

TWO AUTHORS are claiming that Canadian-born economist Lauchlin Currie was a Soviet spy.

He was certainly an agent for social change – but was he a double-agent, serving the communists as well as working to build an enlightened market economy?

Currie died in 1993. He championed radical public expenditure policies to lift the US out of the Great Depression, and he campaigned for the capture of unearned land values (*Land & Liberty*, Spring 1999, p.6). He drafted the resolution on the recapture of land values that was adopted by the UN Habitat Conference in Vancouver in 1976.

His public service began as an instructor at Harvard (1927-34). From there he joined the US government as assistant to the Governor of the Federal Reserve Board and then as aide to President Roosevelt in the White House (1939-45).

In 1941 he was sent to advise Chiang Kai-shek on China's finances. He called for the centralised collection of a land tax, to be paid in kind rather than in rapidly depreciating cash.

IN November 1945 the "blond spy queen" Elizabeth Bentley defected and told the FBI about Soviet espionage in the US. She named Lauchlin Currie and Harry Dexter White, Under-secretary of the US Treasury and architect of the International Monetary Fund.¹

Bentley's list was made public in 1948. Many of those named invoked the Fifth Amendment. Currie and White, however, demanded to appear before the House Un-American Activities Committee to deny the charges.

- White, who was suffering from a severe heart condition, put up a famously spirited defence against Richard Nixon's interrogation. He collapsed and died three days later.
- Currie stressed that Elizabeth Bentley admitted that she had never met him and that she had said she knew he was not a communist. Although she had received information that came from him via other government economists who certainly were NKVD (Soviet intelligence) agents, she admitted that she did not know whether he

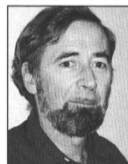
C. LOWELL HARRISS first met Lauchlin Currie in 1931. He lived in a dormitory room just above the office occupied by the Canadian economist at Harvard. They developed a close friendship which was to last a lifetime. Dr Harriss served in the US Treasury, before taking up an economics professorship at Columbia University.

He was incredulous when he read the allegations against his friend. He told *Land & Liberty* that, after the Second World War, "We met in Bogota three or four times. He did make a passing reference to the allegations against him, citing his decoration by Chiang Kai-Shek as evidence of non-communist credentials.



■ TEA FOR TWO: Lauchlin Currie and Madam Chiang Kai-shek

Mole hunters and the quest for a Soviet spy



by **ROGER SANDILANDS**

was aware of how his information was being used. One committee member had rebuked Miss Bentley for "smearing Currie by remote control". At the conclusion of Currie's testimony Congressman Karl Mundt stated that he "believed in his Americanism".

"Nothing in my memory would give me reason to believe anything other than loyalty and integrity. He did work to aid the British during the years when Communists in this country were supporting Hitler as well as Stalin.

"I have never been able to believe the allegations. Few persons today are likely to remember the atmosphere of the pre-war, war, and post-war years. Emotions ran high. I have always felt that if my friend had the depth of feelings in the directions alleged, I would have sensed something. I never did. And I believe his denials. What appears in the Soviet materials recently released refers to Currie but without confirming his complicity".

Around this time the sensational cases of Alger Hiss and the Rosenbergs led to heightened Cold War tension and the McCarthy witch hunts. Currie testified before the McCarran Committee on his role in the supposed "loss" of China. Although no charges were brought against him his career in the US was seriously jeopardised. He settled in Colombia as a successful dairy farmer and top economic adviser to Colombian presidents. In the 1960s and 1970s he was a visiting professor in the US, Canada and Britain.

WHEN Peter Wright published *Spycatcher* in 1987, he revealed the existence of a top secret CIA-National Security Agency project, known as VENONA, to decipher coded messages that passed between Moscow, Washington and New York in the 1940s. These were declassified in 1996.

Since then a spate of books has appeared, the latest by Britain's well-known spywriter Nigel West, that evaluate the significance of these decrypts. America's Allen Weinstein also gained access, for a hefty fee, to some of the KGB's archives in Moscow. A total of nine VENONA messages (out of some 2,900), most only partially decrypted, mention Currie's name. Weinstein found two references in the KGB files.²

For mole hunters who base their "catches" on the number of times a person's name appears alongside those of proven spies, Currie is guilty. Speculation about what other information he may have passed on then seems fair play, especially when the White House connection is a bonus for book sales.

We should not discount the guilt-by-association criterion, but it is not a sufficient

condition. If we assume that a man is innocent until proven guilty, proof must turn on the nature of the association.

When the substance of the Soviet messages is examined Currie's name appears only as a source of information that has been passed on by fellow government economists whose loyalty he never doubted.

As late as 20 March 1945, Moscow was still exploring the possibility of revealing to Currie the true complicated nature of his contact with his disloyal government associates, whom he had trusted. Although this March 1945 decrypt, like most of the others, is fragmentary and hence ambiguous, the gist was that while Moscow would have liked to pass "control" over him directly to a Russian, this was likely to be very ill-advised.

CURRIE'S extraordinarily varied career was characterised by a strong commitment to making the free enterprise system work on behalf of the whole community. The tools for achieving this constituted a programme that was profoundly at odds with Soviet totalitarianism.

He promoted competition and the mobility of labour and capital, the protection of legitimate property rights, and a fair tax system. Land, however, is not mobile or reproducible, and its value is an unearned income for its owners: hence the case Currie espoused for the capture of its value for the whole community.

While at the White House, it was part of his job to hold secret meetings with the Soviets. For example, on his return from a mission to Bern in March 1945, to put pressure on the Swiss to freeze Nazi assets, he conveyed a plea from the Swiss president to Roosevelt to help him establish diplomatic relations with the Soviets. Roosevelt did not want to intervene personally so he asked Currie, who had good relations with both the Swiss and the Soviets, to do it for him, discreetly, on his own.

Given all the direct evidence spanning a long career, a fair-minded appraisal leads to the conclusion that Currie was not wittingly betraying information to the USSR. His name was evidently used by those who wished to impress their Kremlin masters: but we do not condemn people as guilty by association. ■

References

- 1 These events are reviewed in Roger J. Sandilands, *The Life and Political Economy of Lauchlin Currie: New Dealer, Presidential Adviser, and Development Economist*, Durham NC: Duke University Press, 1990, Ch. 5.
- 2 See, for example, Nigel West, *Venona: The Greatest Secret of the Cold War*, London: HarperCollins, 1999; and Allen Weinstein and Alexander Vassiliev, *The Haunted Wood: Soviet Espionage in America - the Stalin Era*, New York: Random House, 1999; and John Earl Haynes and Harvey Klehr, *Venona: Decoding Soviet Espionage in America*, New Haven: Yale, 1999.

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LAND VALUES: Japan



OECD Policy: a dog's dinner

WESTERN governments are worried about Japan. Envoys from Washington and London fly frequently to Tokyo to offer advice on how to restore health to the economy.

Japan's troubles began in 1991. But between 1963 and 1992 Japan's share of G7 exports nearly doubled, from 10% to 19%. The UK's share slumped from 17% to 10%. The US share dropped from 22% to 21%.

So who could teach whom the secret of economic success? Until 1992 Japan was tutoring the opposition.

But post-war history confirms the old adage: the bigger they are, the harder they fall. Japan was going to fall harder than any of the others, which gave her predator competitors the chance to pounce....

WHAT FELLEDD the Japanese giant? If you believe the analysis from London and Washington, the primary problem was a lack of financial transparency.

The West also criticises the cosy regulatory relationship between industry and government, but how could that be the source of the problem? The Western market economy was beaten hands down by Tokyo's policy.

The doctrine of transparency was developed. The logic of the analysis is spelt out in a report produced by the Paris-based OECD,* which is full of expressions of concern for economic performance. It seems that the West's economists know better than the Japanese technocrats. Japan is unable to function in a "mature market economy". Its administrators no longer offer a "coherent view of the rule of regulation in globalised market economies". Policies are based on "outdated concepts of managed competition and immature market institutions".

And so the OECD prescribes a batch of clichés: "A new philosophy of regulation is needed, based on market principles, consumer choice, adaptability, and transparency".

Policy-makers in Tokyo could be forgiven for thinking that there was a certain arrogance concealed behind the pearls of wisdom directed at them. Even so, something was fatally wrong with the Japanese formula. But the OECD fails to offer a coherent account.

Analysis keeps returning to the asset market bubble. The problem is traced to "lack of attention to structural reform [which] contributed to the creation of a disastrous asset bubble...The Japanese authorities had partially

liberalised financial markets without installing necessary regulatory oversight...The inflow of lending, on top of rising investment due to lower interest rates, caused land and housing prices to rise, followed by other asset prices". The bubble burst in 1989-90.

Is there something bad about a real estate bubble? The OECD dances around the outer edges of the question: "In the late 1980s, as asset prices rose, banks began financing real estate development, construction projects, and equity investments, as well as previously uncreditworthy small enterprises whose balance sheets had improved with rising asset prices". So what? What's the difference between bidding up the price of land and works of art? Conventional wisdom implies there is a problem with real estate prices - why, otherwise, characterise it as a bubble? Bubbles burst.

In Japan, land prices were on a one way track throughout the 1990s. They fell for the seventh straight year in 1998, down 7.1% from 1997.

The National Tax Agency reports that average land value in Tokyo fell 7.6% (compared with 5% in 1997). In Osaka, land prices fell 8.1% (5.3%). In Nagoya the decline more than doubled to 8.8%. Companies are still struggling to dispose of bad loans for which land was collateral.

But if bubbles are bad, why not prevent them? The OECD does not care to contemplate that prospect, which is why it focuses on transparency in the financial sector. The problem with that "explanation" is that the US had a transparent system in the 1980s when the crooks and speculators used the savings and loans industry to exploit the land market. This cost US taxpayers around \$500 billion.

The OECD offers no reassurance that the "more liquid asset markets" which are in the offing in Japan will prevent another bubble economy. But that may not be what they are really after. They reveal the need to construct "a different kind of state".

If that sounds ominous - has Japan yielded a mandate to the West to create a new kind of state? - it is also confusing. For, "market liberalisation does not mean less of all kinds of regulation. On the contrary, in some areas it may mean more, although any regulation should be efficient and flexible". So the OECD wants Japan to adopt a deregulated regulated economy! A regular dog's dinner! ■

* OECD Review of Regulatory Reform in Japan, April 1999, Paris.

