payments" in the early 1920s was encoded by American policymakers as a structural weakness of the Soviet economy. This state of financial insecurity did not remain static; it followed a fluctuating course until 1938, accompanied by global crises, debt negotiations, and diplomatic maneuvers. The graph below summarizes the dramatic shifts in the United States' financial confidence index toward the Soviet Union between 1922 and 1938, highlighting the key turning points of this process (US Treasury Department, Division of Monetary Research, “Financial Confidence Index: Soviet Union, 1922–1938,” Confidential Statistical Report, November 1931).

Viewed within this general framework, the gold-centered payment practices of early Soviet finance should be interpreted not merely as a temporary necessity, but as a testing ground (experimentation area) that defined the structural boundaries of the regime's relationship with the international economic system. The reserve erosion experienced in the post-revolutionary period simultaneously shaped both the internal economic restructuring of the Soviet state and its mode of engagement with the outside world; it rendered permanent the tension between the claim to fiscal independence and the need for acceptance in global markets. Therefore, the period in question constitutes a foundational threshold for understanding why Soviet foreign trade and financial diplomacy developed along a cautious, cash-heavy, and reserve-oriented line in the following years. This early experience, traced through gold flows, clearly demonstrates that Soviet economic behavioral patterns were determined not only by ideological preferences but by concrete financial constraints and international relations of trust (Nove, 1992).

During the interwar period, the fragility of the international financial order, the contraction of credit flows, and the de facto breakdown of the gold standard compelled states to seek more closed and controlled solutions in their foreign trade and payment mechanisms. The progressive restriction of capital movements in the post-war era popularized foreign trade conducted through advance payments, bartering, and gold-based transactions; consequently, credit-based financing came to be perceived not only as an economic risk but also as a political one. Under these conditions, foreign trade was maintained through state guarantees, central bank intermediation, and bilateral arrangements rather than market-based financing relations. As emphasized in the text, the financial crises, the suspension of the gold standard, and the shrinking of credit markets during the interwar years shaped international economic relations within a framework of structural limitations rather than temporary fixes. This situation transformed cash and reserve-based approaches into a permanent policy practice in states' external economic relations (Tor Jacobson, Edvinsson, & Waldenström, 2018).

4. Negotiating Debt without Credit: The Soviet Position, 1922-1923

Archival documents regarding the early period of Soviet finance demonstrate that the Bolshevik government did not approach the debts inherited from the Tsarist era with an absolute and dogmatic rejection; on the contrary, it sought to redefine these obligations within the process of international negotiations. As clearly seen in the U.S. Department of State records, the Soviet delegation did not link the issue of debt recognition to a direct commitment to pay; instead, they conditioned this matter on reconstruction loans, moratorium periods, and property arrangements. This approach reveals that the Soviet side viewed the debt issue not as a financial necessity but as a diplomatic tool to facilitate economic recovery. In the documents, the stance of Maxim Litvinov, in particular, stands out as a clear expression of this conditionality. The Soviet delegation argued that the recognition of debts would only be meaningful if the capacity to pay was tangibly established; therefore, they tied the acceptance of debt to the provision of reconstruction credits and a temporary deferment of payments. Archival records formulate this approach as "recognizing the debt but not assuming liability before solvency is finalized." This position can be interpreted as an attempt to reconcile the severe liquidity shortage of Soviet finance with the anti-debt ideology of Communism on a pragmatic ground (Financial Conditions, Foreign Credits, 1946).

From a historical perspective, sovereign debt defaults have often emerged not merely as a result of financial inadequacies, but as a consequence of wars, regime changes, and ruptures in the international balance of power. Long-term data indicate that cases of debt repudiation concentrate particularly during revolutions and processes of state succession; at such moments of rupture, the legal status of debt is subordinated to political restructuring. In this context, the Soviet Union's repudiation of Tsarist debts can be evaluated not as an exceptional historical behavior, but as part of a sovereign debt strategy frequently observed following regime transformations. However, it is observed that in the early 20th century, international responses to such defaults gained an increasingly institutional and punitive character. Creditor states transformed debt crises into strategic tools for restructuring the global order by making the principles of debt loyalty and payment discipline the fundamental benchmarks of not only financial stability but also legitimacy within the international system (Burdekin & Sweeney, 2021).

However, American reports evaluated this strategy not as a trust-building overture, but as a tactical maneuver aimed at the de facto deferment of debts. According to Washington, the credit–recognition balance proposed by the Soviet side did not contain any binding or measurable guarantees for the creditor states. As long as debt recognition was offered without concrete payment schedules and binding obligations, it failed to create a meaningful element of trust among American policymakers. Consequently, Soviet proposals were categorized as initiatives where "not the intent to pay, but the capacity to pay remained untested (Financial Conditions, Foreign Credits, 1946).

Documents regarding the 1922 Hague Conference reveal that the debt issue was inextricably intertwined with property rights. Creditor states asserted the restitution of nationalized private property or the establishment of an effective compensation mechanism as a prerequisite for reopening credit lines to Russia. This demand was explicitly stated in American documents: nationalized properties must either be returned to their former owners or a reliable compensation system must be established; otherwise, capital confidence cannot be restored (Financial Conditions, Foreign Credits, 1946).

The Soviet delegation, however, regarded this approach as a "utopian" expectation that would effectively mean the reversal of the post-revolutionary economic order. As emphasized in the documents, from the Bolshevik perspective, property no longer belonged to individuals but to the state, and relations with foreign capital could only be possible through concession agreements. Within this framework, instead of the legal restitution of property, limited and temporary economic arrangements aimed at increasing productivity were prioritized. Thus, the debt issue was treated more as a matter of economic utility and state sovereignty rather than one of legal restoration.

U.S. State Department and Treasury records demonstrate that the United States followed a more rigid and principled line regarding the Soviet debt issue compared to other European creditors. From Washington's perspective, the recognition of debts alone was insufficient; this recognition had to be supported by concrete payment terms and binding schedules. Consequently, the Soviet demand for credit in exchange for recognizing debts was evaluated in American documents as a reversed logic. According to the American viewpoint, credit should be the result of debt loyalty, not its prerequisite. This approach led to the classification of Soviet finance by American policymakers as an actor with "uncertain intent to pay and structural insecurity." It is clearly observed in the documents that the Soviet debt policy was perceived as a temporary strategy aimed at gaining short-term liquidity, rather than being associated with long-term financial responsibility. Consequently, proposals for moratoriums, conditional recognition, or deferred payments were not considered acceptable solutions by Washington. Although the approach to public debt in communist regimes is often defined by a discourse of ideological rejection, historical practices demonstrate that this stance is more flexible and instrumental in practice. While debt was criticized as an element of the capitalist order in the post-revolutionary period, it was not entirely eliminated within the context of state-building, fiscal consolidation, and international relations; instead, it was redefined and utilized in different forms. Within this framework, rather than being a financial instrument ignored by the socialist system, public debt functioned as a tool for internal resource mobilization, mandatory saving mechanisms, and a bargaining chip in external negotiations. Therefore, communist debt practice emerged as a unique form of regulation, harboring inherent contradictions that reflect the structural tension between the claim of ideological rupture and fiscal necessities (Peyrat & Ironside, 2022).

A holistic reading of these archival documents reveals that during the 1922–1923 period, the Soviet Union was effectively driven into a "credit-closed" position within the international financial system. The disagreements over the recognition of debts, the restitution of property, and compensation mechanisms prevented Soviet access to reconstruction loans; this, in turn, rendered Moscow more dependent on gold and advance payment methods in foreign trade. In American reports, this situation is presented as an early diagnosis of a structural solvency problem within Soviet finance (Financial Conditions, Foreign Credits, 1946).

In this context, the debt issue became not merely an accounting of past obligations, but a fundamental test determining the terms under which the Soviet regime could integrate into the international economic order. The stance adopted by the United States during this process can be read as an early expression of the "cash payment" and "recognition based on credit discipline" approach that would become institutionalized in the following years. Thus, the 1922–1923 debt negotiations constituted a critical turning point in the formation of the normative framework of American financial diplomacy. At this point, structural evaluations of the early Soviet economic framework place the American distrust that emerged during the 1922–1923 negotiations into a broader historical context. These analyses reveal that although the Soviet economic model demonstrated a capacity for rapid capital accumulation and investment mobilization in its early stages, this performance relied on intensive internal resource mobilization and centralized direction rather than institutional trust mechanisms based on credit. This structure produced an economic behavioral pattern that prioritized self-sufficiency and cash-based transactions over integration with foreign financing. Therefore, the Soviet position in the early 1920s, which linked debt recognition to credit access, was evaluated by American policymakers not as diplomatic flexibility, but as an early sign of an economic system unable to develop long-term payment discipline. This framework demonstrates that Washington's permanent classification of Soviet finance as a "credit-closed" actor unreliable beyond cash payments was based on structural as well as ideological foundations (Allen, 2001).

5. The Financial Shadow of Rapallo: "Debt Repudiation" and the Search for Stability in American Diplomacy (1922-1926)

The Soviet Union's liquidity crisis and the necessity to export gold in the early 1920s were perceived by Washington not merely as an economic weakness, but as a threat to the international legal order. This perception of threat evolved into a concrete diplomatic crisis with the signing of the Treaty of Rapallo in 1922. While Rapallo stipulated the mutual waiving of debt claims between Germany and Soviet Russia, American archival documents characterize this treaty as a "violation of international financial morality.

The repudiation of Soviet debts and the subsequent Western reactions reflect a long-term negotiation process in which international law and financial pragmatism became intertwined, rather than a purely ideological conflict. In the post-revolutionary period, instead of defending Tsarist debts within the framework of a legally consistent doctrine of state succession, the Soviet administration adopted an opportunistic stance that shifted according to economic and diplomatic conditions; it linked the issue of debt recognition to credit access, the resumption of trade, and diplomatic recognition. In response, Western powers particularly the Anglo-American front framed the recognition of debts and the protection of property rights as a prerequisite for becoming a "legitimate" actor in the international system, adapting these principles to political and economic goals through flexible legal interpretations. This process reveals that debt crises are not merely the liquidation of past obligations, but are normative and strategic tools utilized by great powers to restructure the international order (Denza & Poulsen , 2023).

The significance of the Soviet debt crisis from Washington's perspective must be evaluated not merely as a bilateral creditor–debtor dispute, but as part of a broader hegemonic order established by core countries over peripheral economies through mechanisms of debt, sanctions, and conditionality. Studies on historical debt crises demonstrate that, particularly in the presence of a hegemonic power, debt becomes not only an economic instrument but also a political and institutional tool of discipline. Within this framework, creditor states have utilized principles such as debt recognition, protection of property rights, and payment loyalty as normative thresholds that determine the terms under which debtor countries can integrate into the international system. Consequently, the United States' rigid debt and recognition policy toward the Soviet Union should be read rather than as simple ideological opposition as a historical example of debt crises being instrumentalized by hegemonic powers to restructure the international economic order and discipline peripheral economies (Onuk, 2019).

Confidential correspondence from the U.S. Department of State dated 1922 is replete with warnings that Rapallo set a "dangerous precedent" for other creditor nations, particularly France and Great Britain. According to Washington, if a state could unilaterally repudiate its debts and subsequently "shake hands" with another major power namely Germany without assuming any obligations, this would jeopardize the entire future of American capital in Europe. The term "repudiation" as used in these documents evolved during this period from a mere financial term into a political label used to cast a state out of the "community of civilized nations" (Financial Conditions, Foreign Credits, April 1922).

The doctrine of "No Recognition without the Recognition of Debts" constituted a legalist barrier constructed by American financial diplomacy in response to Rapallo. Reports produced between 1923 and 1925 argued that the diplomatic recognition of the Soviet regime without the restitution of property rights or the payment of compensation would contradict fundamental American constitutional principles. During this period, Soviet efforts to utilize their gold reserves in foreign trade were obstructed by American banks, which classified such assets as "stolen property." Washington's strategy of financial isolation thus compelled the Soviet Union to expend even greater quantities of gold and to enter into increasingly disadvantageous trade agreements (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935).

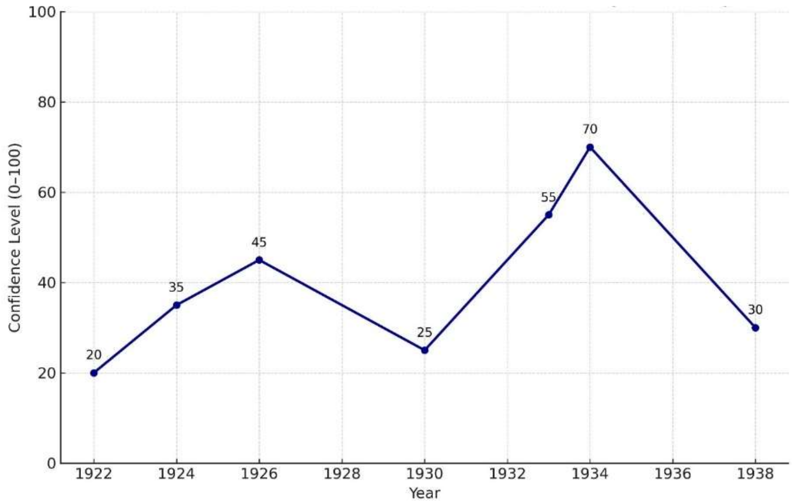

Figure 4: Fluctuations in international financial confidence toward the Soviet regime (1922–1938) *
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935)

Figure 4 above presents an analytical Financial Confidence Index constructed by the author on a scale of 0–100 to visualize changes in American perceptions of Soviet financial reliability between 1922 and 1938. The index is based on qualitative and quantitative evidence contained in U.S. Treasury Department and State Department archival reports, including assessments of debt repayment capacity, access to international credit markets, gold reserve adequacy, diplomatic recognition status, trade performance, and references to solvency and financial stability. The values do not represent official historical statistics but are intended as an interpretative tool for illustrating long-term fluctuations in American financial confidence toward the Soviet Union.

The data presented in the graph document the strategic shifts in Washington's perception of Soviet finances. The period between 1922 and 1924 represents a low baseline phase. The uncertainty generated by the Genoa Conference and the Treaty of Rapallo kept the index at its lowest levels. During this phase, the United States categorized the Soviet regime as an unreliable actor capable of operating only on a cash-payment basis. By 1930, the impact of the Great Depression becomes evident. The deepening of the Soviet foreign trade "price scissors" crisis amid the global economic downturn reduced the confidence index to 25 points. In this period, Washington increasingly circulated reports portraying the Soviet Union as being in a state of insolvency. The years 1933–1934 may be described as the peak point. The establishment of diplomatic recognition between the United States and the USSR, along with renewed expectations regarding a debt repayment schedule, temporarily elevated confidence to nearly 70 points. However, this optimism proved short-lived due to unresolved disputes over debt restitution. 1938 marks the final decline. The opaque structure of the Soviet budget and the concealment of the proportion of military expenditures within overall spending closed the period with a low confidence level of approximately 30 points. Overall, this confidence index graph confirms that American foreign policy conceptualized the Soviet regime not merely as a political rival, but as a high-risk commercial actor whose ability to adapt to international financial rules remained under constant scrutiny (U.S.

Treasury Department, Division of Eastern European Affairs, “Comparative Chart of Soviet Gold Holdings 1917–1924,” Annex to Report on Soviet Gold Disbursements, April 1924).

6. The Real Cost of the Budgetary Outlook, the Soviet Budgetary Illusion, and the 1938 Reports

The period of 1935-1938 reveals that although the Soviet financial system appeared nominally balanced, it structurally produced a "liquidity illusion." During this era, more than 70% of Soviet budget revenues were derived from turnover taxes on consumption, while the bulk of state investment expenditures was diverted to military infrastructure projects disguised as "social services." U.S. reports emphasized that as of 1938, this situation represented a "resource depletion of the civilian economy." The shipment of $200 million worth of gold to the United States in 1937 demonstrates that the Soviets were no longer utilizing budget surpluses, but were instead resorting to direct reserve sales. Consequently, by 1938, analysts in Washington described the Soviet economy as "nominally solvent, but structurally bankrupt" (Financial Conditions, Foreign Credit, January 1920).

In the reports of 1938, the emerging new concept was "liquid solvency." This term implies that a state's debt-repayment capacity relies solely on its existing liquid assets, while it lacks any long-term credibility. As of the end of 1938, the U.S. Treasury categorized the Soviets as a "gold-dependent debtor." This marked the first time in the history of American financial diplomacy that a country was denied access to credit even in the post-recognition period.

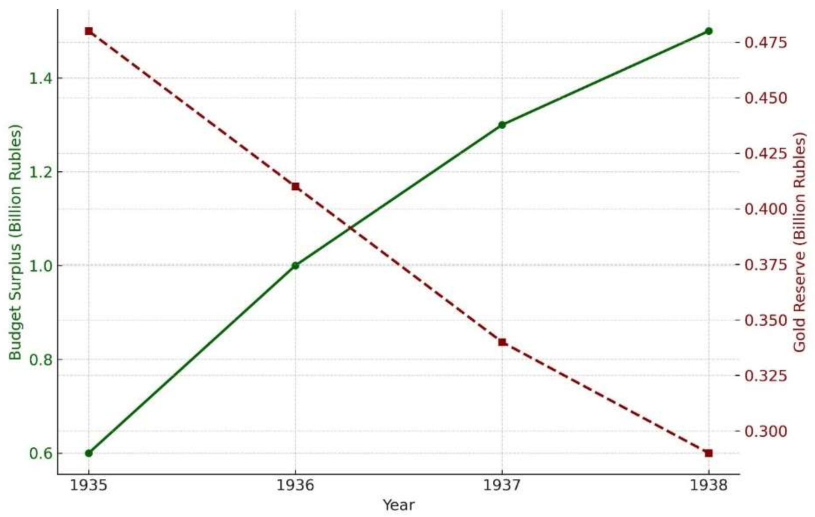

Figure 5: The collapse of financial trust: from diplomatic recognition to the "liquidity ıllusion"(1922–1938)*
* (Financial Conditions, Foreign Credit, January 1920)

Figure 5 above is an analytical reconstruction based on quantitative information contained in U.S. Treasury Department, State Department, and diplomatic reports concerning Soviet budgetary performance and gold reserve holdings between 1922 and 1938. The budget surplus series reflects officially reported Soviet fiscal balances, while the gold reserve series is derived from archival estimates of reserve holdings and gold transfers. The figure is designed to illustrate the divergence between reported fiscal stability and declining reserve assets, highlighting what contemporary American observers described as a “liquidity illusion.” The visualization is intended for analytical interpretation rather than as an exact representation of Soviet accounting records. The comparison between budget surpluses and reserve depletion is used as an analytical device to evaluate the sustainability of Soviet fiscal performance from the perspective of contemporary American financial observers.

The comparative trajectory of the two curves in the graph budget surplus and gold reserves clearly reveals the structural contradiction of Soviet fiscal policy in the late 1930s. At a time when Moscow officially announced an ever-increasing annual budget surplus, the simultaneous rapid depletion of gold reserves demonstrates that this fiscal balance was achieved not through growth, but through liquidation. In a 1938 American Embassy report, this situation was defined as a "budgetary illusion born of monetary exhaustion." The sharp divergence between 1936 and 1938 where budget surpluses increased by 50% while gold reserves fell by more than 40% shows that the Soviet reporting system masked capital erosion with external liquidity. In other words, every "ruble of budget surplus" simultaneously meant a "ruble of reserve loss." This transformed the state’s claim of stability into a numerical fiction. For Washington, this paradox was quantitative evidence that the Soviet Union’s economic solvency was not structural, but merely liquid. This analysis formed the institutional foundation of the "cash-payment doctrine" that the United States would maintain toward Soviet finance for many years (Linn, 2004).

The long-term fragility of the Soviet economic system can be explained not only through planning errors or ideological rigidity but also through its limited and fragmented integration into the international economic system. Instead of integrating with foreign trade, capital flows, and financial institutions, the Soviet Union particularly in its early and middle periods preferred to conduct its economic relations through bilateral agreements and administrative mechanisms. While this choice appeared to be a strategy to limit foreign dependency in the short term, it produced structural costs in terms of technology transfer, productivity growth, and financial flexibility in the long run. Weak integration with global economic networks reduced the system's resilience to shocks; limited access to foreign financing led to the overstretching of internal resources and the increasing fragility of fiscal sustainability. Within this framework, the Soviet experience demonstrates that economic disintegration is not merely a foreign policy choice, but a structure that undermines long-term fiscal and institutional stability (Linn, 2004).

By 1937, although the Soviet economy continued to project budgetary stability on paper, it had in reality reached the threshold of exhausting its capital reserves. Records from the U.S. Treasury and State Department document that, during this period, Moscow based its external debt repayment capacity solely on existing gold reserves, while becoming entirely cut off from international credit markets. Reports circulating in Washington described 1937 as “the terminal phase of metallic solvency,” marking the final stage of metal-based payment capacity. In this context, the Soviet leadership increasingly adopted a strategy of placing its reserve gold into circulation through non-commercial channels in order to sustain rising military expenditures and industrial investments. Financial intelligence reports based in London indicate that the Soviet Union removed gold exports from conventional trade categories and instead conducted them through “bilateral compensation” agreements. In this way, Soviet finance sought to settle external obligations through physical value transfers, without generating an official budget deficit.

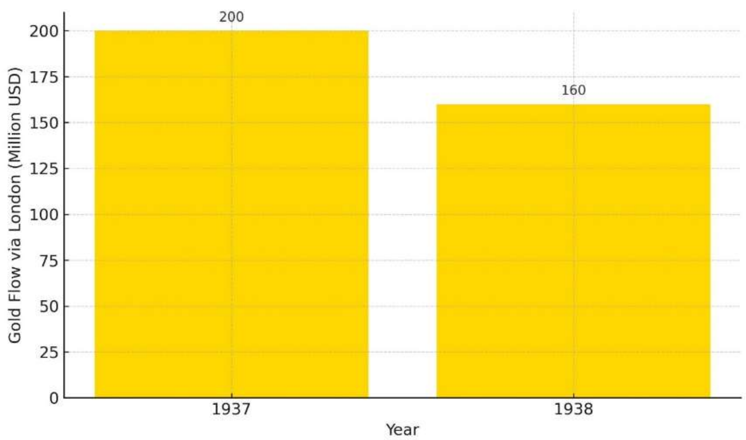

Figure 6: Volume of Soviet gold transfers via London during the terminal phase of solvency (1937–1938) *
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934)

However, this method did not escape the attention of U.S. Treasury officials. Confidential reports reaching Washington by the end of 1937 emphasized that the Soviets had transferred approximately $200 million worth of gold via London, stressing that these movements reflected internal fiscal pressure rather than genuine external payment capacity. American diplomats characterized this process as “a liquidation of the last tangible assets in exchange for time,” that is, the disposal of final material assets in an effort to gain time. (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934) The graph presented below illustrates how the Soviet gold shipments reaching the United States between 1937 and 1938 reflect this structural transformation. The data reveal that the decline in gold flow was not merely an economic downturn but a concrete indicator of the loss of diplomatic trust (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 19 April 1934).

Figure 6 above is based on quantitative information extracted from U.S. State Department reports, Treasury memoranda, and diplomatic correspondence concerning Soviet gold transfers conducted through London between 1937 and 1938. The values represent archival estimates of gold shipments associated with external payment obligations and international settlements. The figure was reconstructed from contemporary American assessments and is intended to illustrate the declining volume of Soviet gold transfers during the final phase of reserve-based solvency. It serves as an analytical visualization of broader financial trends rather than a complete record of all Soviet gold transactions.

By 1938, the observed "liquidity illusion" is treated within a historical continuity in subsequent analyses of the Soviet economy. The relevant study, while evaluating the long-term stability problems of the Soviet economy, emphasizes that the appearance of fiscal balance was largely achieved through reserve consumption, administrative pricing, and the deferral of external payment pressures. It is explicitly stated that budget discipline was fueled not by real productivity gains, but by monetary squeezing and the overextension of external liquidity; therefore, the apparent stability failed to produce structural resilience. These findings directly align with the "nominal balance vs. real solvency" divergence voiced in late-1930s American reports, demonstrating that the Soviet financial system's tendency to protract crises rather than solve them became a recurring behavioral pattern in the following decades. Thus, the budgetary illusion diagnosed in the 1938 reports gains significance not merely as a period-specific anomaly, but as an early indicator foreshadowing the long-term fragility of the Soviet economic structure (Vernikov, 1989).

7. Tax Concentration in the Soviet Fiscal Structure and the Rise of the Turnover Tax (1938)

By 1938, although the Soviet economy presented a balanced budget on the surface, a profound deterioration in revenue composition lay behind this balance. This situation, identified in American archival documents as "fiscal distortion," stemmed from the increasing concentration of revenue sources into a single item: the Turnover Tax. According to the official budget declaration of the Moscow administration, approximately 71.4% of state revenues were derived from this tax type, which was applied directly to the public's basic consumption goods and distorted the price structure. In contrast, profits from industrial enterprises and foreign trade revenues accounted for only 17% of the total revenue. The 8.5 billion rubles in revenue obtained from domestic debt bonds was evaluated by American diplomats in their own words not as "actual income, but a future liability" (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935).

Figure 7 is based on budgetary data reported in U.S. State Department and Treasury analyses of the Soviet fiscal system in 1938. The categories presented in the figure including turnover tax revenues, industrial and foreign trade revenues, and domestic bond income were reconstructed from archival assessments of the official Soviet budget. The figure is intended to illustrate the relative concentration of state revenues and the dominant role of turnover taxation within the Soviet fiscal structure. The term “fiscal distortion” reflects contemporary American interpretations contained in the archival record and is used here as an analytical framework for evaluating revenue composition.

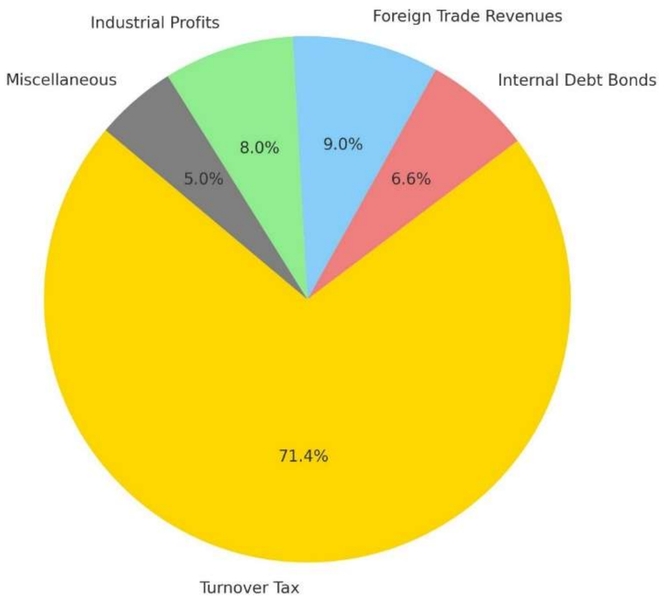

Figure 7: Fiscal distortion: composition of Soviet budgetary revenues (1938)*
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935)

As is clearly illustrated in the graph, the revenue structure of the 1938 Soviet budget displays a profoundly unbalanced character. The fact that more than two-thirds of total revenues were derived from the Turnover Tax reveals that the economy was financed primarily through consumption rather than production. Because this tax was imposed directly on basic consumer goods, it not only intensified inflationary pressures but also eroded domestic purchasing power. American financial reports described this structure as an “inflation-concealed budget surplus.” The fact that industrial and foreign trade revenues together accounted for only 17 percent of total income indicates that the Soviet economy increasingly relied on a model of fiscal sustainability based on compulsory consumption, rather than on productive sectors. This structural imbalance constituted one of the principal reasons behind the United States’ classification of the Soviet regime as a “high-tax, low-credibility economy.” The year 1937 marked a critical turning point in Soviet public finance, characterized by declining external reserves and the rapid expansion of domestic borrowing. According to American diplomatic reports, this period represented the final phase in which the Soviet regime attempted to balance “physical gold” against “paper debt.” U.S. Treasury reports record that, within the same year, Moscow transferred approximately $200 million worth of gold to the United States, while simultaneously issuing 8.5 billion rubles in domestic government bonds. Because these two figures were of comparable monetary magnitude, Washington’s analyses summarized the situation with the phrase “one cancels the other out.” This formulation underscored that while Soviet finance was creating money domestically, it was simultaneously losing liquidity externally, rendering budgetary stability purely nominal (US, State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935).

The graph below visually demonstrates the close correspondence between these two monetary magnitudes as of 1937. The data document a dual financial pressure, in which the liquidation of gold reserves and the expansion of domestic debt unfolded simultaneously.

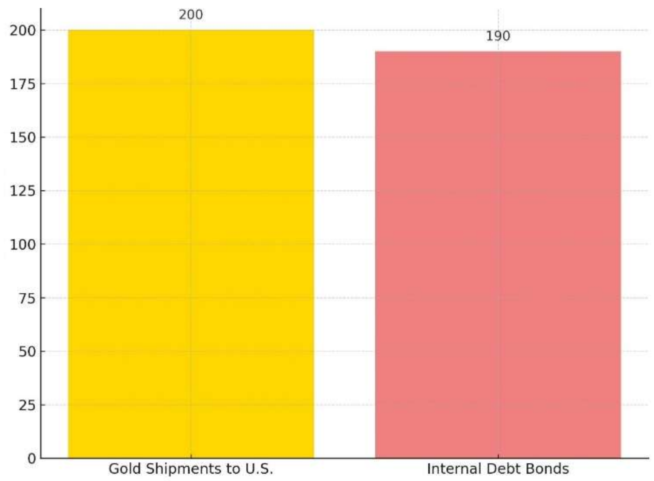

Figure 8: Monetary neutralization: comparative scale of gold shipments vs. internal debt bonds (1937) *
* (U.S., State Dept Records - Russia, 1930-1939, Financial Conditions, Foreign Credits, 15 August 1935)

Figure 8 above is an analytical comparison based on quantitative information contained in U.S. Treasury Department and State Department reports concerning Soviet gold transfers and domestic borrowing activities in 1937. The figure juxtaposes archival estimates of gold shipments abroad with reported domestic bond issuances in order to illustrate the simultaneous depletion of external reserves and expansion of internal financing. The visualization is intended to demonstrate broader trends identified by contemporary American observers regarding Soviet liquidity management and fiscal sustainability. It does not represent a direct accounting equivalence between the two categories but serves as an interpretative tool for examining the relationship between reserve liquidation and domestic debt expansion.

As seen in the graph, as of 1937, Soviet finance entered a period where internal and external financial pressures intersected. The $200 million gold shipment to the United States demonstrates that Moscow was utilizing its last liquid assets to meet short-term external obligations. In contrast, the 8.5 billion rubles in domestic debt bonds issued in the same year prove that this loss of liquidity was being compensated for within the domestic market. American Treasury records defined this picture as a "monetary balancing illusion." While gold was exiting to the outside world, the debt created internally produced an effect of monetary expansion and temporarily masked the budget deficit. This situation definitively proved in the eyes of the United States that Soviet finance suffered from a structural reliability problem, rendering Washington's "cash-on-delivery diplomacy" approach permanent.

8. From Debt Crisis to Global Financial Hegemony (1934-1938)

The “liquidity illusion” identified in American archival reports and the continuing depletion of Soviet gold reserves were interpreted by policymakers in Washington as indicators of broader weaknesses within the Soviet financial system. Rather than being viewed solely as economic statistics, these developments increasingly shaped American discussions concerning financial stability, creditworthiness, and the conditions necessary for participation in international markets. During this period, debt negotiations became closely connected to wider questions regarding financial transparency, contractual obligations, and the protection of foreign investments. The re-establishment of diplomatic relations between the United States and the Soviet Union in 1933-1934 did not resolve the underlying financial disputes. Within the framework of the Litvinov–Roosevelt negotiations, American officials continued to emphasize compensation claims associated with pre-revolutionary debts and nationalized property, while Soviet proposals remained substantially below American expectations. As a result, diplomatic recognition improved political relations but failed to produce a comprehensive settlement of outstanding financial issues. American financial institutions remained cautious regarding Soviet credit requests, and bilateral trade continued to rely heavily on indirect payment mechanisms operating through European financial centers such as London and Stockholm. Archival documents further indicate that Soviet efforts to obtain credit through gold-backed arrangements encountered considerable resistance from American authorities. Treasury officials repeatedly expressed concerns regarding repayment guarantees, reserve sustainability, and long-term financial reliability. Following these difficulties, Soviet policymakers increasingly relied on domestic sources of revenue, particularly turnover taxation, which by the late 1930s constituted the dominant component of state income. American observers frequently interpreted this growing dependence as evidence of mounting fiscal pressures and limited financial flexibility. The period between 1934 and 1938 therefore represents an important phase in the evolution of American thinking on international financial governance. The Soviet case contributed to broader discussions regarding the relationship between credit access, financial transparency, debt obligations, and state credibility. Archival evidence suggests that policymakers increasingly viewed these principles as interconnected elements of a stable international financial system. In this respect, the Soviet experience served as an important reference point in debates concerning the standards and conditions that should govern participation in international credit and investment networks.

By the late 1930s, American policymakers increasingly linked questions of financial credibility, debt repayment, and reserve adequacy to broader concerns regarding international stability. Archival records indicate growing efforts within the U.S. Treasury to monitor international financial developments and payment flows, reflecting a wider interest in the relationship between economic conditions and foreign policy. Although these initiatives differed substantially from the institutional mechanisms that emerged after World War II, they illustrate an early tendency to connect financial oversight with international governance. For the Soviet Union, the late 1930s were characterized by increasing reliance on domestic resources as access to international credit remained limited. The depletion of gold reserves, continuing disputes over debt settlements, and concerns regarding financial transparency contributed to a growing dependence on internal fiscal instruments. American observers frequently interpreted these developments as evidence of structural weaknesses within the Soviet financial system and questioned the long-term sustainability of Soviet fiscal practices. From the perspective of American policymakers, the Soviet experience reinforced the importance of financial transparency, contractual obligations, and creditworthiness in international economic relations. Although the chronological scope of this study ends in 1938, these debates anticipated broader post-war discussions regarding economic security, conditional assistance, and international financial cooperation. In this respect, the Soviet debt controversy provides an important historical context for understanding how financial considerations increasingly became integrated into wider discussions of international order and security during the mid-twentieth century. As Krey argues, economic and financial considerations played an important role in shaping subsequent American approaches toward the Soviet Union. While military and geopolitical concerns would eventually become dominant features of Cold War strategy, earlier debates surrounding debt, credit, and financial reliability contributed to the intellectual and institutional environment in which later policies of containment emerged (Krey, 2025).

American foreign policy during this period may be interpreted not solely through the lens of ideological opposition, but also as an effort to establish principles governing international financial relations. The emphasis placed on debt recognition, payment discipline, and financial credibility suggests that economic considerations occupied an increasingly important position within diplomatic decision-making. In this context, the “cash-payment” approach that emerged in American discussions of Soviet finance reflected broader concerns regarding financial risk, contractual obligations, and access to international credit. The Soviet debt controversy also illustrates how questions of solvency and repayment capacity became closely connected to wider debates about legitimacy and participation within the international economic system. Archival evidence indicates that American policymakers frequently linked diplomatic recognition and commercial engagement to perceptions of financial reliability and institutional credibility. As a result, concepts such as debt repayment, transparency, and willingness to meet financial obligations assumed significance beyond their immediate economic meaning. Although the chronological scope of this study ends in 1938, these debates anticipated later discussions regarding economic security, conditional assistance, and international financial governance. In this sense, American financial diplomacy during the interwar period may be viewed as an important historical precursor to post-war approaches that increasingly connected economic stability with broader questions of international order and security. Economic considerations were no longer treated solely as commercial matters but became closely intertwined with diplomatic strategy and the management of international relations (Erkan, 2010).

The period between 1922 and 1938 represents an important phase in the evolution of American financial diplomacy. Archival evidence suggests that Washington viewed the Soviet repudiation of pre-revolutionary debts not merely as a bilateral financial dispute, but as a challenge to prevailing principles governing international credit relations, property rights, and contractual obligations. Discussions concerning solvency, debt recognition, and repayment capacity became central elements of American assessments of Soviet financial behavior. In this context, the protection of property rights and the recognition of financial obligations increasingly emerged as important considerations within U.S. foreign policy. Rather than focusing solely on the recovery of outstanding claims, American policymakers frequently linked these issues to broader questions of financial credibility, international legitimacy, and participation in the international economic system.

Archival records, particularly American Treasury and State Department correspondence from 1937 and 1938, define observations of Soviet finance with the concept of "operational opacity." Reports sent from Moscow stated that Soviet budget tables "did not reflect actual cash movements" and that official surplus declarations were manufactured through "off-balance transactions." The Treasury Statistical Memorandum No. 23 of 1938 summarizes this situation as follows: “The reported surpluses are nominal; gold depletion offsets any statistical equilibrium.” The same document emphasizes that 71% of Soviet revenues were secured through "consumption-based turnover taxes," a structure that constrained domestic demand and rendered state revenues unsustainable. For Washington, this picture was evidence not only of a "lack of transparency" but also of a "structural internal risk" within Soviet finance. In parallel, the 1937 Foreign Funds Control Division Report and the Moscow Embassy’s “Confidential Cable No. 443” define Soviet external reserve movements as being at a “critical depletion level.” The report notes that the shipment of $200 million worth of gold to London and New York markets between October 1937 and June 1938 represented an “emergency liquidation of tangible assets” to maintain the regime's short-term external solvency. The term “gold exhaustion” was first systematically utilized in the documents during this period (Financial Conditions, Foreign Credit, January 1920).

The same report includes a Treasury note rejecting Soviet attempts to secure credit from the U.S. with the phrase “impractical under present solvency conditions.”

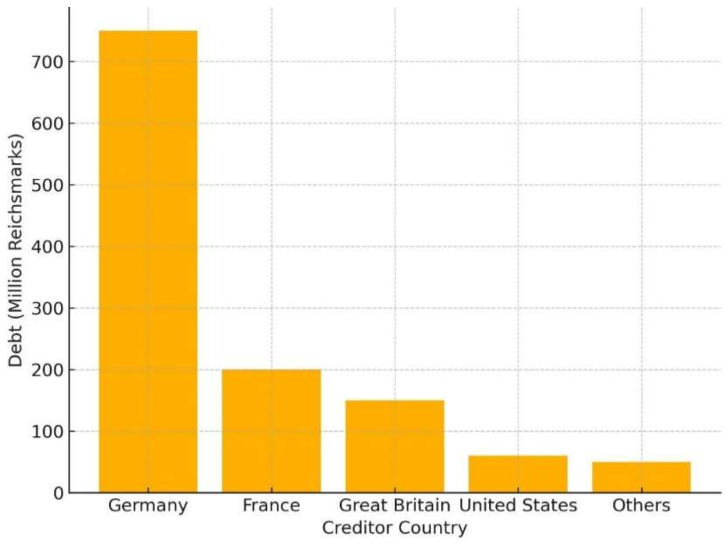

Figure 9: Soviet foreign debt distribution by creditor (1934)*
* (Financial Conditions, Foreign Credit, January 1920)

These documents provide clear archival evidence that the United States classified Soviet financial behavior not merely as an economic failure, but as a structural threat to international payment security. By the late 1930s, the structural fragility of Soviet finance became readable not only through reserve erosion or budget composition but also through its position within the international debt architecture. The rapid liquidation of gold reserves and the closure of access to credit markets condemned the Soviet Union to a fragmented and asymmetric creditor structure rather than a multilateral debt relationship. The graph below illustrates the distribution of Soviet foreign debt among various creditors as of 1934, explaining why Washington positioned itself as a normatively central actor despite being a quantitatively limited creditor (Financial Conditions, Foreign Credit, January 1920).

Figure 9 above illustrates the distribution of the Soviet Union's external debts by creditor as of 1934. The graph demonstrates that while European powers, such as France and the United Kingdom, held quantitatively higher shares in the Soviet debt portfolio, the United States remained the actor with the most uncompromising stance on debt recognition and the protection of property rights, despite carrying a relatively limited financial risk. This confirms that the U.S. approach to the Soviet debt crisis was shaped by the normative integrity of the international financial order rather than actual material loss. For Washington, the issue was not the amount of the claim, but the potential for debt repudiation to set a systemic precedent. Another element as significant as the total distribution of debts is the geographical concentration of this creditor structure. The clustering of Soviet external debts in specific financial centers narrowed Moscow's diplomatic maneuvering room; simultaneously, it rendered visible the specific hubs through which American financial diplomacy exerted pressure. Figure 10 reveals the spatial organization of Soviet debt relations, demonstrating that the debt crisis was not merely a fiscal issue but a problem of geopolitical concentration (Financial Conditions, Foreign Credit, January 1920).

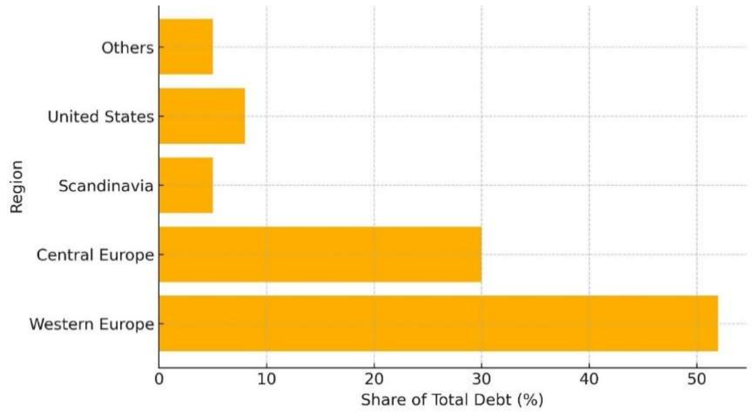

Figure 10: Regional concentration of Soviet foreign creditors (1934)*
* (Financial Conditions, Foreign Credit, January 1920)

Figure 10 illustrates that Soviet external debts were predominantly concentrated in Western European financial hubs. This distribution, centered on the London–Paris–Berlin axis, rendered Soviet finance dependent on Anglo-European capital networks for credit access. Although the United States was not the largest direct creditor in this landscape, it is evident that Washington assumed a decisive role through indirect control mechanisms operated via the London and New York markets. This spatial concentration formed the infrastructure for Washington's classification of the Soviet Union as "an actor capable of integrating into the global financial system, yet one that remains untrustworthy" (Financial Conditions, Foreign Credit, January 1920).

The geographical and quantitative distribution of creditors directly shaped their political positions in the debt negotiations. Unlike other creditors, the United States' stance on Soviet debts relied on the principle of conditionality rather than a search for compromise. The graph below illustrates how the American negotiating position regarding Soviet debts hardened between 1922 and 1934 and how it evolved into the "cash payment" doctrine (US, State Dept Records - Russia, 1930-1939, April 1922).

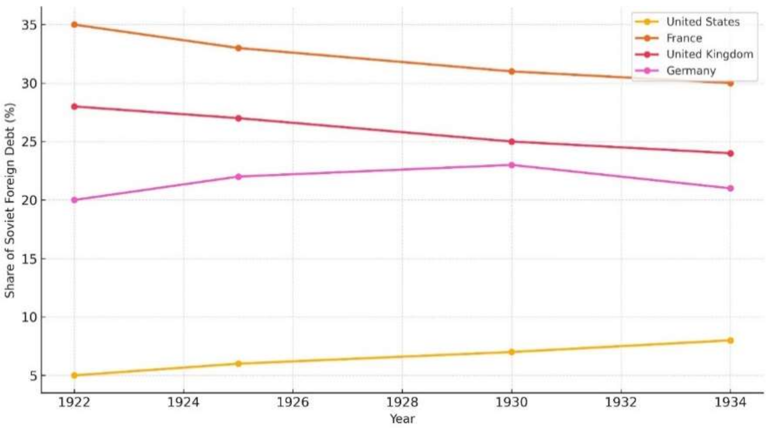

Figure 11: US position in Soviet debt settlement proposals (1922–1934)*
* (U.S., State Dept Records - Russia, 1930-1939, April 1922)

Figure 11 illustrates the temporal evolution of U.S. proposals regarding Soviet debt. While the restitution of property and debt recognition requirements were at the forefront in the early 1920s, it is evident that by the 1930s, the American position had shifted clearly toward a "cash-on-delivery" basis. This transformation demonstrates that Washington defined Soviet finance not as a debtor with long-term credibility, but as a high-risk actor capable only of liquid asset transfers. This seemingly uncompromising stance of the United States was, in fact, part of a conscious strategy aimed at the institutionalization of international financial discipline. This hardened position of American financial diplomacy was not merely a product of the Soviet experience; on the contrary, it possessed a historical background fed by the pre- and post-revolutionary transformation of the foreign capital structure in Russia (US, State Dept Records - Russia, 1930-1939, April 1922).

Figure 12 below compares the composition of foreign investments in Russia between 1914 and 1922, explaining why the United States emerged as a norm-setting actor despite its relatively low share of investment (US, State Dept Records - Russia, 1930-1939, April 1922).

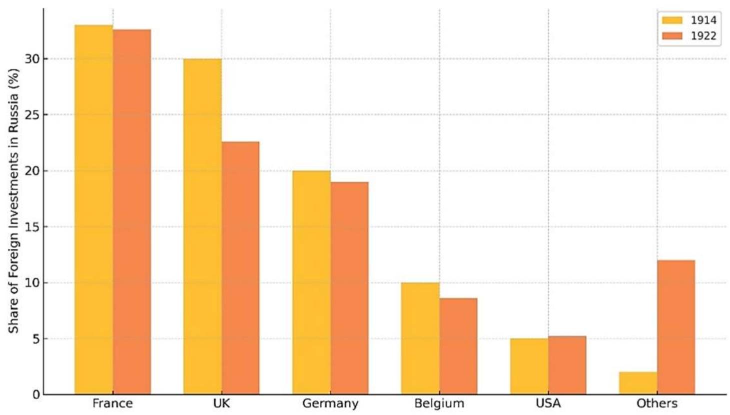

Figure 12: Comparative evolution of foreign investment shares in Russia (1914–1922)*
* (U.S., State Dept Records - Russia, 1930-1939, April 1922)

Figure 12 demonstrates that during the Tsarist Russian era, foreign capital relied heavily on French and British investments, while the United States maintained a limited but strategic investment profile. The disintegration of this capital structure in the post-revolutionary period led to American investments being treated as a legal and normative issue rather than a quantitative loss. This comparison clearly reveals that the rigid American stance in the Soviet debt crisis stemmed from a concern regarding the future of the international investment regime rather than actual economic loss (US, State Dept Records - Russia, 1930-1939, April 1922).

9. Conclusion

This article has examined American policy toward the Soviet Union between 1922 and 1938 through the framework of financial diplomacy, emphasizing the relationship between debt recognition, financial credibility, property rights, and international economic order. Drawing upon U.S. Treasury Department and State Department archival materials, the study demonstrates that American policymakers frequently approached the Soviet debt question not solely as an ideological challenge but also as a problem of financial reliability, contractual security, and risk management. Concepts such as debt recognition, solvency, property protection, and payment discipline repeatedly appeared in official correspondence and policy discussions, indicating that financial considerations occupied a central place in American assessments of Soviet behavior.

The findings suggest that the rapid depletion of Soviet gold reserves and the increasing reliance on gold- and cash-based transactions reinforced American concerns regarding long-term financial stability. Archival evidence reveals that Washington's reservations toward Soviet creditworthiness were linked not only to the repudiation of pre-revolutionary debts but also to broader concerns regarding transparency, reserve adequacy, and the absence of clearly defined repayment mechanisms. Consequently, the preference for cash payments and strict financial conditions emerged as an institutional response to perceived financial risks rather than as a purely ideological reaction to communism.

The study further demonstrates that American evaluations of Soviet finances became increasingly influenced by assessments of fiscal sustainability during the late 1930s. Treasury reports, diplomatic correspondence, and financial memoranda repeatedly emphasized the contrast between officially reported budgetary stability and the continuing erosion of reserve assets. The archival record indicates that American observers interpreted this divergence as evidence of structural fragility rather than genuine financial strength. In this respect, the Soviet debt question evolved beyond a dispute concerning past obligations and became a broader discussion regarding the standards of credibility, transparency, and reliability that would govern participation in international financial markets.

The archival materials examined throughout this study reveal a remarkable consistency in the language employed by American officials. Treasury memoranda, diplomatic correspondence, and State Department reports repeatedly linked financial credibility to debt recognition, reserve adequacy, property protection, and the ability to demonstrate reliable repayment commitments. These concerns appeared not only during periods of acute crisis but throughout the entire period under examination. Consequently, the Soviet debt issue was interpreted in Washington less as a temporary dispute over unpaid obligations than as a test case for determining the conditions under which states could participate in the international financial system.

The contribution of this study to the existing literature may be summarized at three levels. First, it highlights the institutional and normative dimensions of American financial diplomacy by moving beyond interpretations based exclusively on ideological confrontation. Second, it demonstrates how indicators such as gold reserves, foreign-trade payment practices, and fiscal structures became integrated into diplomatic assessments of financial credibility and solvency. Third, it suggests that principles of conditional lending, financial transparency, and payment discipline that emerged during the interwar period contributed to the development of later approaches to international economic governance.

Although the chronological scope of this study ends in 1938, references to later developments such as the Truman Doctrine and the Marshall Plan are intended to illustrate the longer-term institutional legacy of financial principles that emerged during the interwar period. These examples are not presented as part of the article's primary empirical focus but rather as evidence of the continued evolution of concepts such as financial discipline, conditional assistance, and economic security within American foreign policy. The study nevertheless has certain limitations. Because the analysis relies primarily on American archival sources, Soviet internal decision-making processes cannot always be examined with the same degree of detail. Furthermore, historical comparisons involving gold reserves, currency values, and fiscal indicators are constrained by variations in statistical reporting and the incomplete nature of some archival records. Future research would benefit from a more systematic incorporation of Soviet fiscal documents and Gosbank materials, as well as comparative investigations drawing upon British, French, and German archives.

In conclusion, the Soviet debt crisis represented for the United States more than a question of debt repayment. It became an important arena in which issues of financial credibility, property rights, contractual obligations, and international legitimacy were debated and defined. The evidence examined in this study suggests that American financial diplomacy increasingly relied upon principles of conditional access to credit, transparency, and payment discipline as mechanisms for regulating participation in the international economic system. Viewed from this perspective, American policy toward the Soviet Union between 1922 and 1938 may be understood not simply as a response to ideological differences, but as part of a broader effort to shape the norms and practices governing international financial relations.

Author Statements/ Yazar Beyanları

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