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**The Price of Continuity: financing Estonia's Consulate General in the U.S. during
1940-1991.**

Bachelor's thesis

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Introduction

The Consulate General of Estonia in New York is a unique case in Estonian history, United States of America's foreign policy and in international law. It carried the legal continuity of the Republic of Estonia through the start of Soviet Union occupation in the summer of 1940, until the restoration of Estonian independence in 1991. The Estonian government in-exile symbolically played an important part in Estonian continuity, but legally the government in-exile does not carry the continuity, so if the Consulate General had not existed throughout this period, neither would have the Republic of Estonia.

Additionally, thanks to the Consulate General, the question of Estonian independence never left the U.S. foreign policy agenda as the U.S. policy of not recognizing Soviet occupation of Estonia, was based on recognizing the Consul General of Estonia in charge of Legation as the representative of Estonia.

When Johannes Kaiv in 1939 assumed the position of Consul General of Estonia in New York in charge of Legation, it would have seemed far-fetched to predict that the continuity of the Republic of Estonia would sit on his shoulders until his death in 1965. Similarly when Ernst Jaakson began work as an official in the Consulate General in 1932, no-one would have anticipated that he would take over from Kaiv as the Consul General in 1965 and carry the legal continuity of Estonia until the *de facto* restoration of Estonian independence, retiring with his death in 1998.

Kaiv a lawyer by profession, had worked in the Estonian foreign service as a specialist in business diplomacy, accredited to the businesscapital New York in 1939 with the goal of promoting trade between the U.S. and Estonia. Ernst Jaakson had worked in the foreign service his entire life starting as an errand boy at the age of 14, and moving to the United States in 1929 to work in the Estonian Consulate of San Francisco. In 1932 he transferred to the Consulate General in New York, where he also obtained a degree in economics.

The two men managed to maintain the continuity of the Republic of Estonia throughout the period of 1940-1991, *de facto* leading the Estonian foreign service. A very difficult task due to which the two men are legends in Estonian foreign relations. They had to represent a country existing only *de jure*, meaning they did not have the *de facto* support of the country they represented. This problem has been extensively researched in the context of international

law as the case is so unique. However there has not been research on the subject of how did they solve the practical issues in representing Estonia, as how did they solve the main issue of funding the Consulate General, when there was no support from the country they represented. Where did they get the funding and how did they use it?

Most of the existing information on how the Consulate was financed is almost entirely based on “Eestile”, the memoirs of Ernst Jaakson. Jaakson gives minimal insight on the Consulate General's finances from the period when Estonia was occupied, describing issues faced and gives some information on how the issues were solved, but avoids details. Jaakson claims that the Consulate General was funded with Republic of Estonia's assets, which were under control of the U.S. government, based on a fixed budget checked by the State Department.

He does not state how large the Estonian assets were, what was the fixed budget, how was the Consul General granted access to the frozen funds, how much access was granted, how much did the Consulate General spend and what happened to the Estonian funds afterwards. In addition he makes no mention of whether the State Department granted access to Estonian dollar deposits or gold deposits.

This lack of information makes it difficult to evaluate how the Consul General handled potentially very large amounts of Estonian assets. Considering how much debate there was among Estonians in-exile about how the consulate financed itself, with strong accusations of embezzlement, it is an evaluation very much needed. Research has been done on the Consulate General however mainly from the aspect of international law. At times the finances of the Consulate General are mentioned but usually not providing any more information than found in Ernst Jaakson's memoir “Eestile”, and usually not affirming what Jaakson claims, so the only information about the Estonian assets in the U.S., is from the Consul General who handled them. No researcher has questioned this issue as the following literature review demonstrates.

William J.H. Hough has done research on the annexation of the Baltic States in the context of international law and its effect on domestic policies of the United States of America, during which he also researched how Johannes Kaiv helped Estonian shipowners defend their ships against nationalization by the Soviet Union, in United States courts. However he has not

touched on the issue of how the Consulate General financed itself, or how vital financial backing by the Estonian shipowners was for the Consulate.¹

Villu Zirnask has done research on the history of the Bank of Estonia, during which he has also researched what happened to Estonian gold deposits, when Estonia was occupied by the Soviet Union, explaining the legal issues behind the gold and the bank's which held it. As the purpose of his research has been to cover the history of the Bank of Estonia, Zirnask at times explains the Consulate General's efforts in getting access to Estonian gold deposits in the U.S. Zirnask also gives a good overview of the court case Buxhoeveden vs The Bank of Estonia where Kaiv defended the Estonian assets, with which he funded the consulate, against claims by Anatole Buxhoeveden, a Baltic German demanding compensation for his property. Since the overview by Zirnask is thorough, an in depth description of the court case is not given in this dissertation.

However Zirnask has not gone into depth on legal issues concerning the gold and the Consulate General. Zirnask briefly mentions that whilst the Consul General was granted access to deposits made by the Bank of Estonia in the United States, he does not offer information as to how or what access was given. Neither does he explain why Kaiv or Jaakson did not get access to the Estonian gold or how the Bank of Estonia's assets were used by the Consul General.²

James T. McHugh and James S. Pacy have analyzed the implications of the U.S. non-recognition policy towards the occupation of the Baltic states, and its effect on exiled diplomats. McHugh and Pacy have comprehensively analyzed how the Consulate General worked in the context of international law, however focusing mainly on the legal aspect, they do not explain how the Consulate funded itself. They have mentioned the financial aspect twice. Firstly, that the Baltic states received some funding from the United States of America,³ and secondly, that Estonia had no assets in U.S. banks, and that the Consulate General has been funding itself with consular services even after the restoration of *de facto* independence.⁴ Both of these claims are proven wrong during the course of this research.

¹ William J.H. Hough "The annexation of the Baltic States and its effect on the development of law prohibiting forcible seizure of territories", New York Law School Journal of International and Comparative Law Volume 6 Number 2, Winter 1985.

² Villu Zirnask "Eesti Panga lugu", Eesti Pank 2019.

³ James T. McHugh and James S.Pacy "Diplomats without a country: Baltic diplomacy, international law, and the Cold War", Greenwood Press 2001. p.5

⁴ McHugh and Pacy p.110

Pauli Heikkilä has researched what part Estonian's played in the Assembly of Captive European Nations (ACEN), an organization that the Consulate General was strongly involved with. Documents and letter exchanges brought out by Heikkilä in his research often involve the Consulate General. These documents do not provide credible information about how the Consulate General funded itself, but rather highlight the need to research this subject further. For instance Heikkilä brings out in his research how the ACEN was financed by the CIA, and that the Estonian government-in-exile often criticized how the Consul General "was pulling the strings behind the curtains" in the ACEN.⁵

Kaarel Piirimäe has researched Estonia's place in U.S. foreign policy during the "American century". Since the scope of his research is far wider than one diplomatic legation, he has not touched on issues regarding the Consulate General. However he offers good insight into the geopolitical reasoning by the United States when dealing with Estonia, helping understand the decisions taken by the State Department regarding the Consulate General.⁶

Lauri Mälksoo has done research on the annexation of the Baltic States in international law, also analyzing the Consulate General. Since his research focuses on international law, little is written on the Consulate General and when describing how the Consulate General financed itself, he cites Ernst Jaakson's memoir "Eestile" giving no additional information.⁷

Una Bergmane has analyzed the relations between Washington, Moscow and Baltic independence movements as the "Baltic question". Her research is a good overview of U.S. policy towards the Baltics and Baltic legations during the Cold War. However since her research focuses on the internal independence movements of the Baltic states, information about the Consulate General in New York is scarce.⁸

Jonathan L'hommedieu has done research on U.S. politics toward the Baltic question, during which he has described how the U.S. State Department formulated its policy in supporting the

⁵ Pauli Heikkilä "Estonia as a Captive Nation: International Cooperation in Exile Within the Assembly of Captive European Nations, 1954-1972", Brill Deutschland, 2022. p.44

⁶ Kaarel Piirimäe ja Mart Kuldkepp "Ameerika sajand USA ja Eesti suhete sada aastat", Tartu Ülikooli kirjastus 2022.

⁷ Lauri Mälksoo "Illegal annexation and state continuity: the case of the incorporation of the Baltic states by the USSR", Tartu Ülikooli Kirjastus 2005.

⁸ Una Bergmane "Politics of Uncertainty, The United States, The Baltic question, and the Collapse of the Soviet Union", Oxford University Press 2023.

Baltic legations during the period of 1941-1952. What makes his work especially valuable, is that it is based on documents from the Department of State's archives, offering an insight into the decisions taken regarding support for the Consulate General.

However when describing the financial policies, L'hommedieu pertains to the period of 1941-1952 covering only a small bit of the Consulate General's financing, and as he focuses on all three Baltic legations, he does not dig into the details making some generalizations.⁹ It is worth mentioning that L'hommedieu has also given a good insight of why and how Franklin D. Roosevelt decided to freeze the Baltic assets in the United States.¹⁰

The purpose of this dissertation is to give a complete overview of how the Consulate General financed its operations throughout the period 1940-1991 when the Republic of Estonia was occupied, giving an overview of how much assets did the Republic of Estonia have in the United States of America, how was access to these assets granted to the Consul General, how much access was granted and to evaluate how the Consul General used these assets? Did they handle the assets with a purpose of maintaining the value, or did they spend carelessly?

This thesis makes new scholarly ground by answering these questions. As this thesis will show, funding the Consulate General wasn't as simple as Kaiv and Jaakson have led to believe and they deliberately did not elaborate on the subject, because it would have exposed irrational decisions taken by them when handling the Estonian funds. Decisions that caused the loss of Estonian funds in the United States.

Since academic literature is non-existent on the subject, this thesis is based on documents from the archive of the Consulate General of Estonia in New York, available in the National Archives of Estonia (ERA.1608). Based on the documents a complete timeline of the Consulate General's financing is built, giving an insight of how the Consulate General financed itself, assessing the decisions taken along the way. In order to assess their handling of the Estonian funds in the U.S., the timeline is built up from the perspective of the Consulate General based on the information to which they had access at the time.

⁹ Jonathan H. L'Hommedieu "Exiles and Constituents: Baltic Refugees and American Cold War Politics, 1948-1960" Dissertation submitted to University of Turku.

¹⁰ Jonathan H. L'Hommedieu "Roosevelt and the dictators: the origin of the US non-recognition policy of the Soviet annexation of the Baltic states" in "The Baltic question during the Cold War" John Hiden, Vahur Made and David J. Smith, Routledge Books, New York 2008.

The first chapter will describe issues the Consulate General faced, before getting access to the frozen Estonian accounts. The first chapter will also give an overview of how the Consul General was given access to the Estonian assets, on what terms, and how much assets there were. The second chapter will focus on the Estonian gold reserves in the United States of America, describing the Consul General's efforts in getting access to the gold and why access was not granted. The third chapter describes how the Consul General was given increased authorization giving near complete control of the Estonian accounts, and evaluates how the Consul General handled the funds with this increased control.

1. Estonian funds in the US

In the autumn of 1939 the Estonian Government realized the dire strait of Estonian State funds abroad. If a country deposits gold and funds in different countries and different exchanges, the depositor lowers its financial risk in the case of an economic crisis. The second benefit is that, if a state deposits gold in a foreign country's national bank, it ensures the possibility of getting a loan quickly.

The problem was that about a quarter of all the gold owned by the Bank of Estonia was in Sweden and most of the rest was in the United Kingdom.¹¹ One held a strong policy of neutrality and the other was in a state of war. This meant that for instance, if Estonia needed a quick loan for defensive purposes, the struggling UK most likely could not give one and Sweden would strongly hesitate. Due to this the Estonian Government decided to transfer some of its funds away from war torn Europe to the United States of America.

On the 15-th of December President of the Bank of Estonia Jüri Jaakson, asked the Estonian envoy to the UK August Schmidt (since 25.mai 1940 August Torma) to discuss the transfer of 72 000 ounces of gold, roughly 2 million USD at the time, from the Estonian deposit in the Bank of England to the United States with two U.S. banks. The gold deposit was to be split between the Chase National Bank and the National City Bank of New York.¹²¹³

By the U.S. Federal Reserve Act of 1913, no private bank can deposit gold in the United States of America. Private banks can be correspondent banks offering services in handling the gold, but the gold itself has to be deposited in the U.S. Federal Reserve.¹⁴¹⁵ In order to get a loan granted in USD quickly, the gold would physically have to be in the Federal Reserve.

The Estonian envoy to the United Kingdom August Schmidt discussed the gold transfer with Chase National Bank and the National City Bank of New York through their offices in London. Both banks offered their role as a correspondent bank and services in transferring the gold to the Federal Reserve.¹⁶¹⁷

¹¹ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

¹² Jüri Jaakson to August Schmidt, 15.12.1939, ERA.1608.2.558.

¹³ Jüri Jaakson to August Schmidt, 09.01.1940, ERA.1608.2.558.

¹⁴ United States of America Federal Reserve Act, paragraph 14.

¹⁵ The National City Bank of New York to August Schmidt, 07.02.1940. ERA.1608.2.558.

¹⁶ The National City Bank of New York to August Schmidt, 07.02.1940. ERA.1608.2.558

¹⁷ The Chase National Bank vice-president John M. Wallace to August Schmidt, 26.01.1940, ERA.1608.2.558.

Rest of the transfer was organized directly by the Bank of Estonia¹⁸ so when Estonia was occupied by Soviet forces in the summer of 1940, Estonian diplomatic representatives were clueless about the state of Estonian accounts abroad. When Estonian bank accounts in the United States were frozen on the initiative of Loy Henderson, head of the Eastern European Affairs Bureau of the Department of State,¹⁹ Acting Consul General Johannes Kaiv didn't know what exactly was "frozen". When Kaiv sent an inquiry to the Treasury Department in Washington, asking what is the exact amount of Estonian funds that were "frozen",²⁰ the Treasury Department responded that the requested information is not available.²¹ Why wasn't it available? Did they not know or did they not want to tell?

1.1 Accessing the funds

The Treasury Department's negative answer was due to three reasons. Firstly, although United States had issued the Welles declaration condemning Soviet occupation of the Baltic states, it wasn't still sure how to deal with the issue of Baltic legations, nearly erasing the Estonian Acting Consul General from the diplomatic list.²² Secondly, the Treasury did not have a legal right to give information about Estonian Government accounts to a diplomatic representative who did not have the required accreditation. Thirdly, the Treasury did not know the exact amount of the "frozen" funds.²³

The first problem found its solution in November of the same year, when the US State Department informed Kaiv, that it continues to recognize his authority as Chief of the Estonian legation.²⁴ The second issue concerning US legislation, was solved on the 7th of April 1941 when the 77th US Congress passed Public Law 31, per which the US Secretary of State could grant foreign representatives the legal right to handle their nation's property in the United States even without the otherwise needed accreditation from the representative's home country.²⁵ When the law was passed, Consul General Kaiv was given the authorization almost immediately, although with regulated terms and conditions which will be discussed later on.

¹⁸ The Bank of Estonia to August Schmidt, 08.03.1940, ERA.1608.2.558.

¹⁹ Piirimäe and Kuldkepp p.139

²⁰ Johannes Kaiv to the Treasury Department, 20.08.1940, ERA.1608.2.558.

²¹ Treasury Department to Johannes Kaivile, received 01.11.1940, ERA.1608.2.558.

²² State Department to Johannes Kaiv, 11.09.1940, ERA.1608.2.237

²³ Memorandum by Loy W. Henderson, 15.07.1940, FRUS (1940), Volume I, Page 389-392.

²⁴ Chief of Protocol George T. Sumerlin to Johannes Kaiv, 28.10.1940, ERA.1608.2.237.

²⁵ Public Law 31, 77th Congress, Chapter 41, 1st session.

Remarkable is how rapidly the authorization was given, even though it was restricted in its nature. The Consulate financed its budget with the frozen credits already in May 1941²⁶²⁷, less than a month after the law was passed. Considering that Kaiv did not know how big the amount frozen was, and that the State Department knew very well, the process of authorizing Kaiv to use the frozen reserves, started before the needed law was passed.

The US Department of State most likely needed a solution to the issue of Legations being cut from funding due to a foreign power occupying its homeland. A problem in which Estonia was among many, so Public Law 31 was made to legalize the process granting representatives access to the representatives' homelands assets. Considering how immense power the Secretary of State could potentially authorize to a diplomatic representative, complete control over the representatives' homelands' reserves in the US, the law was most likely made as a quickly applicable fit-for-all solution with strong oversight by the State Department.

From the standpoint of the Consul General, the timing of Public Law 31 was a close one, because getting access to the frozen Estonian funds was definitive. If the law had taken more time in congress, and thus delayed the Consulate Generals access to the frozen funds, then the Consulate might have had to close down its operation, as discussed in the next chapter.

1.2. Critical importance of frozen funds

When funding from Tallinn stopped in the July of 1940, the Consulate General had 4525.15 USD in its safe²⁸ which was enough to keep the Consulate going for about 2 months. In September of the same year, the Consulate started having trouble paying bills. Rockefeller Center, the landlord of the Consulates office, gave a warning but luckily also a two month rent extension.²⁹

Looking for alternate sources of income Consul General Johannes Kaiv, educated in law, enrolled in Harvard University to finish his PhD studies in law. This gave him a chance to work as a lecturer in jurisprudence.³⁰ Besides getting a PhD degree and offering financial support, the position in Harvard Law School had an unexpected third benefit.

²⁶ Jaakson p.111

²⁷ Overview of the Consulate Generals history by Aarand Roos, 20.11.1991, ERA.1608.2.2369.

²⁸ Jaakson p.111

²⁹ Ibid. p.99

³⁰ Ibid. p.96

After Estonia was occupied, the Soviet Union demanded that all ships at sea return to their home ports in Estonia where they would be nationalized. Ships that refused the order would face court cases, where representatives of the Soviet Union would fight for the ships to be confiscated. Most of the ships had shared ownership with the captain being just one of the owners. When Estonia was occupied the owners that couldn't escape were forced to sign their ships over to Soviet hired lawyers.

Since the lawyers had mandates from most of the owners, the captains abroad couldn't do anything to protect their ships from court confiscation. What made the situation especially difficult was the fact that with rights to the Estonian ships written over to a lawyer, Consul General Kaiv couldn't legally protect the ships and had to act as an expert.³¹

Kaiv's job as a lecturer in one of the most renowned law schools came to the rescue. With assistance from his department in the University of Harvard, Johannes Kaiv managed to work out a complicated legal basis as a *negotiorum gestor*, based on the assumption that the owners in Estonia signed their ships over under duress. In essence this meant that he could support captains of the ships from their vessels getting confiscated in court, even though Soviet hired lawyers had mandates from the majority of the ships owners.³²³³

In the long and difficult court cases, one of which even went before the US Supreme Court, the legal basis and Johannes Kaiv's knowledge of law turned out to be very effective. All of the five Estonian steamships that Kaiv defended avoided Soviet nationalization.³⁴³⁵ It is uncertain that Estonian ships could have avoided the Soviet flag, if Johannes Kaiv wouldn't have sought advice from one of the top law schools in the US.

Since Consul General Johannes Kaiv was the leading force in defending the ships against the Soviets in court, the captains saw it as their best interest to guarantee the financial stability of the consulate, which they did funding the consulate from autumn 1940 until the January of 1941, when the captains themselves faced financial hardship. The Soviet hired lawyers managed to get the ships confiscated for a period of time.³⁶ The ships were not profitable yet they still needed maintenance and the crew needed wages. The ships were not confiscated for

³¹ Ibid. p.105

³² Hough p.398

³³ Jaakson p.106

³⁴ "The Obituary of Johannes Kaiv", ERAF.9619.1.1.

³⁵ Overview of the Consulate Generals history by Aarand Roos, 20.11.1991, ERA.1608.2.2369.

³⁶ Jaakson p.99

long, but still long enough to sink the captain's economic situation and thus the financial support to the Consulate General.

Financial situation became critical when the Consulate General missed the rent deadline for February, upon which the Rockefeller Center gave a warning, if they were to also miss the deadline of March, they would be evicted. The captains who still needed help in the court battle for their ships managed to find some funds for support,³⁷ however the future still seemed hopeless and a new source of income was critical. The passing of Public Law 31 in April of 1941 came at the utmost critical time, providing a lifeline to a dying cause.

Throughout the whole period of 1940-1991 when the Consulate General had to find solutions to economic difficulties themselves, the winter and spring of 1941 was without a doubt the hardest. The Consulate General completely relied on support from the Estonian captains, who themselves were in financial hardship, having lost most of their property besides their ships to Soviet nationalization in Estonia.

If the law would have taken more time in Congress, the desperate Estonian Consulate General might have had to give up its practical functions due to the lack of finances, turning into a symbolic operation. This at a time when the Consulate was needed the most considering the tough court cases over ships, and large influx of Estonian refugees. In this sense the Public Law saved the Consulate General in providing the needed legislature to grant the Consul General access to the Estonian funds, but how did it grant access, and what did the access to the Government accounts mean?

1.3 Terms and conditions

In order to grant Johannes Kaiv access to Estonian Government accounts in the United States, the Federal Reserve made some rearrangements. The Republic of Estonia had money deposited in several private banks: 1 342 435 USD in The Chase National Bank of the City of New York, 908 005 USD in The National City Bank of New York, 209696 USD in the Quaranty Trust Co. of New York, 9180 USD in The American Express Co and 5693 USD in the Hallgarten & Co. Bank, which all adds up to 2 477 086 USD.³⁸

³⁷ Jaakson p.111

³⁸ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

Kaiv did not have the needed authorization from the Estonian Government to handle Estonian funds in private banks, however the United States Federal Reserve by the Federal Reserve Act did,³⁹ so the Federal Reserve set up a special dollar account called “The Government of Estonia Dollar Account” in the Federal Reserve Bank of New York. Since the dollar account was in a public bank controlled by the United States, the Secretary of State implemented Public Law 31 and granted Johannes Kaiv access to it.

The newly formed dollar account was a middle account controlled by the State Department and Consul General Johannes Kaiv. This way Kaiv could make the transactions needed in compliance with US laws, with the US Government still maintaining control over the technically “frozen” credits.

“The Government of Estonia Dollar Account” granted access to the 1 342 435 USD in The Chase National Bank of the City of New York and 209696 USD in the Quaranty Trust Co. of New York,⁴⁰ with the 908 005 USD in The National City Bank of New York excluded. This was due to the *Buxhoeveden vs Bank of Estonia* court case. The National City Bank of New York deposit was made by the Bank of Estonia, and was the account from which Buxhoeveden demanded compensation, due to which it was arrested by court until the end of the case in 1953.⁴¹ After the court case ended, Kaiv was granted access to the account even though it was kept separate from “The Government of Estonia Dollar Account”.

When the State Department authorized Johannes Kaiv access to the frozen Estonian accounts, in addition to all the transactions moving through the US controlled dollar account, there were three more main conditions. Firstly, the frozen funds were only meant to fund the Consulate General in New York and the Consulate in Sao Paulo.⁴² Although Estonia had accounts in the United Kingdom and the Foreign Office recognized August Torma as the Envoy of Estonia, the UK did not allow to fund the legation with “frozen” funds in the UK like the US did. Kaiv tried to get funding for the Estonian legation in London also, however the State Department did not allow it. The US State Department most likely feared accusations of interfering in United Kingdoms internal matters, if they had given a green light to a policy that the Foreign Office turned down.

³⁹ L’hommedieu “Exiles and Constituents: Baltic Refugees and American Cold War Politics, 1948-1960”, p.78

⁴⁰ Notes by Johannes Kaiv, April or May of 1948, ERA.1608.2.566.

⁴¹ Zirnask p.185

⁴² Jaakson p.207

Consul General Kaiv decided to ignore this condition, and made cuts in the Consulate Generals budget to also support the legation in London, sending a check to the Estonian legation in London every month. The US State Department certainly was aware of this, however it did not seem to mind, and in 1951 officially allowed to fund the legation in London with the frozen funds.

The second condition was that Kaiv would only have access to a certain amount, that would cover the Consulate Generals yearly budget, and the budget would be checked by the State Department. The agreed annual budget was 35000 USD from which 9800 USD was meant for the Consulate in Sao Paulo and 25200 USD for the Consulate General in New York.⁴³ It is unknown what amount was transferred to the legation in London, but it could not have been very much, considering that from the 25200 USD around 20700 USD a year was spent for wages in New York.

The third condition was that every month, Kaiv would have to give a written statement to the State Department, regarding the expenditures made in the Consulate General and changes in the budget, for instance if there had been changes in wages.⁴⁴ This condition seemed to be rather symbolic, as the Consulate General often skipped months and submitted them in hindsight several statements at a time, without any protest from the State Department.

If the Consulate General made a payment that did not fit in the annual budget, then it was to be coordinated with the State Department, like for instance when in 1945, 250 000 USD was allocated to help Estonian refugees in Germany and Sweden through the Red Cross.⁴⁵ At the time this transaction caused a lot of backlash among Estonians in-exile, as the Red Cross handled the money meant for Estonians arbitrarily, with very little actually reaching Estonians, who then accused the Consulate General of embezzlement. The Consulate General couldn't have appropriated the money like so many Estonians accused, as the transaction was checked by the State Department. However since there wasn't any information besides the Consul Generals statements available on the question, debate about embezzlement was justified.

⁴³ License from the US Treasury Department, 06.03.1943, ERA.1608.2.2290.

⁴⁴ Statements to the State Department regarding paychecks from January 1941-November 1945, ERA.1608.2.32.

⁴⁵ Jaakson p.132

Access to the accounts could have not been without U.S. initiative, and without this initiative the Consulate General most likely would have had to reduce its operations, since there would have not been enough finances. The passing of Public Law 31 and its implementation afterwards was a massive risk for the U.S. as the Secretary of State unilaterally granted a foreign representative access to the representative's homelands assets, without the representative having needed authorization from its homeland.

Since the risk was so immense, the State Department kept strong control over how the representative used these assets, as demonstrated by the terms and conditions set for the Consul General in getting access to the frozen funds. Due to this the Estonian assets were used highly effectively with the Consulate Generals budget kept as small as possible.

However the Consul General still did not have a complete overview of Estonian assets in the United States, and was not sure if the U.S. had found all the bank accounts belonging to the Republic of Estonia. Additionally there still wasn't any clarity about the biggest question of them all, what happened to Estonian gold in the United States.

2. Estonian gold funds

The Consulate General had found clarity concerning the Government of Estonia's bank accounts in the United States of America, yet it still did not have information about Estonian gold reserves. Consul General Kaiv was worried about the Estonian gold funds due to two main reasons. One question, that wasn't as much a problem but rather a nuisance, was the pressure from Estonians in exile who accused Kaiv of embezzling the gold. An accusation which was hard to defend, because there simply was no information about the gold.

These accusations drew unwanted attention. In addition to Estonians losing their property to Soviet nationalization, there were also a large number of foreign investors who suffered losses, who could potentially demand compensation.⁴⁶ For instance, this is what happened during the highly publicized debate over Baltic reserves in the UK during the 1960-s.

The second issue causing concern for Estonian gold reserves, was that the deposits could have been made with deadlines or expiry dates,^{47,48} after which the gold was to be transferred back to the Bank of Estonia. The bank depositing Estonian gold could adopt a position that the Bank of Estonia doesn't exist anymore and hand the gold over to the Soviet Union, like the *Sveriges Riksbank* did in 1940. After Sweden recognized the Soviet annexation of the Baltic states *de jure*, it handed over a quarter of all Estonian gold in foreign reserves to the Soviets.⁴⁹

2.1 The “Lost” Gold

The United States of America had been helpful in locating Estonian dollar accounts in its banks, however the US wasn't of much assistance when the question of Estonian gold arose. If Estonia had gold in the United States then it had to be deposited in the Federal Reserve, yet as mentioned earlier, the State Department did not inform Johannes Kaiv how much gold Estonia had deposited in the United States.

The reason why the US State Department did not inform Kaiv, might have been because they were not able to locate the gold, since the gold wasn't deposited in the name of Estonia, but in the name of the correspondent bank that had earmarked it for Estonia.⁵⁰ Since there were so

⁴⁶ Zirnask p.194

⁴⁷ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

⁴⁸ Zirnask p.183

⁴⁹ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

⁵⁰ Ibid.

many private banks that could have been the correspondent banks, Kaiv needed information about where to start looking from Estonians in exile who had worked for the Bank of Estonia. Soon after the Second World War in 1947, when the migration of Estonians had become more stable, piece by piece the Consulate General started getting information about the Estonian gold reserves from previous employees of the Bank of Estonia. Finally contact was made with Johannes Künnapuu, Head of the Credit Department and procurator with the first right to sign for the Bank of Estonia.⁵¹⁵²

When fleeing Estonia in 1944, Künnapuu managed to take along a large amount of documentation concerning Estonian funds abroad held by the Bank of Estonia, including 1.3 million USD in securities and stock shares.⁵³ It is unknown what happened to the 1.3 million in the hands of Künnapuu, although the rest of the documentation became critically important for the Consulate General.

On 27th of March 1950 the Consulate General received a detailed overview of Estonian dollar and gold accounts in the United States of America from Johannes Künnapuu, based on the documentation he took along.⁵⁴ This was the first time the Consulate General in New York had a complete overview of Estonian accounts in the United States. Until then Johannes Kaiv had access only to the information given to him by the State Department and had no way to double-check it. It is worth mentioning that the overview given by Künnapuu, matches with the information that the State Department shared later on.

Main value of the information shared by Künnapuu was shedding light on Estonian gold reserves, even though the information wasn't what was hoped for. The Consulate General had hoped that some gold would be deposited in the Federal Reserve with an American bank being the correspondent, like what the Bank of Estonia planned in 1939 with the Chase National Bank and the National City Bank of New York being the correspondent banks. Both banks already held relatively large dollar accounts for the Estonian Government. In this case the Consulate General and the State Department potentially could have made an agreement, granting Johannes Kaiv limited access to the gold, like had been done with the frozen dollar accounts.

⁵¹ Johannes Künnapuu to Johannes Kaiv, 05.11.1949, ERA.1608.2.558.

⁵² Johannes Künnapuu, TLÜAR väliseesti isikud.

⁵³ Johannes Künnapuu to Johannes Kaiv, 20.03.1951, ERA.1608.2.558.

⁵⁴ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

As it turned out, there indeed was Estonian gold in the Federal Reserve, 2 599 551 grams worth roughly 2.8 million USD at the time,⁵⁵ however it was deposited through the Bank of International Settlements (BIS),⁵⁶⁵⁷ which made the whole situation concerning Estonian gold rather complex.

The Bank of International Settlements is notorious for its actions during the Second World War. The so-called bank of central banks, was accused of being a tool used by Nazi Germany to launder money and stolen gold. Due to this the United States decided to freeze all BIS assets located in the US.⁵⁸ Since the gold was under US control, the Consulate General did not have to worry about Estonian gold in the US getting handed over to the Soviets due to some deposit periods ending.

After the Second World War the frozen assets were released and the Bank of International Settlements resumed operations, whereas a new problem emerged. The bank held immense amounts belonging to countries that were now under the Soviet occupation.⁵⁹ The Bank of International Settlements decided to freeze all these assets, including Estonian gold, and demanded that a international general agreement be made concerning this sort of situation. An agreement never reached, as it would have not been in compliance with the US policy of not recognizing Soviet occupation of the Baltic states.

2.2 Accessing the gold

Throughout the period when Estonia was occupied, Johannes Kaiv and Ernst Jaakson continuously lobbied the State Department and negotiated with the bank in order to get access to the gold, but without success, even though granting access was technically possible. During the inception of the bank in 1930, there was a seat designated for the US Federal Reserve in the Board of Directors of the BIS. The Federal Reserve decided to sell its shares of its seat to a private US banking group.

Among this group was the First National Bank of New York, which was appointed by the BIS Board of Directors to be responsible for the American shares, with approval from the Federal

⁵⁵ With a rate of 1.09 USD per gram.

⁵⁶ Johannes Künnapuu to Johannes Kaiv, 27.03.1950, ERA.1608.2.558.

⁵⁷ Zirnask p.161

⁵⁸ Ibid. p.273

⁵⁹ Felix Belair Jr. "U.S. seeks to sell East Bloc assets", New York Times, 17.06.1953.

Reserve.⁶⁰ In 1955 the First National Bank of New York was acquired by the National City Bank of New York, adopting the name First National City Bank of New York⁶¹ and continued being responsible for the American shares.⁶² Thus the same bank that held 908 005 USD belonging to Estonia, was responsible for the US part of Bank of International Settlements operations.

Kaiv and Jaakson most likely did not know about the technicality, and even if they had known it would have not changed much. The First National City Bank could have used its position in the BIS Board of Directors, in cooperation with the Federal Reserve, to grant access to the Estonian gold through similar means like the Government of Estonia Dollar Account, but they didn't due to several reasons.

The main reason not, was that did the Consulate General really need access to the gold. The Consulate General already had access to over a million USD, would they need 2.8 million more? Kaiv and Jaakson justified their claim by the idea of selling the gold and investing it in US government bonds. Until 1971, when the United States left the gold standard, gold was steadily losing value, so investing it in bonds was logical at the time. However this point did not outweigh the complexity of granting access to the gold.

The Bank of International Settlements could not make an exception just for one country, so if Estonian representatives were to be granted access to frozen assets, then other representatives or governments in exile could demand the same. That in turn would mean that a general agreement was needed, which would have broken the U.S. non recognition policy concerning the Soviet occupation of the Baltic states. A policy that the United States certainly would have not broken for such a minor question, as they heavily defended the policy since its inception.⁶³

Among the Estonians in-exile, debate about the Estonian gold reserves was strong. Whilst Kaiv and Jaakson admitted that there were “limited” Estonian dollar accounts, they completely denied the existence of Estonian gold in the United States. Technically there actually wasn't any Estonian gold in the US. There was gold belonging to the Switzerland based BIS earmarked for Estonia, to which there was no access. Why not state this

⁶⁰ Charles J. Siegman “The Bank for International Settlements and the Federal Reserve”, Federal Reserve Bank of St. Louis, 1994. p.904

⁶¹ Citigroup Inc. History, International Directory of Company Histories, Vol.59. St. James Press, 2004.

⁶² Siegman p.904

⁶³ Piirimäe and Kuldkepp p.145

technicality? Instead Kaiv and Jaakson decided to consistently deny the gold's existence and in turn get criticized by the Estonians in-exile. Was this in hope of one day getting access to the gold? Most likely as the Kaiv and Jaakson constantly tried getting access to the gold until the restoration of Estonian independence.

In the end it was actually sheer luck that the Bank of International Settlements did not grant the Consul General access to the gold. After the United States left the gold standard, gold prices increased and by 1992 were at the same level when Estonian accounts were frozen in the summer of 1940. When the Bank of International Settlements reinstated the rights and obligations of the Bank of Estonia in June of 1992,⁶⁴ the Estonian gold deposit was worth roughly the same as it was 52 years ago in the summer of 1940 when Estonian accounts were frozen.

Thanks to the complete overview of Estonian accounts shared by Künnapuu, Kaiv finally found clarity about the state of Estonian gold in the U.S. The information was not what Kaiv had hoped for as he could not get access to the gold, but at least the gold wouldn't be handed over to the Soviets. Kaiv and Jaakson both held hopes of one day maybe getting access to the gold, as they did not go public with the fact that there was Estonian gold in the United States to which there was no access, but rather denied its existence. Their hopes of one day getting access to the gold are understandable when considering the U.S. policy change of 1951 concerning the frozen Estonian funds, as discussed in the next chapter.

⁶⁴ Eesti Panga ajalugu, Eesti Pank.

3. The fate of Estonian dollar accounts: invested or spent?

By 1949, the Estonian dollar accounts were rapidly losing value due to inflation, and expenses of the Consulate had nearly doubled with the annual being 57 500 USD.⁶⁵ By December of 1950, the Consulate General had spent roughly 670 000 USD, so the balance of the “Government of Estonia Dollar Account” was 874 656 USD.⁶⁶ Main expenses from the period of May 1941 until December of 1950 were the 250 000 USD to help Estonian refugees in Sweden and Germany,⁶⁷ and the rest of it as the general budget checked by the State Department. If a new source of income was not created, the Estonian funds would run dry in a decade.

At first Kaiv turned to the Federal Reserve Bank of New York, seeking information if it would be possible to invest the Government of Estonia's dollar account and the 895 260 USD from the Estonian account in The National City Bank of New York.⁶⁸ This would have generated an income that would have covered roughly a half of the Consulate's annual budget.

Luckily, the U.S. State Department noticed the issue themselves at the same time, and started hinting at the possibilities of investment.⁶⁹ The Federal Reserve and the Consulate General cooperated to work out an investment program, however the Federal Reserve did not support the idea of investing the 895 260 USD in The National City Bank of New York since the account was still part of the *Buxhoeveden vs Bank of Estonia* court case. Due to this the plan was based on the 809 196 USD available in the “Government of Estonia Dollar Account”. The account was to fully be invested in United States Federal Reserve issued bonds,⁷⁰ which would generate an income covering roughly a quarter of the annual budget. 1951 was a year of exceptionally high inflation, due to which the investments covered only such a small part. After 1951, the investments would have covered roughly a third of the budget.

Investment wouldn't make the accounts last forever, as profits from the bonds barely exceeded inflation and investment into private equity was not allowed, so most of the Consulate General's budget would still have to be spent from the dollar accounts, but at least

⁶⁵ L'hommedieu p.81

⁶⁶ Johannes Kaiv to the U.S. State Department, 12.12.1950, ERA.1608.2.566.

⁶⁷ Jaakson p.132

⁶⁸ Johannes Kaiv to the U.S. State Department, 12.12.1950, ERA.1608.2.566.

⁶⁹ L'hommedieu p.78

⁷⁰ Assistant Vice President of the Federal Reserve Norman P. Davis to Johannes Kaiv, 31.10.51, ERA.1608.2.566.

the accounts wouldn't dry up as quickly. The Federal Reserve also helped with paperwork submitted to the State Department, as by the public law mentioned earlier, authorization by the Secretary of State was needed. In December of 1951 authorization by the Secretary of State Dean Acheson was granted.⁷¹

Although the intention of Kaiv and the Federal Reserve was just to get authorisation for investing the Government of Estonia Dollar Account with the Federal Reserve handling the investments, the Secretary of State gave Kaiv almost complete control over the frozen Estonian dollar accounts, so that the Consul General would have to manage the investments himself. Even though the Consul General handled the investments himself, the State Department still maintained control over the annual budget. For instance when confirming the budget of 1953, the State Department decreased the budget by 7500 USD that was meant for increasing salaries and buying a new car, however this seemed to be a singular case.⁷²

3.1 Mistakes in investment policy

With the increased authorization the Consul General could have resorted to the investment plan envisaged with the Federal Reserve, but for some reason he did not. Kaiv transferred 65 860 dollars to the The National City Bank of New York account⁷³ investing only a part of the Government of Estonia dollar account.

The exact amount that was invested is unknown and can only be presumed on an investment made in 1955, when Kaiv reinvested 500 000 USD and sold 100 000 USD worth of securities, so the initial investment was at least 600 000 dollars.⁷⁴ The first complete overview available of the investments is from 1959, when Kaiv gave a report to the State Department and the Federal Reserve about Estonian investments, by which in 1959 the investments totaled 412 500 USD.⁷⁵

From the perspective of maintaining the longevity of Estonian funds, Kaiv's decision to invest only a part and then to considerably reduce the amount invested, was irrational and

⁷¹ Secretary of State Dean Acheson to Johannes Kaiv, 26.12.1951, ERA.1608.2.566.

⁷² L'hommedieu p.80

⁷³ Federal Reserve Foreign Department to Johannes Kaiv, 04.11.1952, ERA.1608.2.566.

⁷⁴ Federal Reserve to Johannes Kaiv, 01.02.1955, ERA.1608.2.566.

⁷⁵ Department of Justice to the Secretary of State John Foster Dulles, 02.12.1959, ERA.1608.2.566.

against Federal Reserve recommendations. Profits from the investments only covered roughly a sixth of the Consulate General's budget, with the rest of the budget coming from funds that potentially could have been invested and used to increase the budget.

Until his death in 1965, Johannes Kaiv kept only a small portion of the funds invested. This meant that when the succeeding Consul General in Charge of Legation Ernst Jaakson took over handling the funds, the balance of the Government of Estonia Dollar Account was only 84 076 USD, with 299 000 USD invested.⁷⁶ Considering how small the amounts invested were, the small account balance is not anything abnormal.

What is abnormal is that 138 860 USD had been transferred to the account in The National City Bank of New York.⁷⁷⁷⁸ The first transaction was made when the account was still part of the Buxhoeveden vs Bank of Estonia court case, so Kaiv could have not used the sum transferred. After 1953 when the court case ended, Kaiv had access to the account although there is no documentation archived concerning what that sum was used for. As a matter in fact there is almost no information about the account at all after December of 1950, when the process to getting authorization for investments started.

Soon after taking responsibility for the Estonian accounts, Jaakson also transferred 67 700 USD to the National City Bank account.⁷⁹ Transfers to the account seemingly needed no explanations to the U.S. authorities, and due to this there is no information as to what the account was used for. Budget for the Consulate General still came from the “Government of Estonia Dollar Account” which in 1969 was starting to run dry, so Jaakson transferred 200 000 USD to it from the National City Bank account and invested the amount soon after.⁸⁰

This was done with authorization from the Under Secretary of State, giving proof that the U.S. authorities maintained some control over the account. Although there were transactions that were not archived, either because U.S. authorities did not need explanations, or because the Consul Generals chose not to archive the transactions. From a meeting with State Department officials, Jaakson made a note that the Citibank⁸¹ account held 798 452 USD,⁸² meaning that 103 368 USD had been spent on unknown reasons.

⁷⁶ Federal Reserve to Johannes Kaiv, 04.29.1966, ERA.1608.2.566.

⁷⁷ Federal Reserve Foreign Department to Johannes Kaiv, 04.11.1952, ERA.1608.2.566.

⁷⁸ Federal Reserve to Johannes Kaiv, 04.29.1966, ERA.1608.2.566.

⁷⁹ Federal Reserve to Ernst Jaakson, 29.05.1969, ERA.1608.2.566.

⁸⁰ Ernst Jaakson to the Federal Reserve, 29.04.1969.

⁸¹ The National City Bank of New York rebranded itself Citibank in 1976.

Citigroup Inc. History, International Directory of Company Histories, Vol.59. St. James Press, 2004.

⁸² Notes by Ernst Jaakson, 2.09.1977, ERA.1608.2.573.

3.2 The End of Estonian Dollar Accounts

By the 1980-s, the annual budget of the Consulate General had grown to 180 000 USD. The amount invested was still 300 000 USD⁸³ with yield rates between 7-8% generating roughly 21000 USD a year. Thus profits from the investments covered about a sixth of the Consulate Generals budget, although the money invested was worth far less and would not even cover the budget for two years. Jaakson decided to at last invest most of the Citibank account in 1982. However the 710 000 USD invested⁸⁴ would prolong the end of the accounts by only a few years.

In 1987 the Consulate General of Estonia in New York was on the verge of bankruptcy and Jaakson had to take a “national loan” of 185 000 USD from the Latvian Charge d’Affaires Anatol Dinbergs in order to finance the 1988 budget.⁸⁵ The 2 477 086 USD had been completely spent and thus future of the Consulate General seemed uncertain.

It's difficult to understand why Johannes Kaiv and Ernst Jaakson only kept such a small portion of the accounts invested. It was against Federal Reserve recommendations and judging by the transactions left undocumented, the accounts devaluation was against the well being of the Consul Generals themselves. Ernst Jaakson had a degree in economics from the University of Columbia⁸⁷, so he surely understood that the funds were bound to run out if not fully invested, yet still he waited until the very last minute, when the accounts had lost most of their value.

Had Jaakson and Kaiv lost faith in the cause of the Consulate General and did not deem the longevity of the funds necessary, with Jaakson living longer than he dared to expect? In 1987 Consul General Ernst Jaakson became 83 years old. His wife Claire Jaakson had passed away in 1983 after a long illness.⁸⁸ Mihhail Gorbats'ov's Perestroika had brought along a wind of change in the Soviet Union, however the chances of an independent Estonia still seemed bleak. In 1982 with approval from the State Department, Ernst Jaakson hired the young Dr. Aarand Roos to fill the position of Consul,⁸⁹ ensuring a successor, but with what funds would

⁸³ Ernst Jaakson to the Federal Reserve, 30.12.1980, ERA.1608.2.573.

⁸⁴ Ernst Jaakson to the Federal Reserve, 19.02.1982, ERA.1608.2.573.

⁸⁵ Ernst Jaakson to Indrek Tarand, 17.06.1994, ERA.1608.2.573.

⁸⁶ Jaakson p.202

⁸⁷ Jaakson p.50

⁸⁸ Ibid. p.52

⁸⁹ Ibid. p.215

the successor operate if the predecessors had spent everything. The Consulate General survived 1988 thanks to the loan granted by Latvia, but how would it go on?

Just like in 1941, at the very last moment a solution arose by sheer luck. Since the 1950-s the Consul General had represented Estonia's interests in Court cases involving the private Estonian bank A/S Krediit Pank. The Consul General did this on the basis that 50% of the bank's stocks were owned by Estonia,⁹⁰ and the bank held large assets in the United States. The Consul General implemented the similar *negotiorum gestor* position, with a few technical differences, that it used to defend the Estonian ships in court.

Several private banks and investors that had stakes in Krediit Pank turned to court in the hopes of getting their lost investment back from assets Krediit Pank had abroad. The court cases were extremely technical with involvement from at least 6 different banks, stakeholders in the bank, the Estonian Government in Exile⁹¹ and A/S Krediit Pank directors,⁹² creating a legal deadlock with no one getting access to the bank's assets.

The deadlock lasted until 1988, when the court decided to grant Ernst Jaakson access to one of the accounts belonging to Krediit Pank. The account in question held 1 089 163 USD.⁹³ Why the court decided to grant Ernst Jaakson access deserves a research paper on its own. Several of the claimants turned down were Estonians who had made the account and had legal proof that they had deposited the money,⁹⁴ but instead the court decided to give the account to Jaakson who was somehow protecting the interests of the Estonians. From the Consulate General's standpoint, the court's decision was life saving and in that sense it did protect Estonian interests. Jaakson did repeat the same mistake and invested the account whole⁹⁵ ensuring the Consulate General's financial stability.

A/S Krediit Pank was one of the biggest Estonian private banks, so the court cases involving it got widespread coverage in Estonian newspapers and caused extensive debate. However when the 1.1 million USD transaction was made to the Consulate Generals account in the beginning of 1989, the question was largely forgotten and Estonian foreign newspapers focused on events in Estonia. Besides, in 1989 another major transaction by the Consulate

⁹⁰ Ernst Jaakson to Indrek Tarand, 17.06.1994, ERA.1608.2.573.

⁹¹ Aleksander Kütt to Johannes Kaiv, 28.05.1958, ERA.1608.2.577.

⁹² Court cases in which the Consul General was involved, ERA 1608.2.578 - ERA.1608.2.594.

⁹³ Ernst Jaakson to Indrek Tarand, 17.06.1994, ERA.1608.2.573.

⁹⁴ List of A/S Krediit Pank stock owners, 25. 09.1943, ERA.1608.2.577.

⁹⁵ Ernst Jaakson to the Federal Reserve, 01.03.1989, ERA.1608.2.573.

General that drew the attention and criticism of the Estonian diaspora. The sale of the Estonian legation in London.

In 1983 the tax exemptions designated for the legation in London ended, on the basis that there was not a diplomat recognized by the British Foreign Office working at the legation. It's unclear why the Foreign Office decided to end the tax exemptions 12 years after the Estonian envoy to the United Kingdom August Torma had passed away. Anyway Ernst Jaakson could not persuade them to revoke the decision and so the legation's expenses rose by sixfold. In addition, the legation desperately needed a renovation as the building had not been properly maintained for 40 years.⁹⁶ With the Consulate General in a tough position itself, the sale of the legation was needed, before the building was beyond usable.

The long sale procedure through the British court was done quietly in order to avoid interference by the Soviet Union. This caused immense disapproval from Estonians in exile, when it suddenly was announced that the legation has been sold.⁹⁷ The outrage was understandable, as it is unclear on what right Jaakson sold the legation, even if it was justified. Proceeds from the sale were confiscated by the British court⁹⁸ and released when Estonia regained its independence.⁹⁹

Thanks to the Singing Revolution at home and the drama accompanying the sale of the London legation, one million dollar transaction to the Consulate General went largely unnoticed. The 1 089 163 USD granted to the Consulate General from the A/S Krediid Pank assets was invested by Ernst Jaakson thus ensuring the financial stability of the Consulate General until the Republic of Estonia regained independence, however Estonia did not immediately resume funding.

The budget of 1992 was still financed with the Krediid Pank assets. Republic of Estonia resumed financing in 1993 with 571 417 left in the "Government of Estonia Dollar Account" in the Federal Reserve.¹⁰⁰ An account that the Government of Estonia probably knew nothing about and seemingly the Foreign Ministry of Estonia forgot or also did not know about. The account sat idling for nearly two years, until December of 1994 when Ernst Jaakson on his

⁹⁶ Jaakson p.202

⁹⁷ Ibid. 203

⁹⁸ Overview of the Consulate Generals history by Aarand Roos, 20.11.1991, ERA.1608.2.2369.

⁹⁹ Ernst Jaakson "Eestile", SE&JS Meedia- ja kirjastuskompanii, Tallinn 1995. Lk. 203.

¹⁰⁰ Ernst Jaakson to Indrek Tarand, 17.06.1994, ERA.1608.2.573.

own initiative transferred the amount left to the Estonian Embassy in Washington,¹⁰¹ ending the Government of Estonia Dollar account.¹⁰²

Throughout the period when the Consulate General had to find funding independently, the question of how the Consulate General finances itself and handles the “frozen” Estonian accounts was kept secret, and it has been a subject untouched after Estonia regained its independence. At the time, the Consulate General admitted to the public that Estonia had limited accounts in the United States to which limited access was granted under the supervision of the State Department. In his memoir “Eestile”, Ernst Jaakson states the same.¹⁰³ In both cases it's not mentioned how large the accounts were or what the limited access meant.

The fact that 2 477 086 USD of Estonian funds were gone due to negligence by the Consul Generals in handling the funds, went unnoticed due to this, as did the financial crisis of 1987/1988 and its subsequent solution with the Krediid Pank funds. Both strong subjects for debate. Why did the Consul Generals keep information about the Estonian dollar accounts secret?

To avoid the highly likely situation, that the accounts belonging to the Republic of Estonia end up in a legal deadlock like the Krediid Pank accounts did. Again there was the issue of U.S. based investors demanding compensation for their investments that were lost with the Soviet occupation. What made the situation especially difficult was that the Republic of Estonia had issued bonds on the New York Stock Exchange. If investors heard that Estonia had considerable accounts in the U.S. they could demand compensation through court.

The court most likely would have not compensated the investments, as it would be against the non-recognition policy adopted by the United States of America, regarding the Soviet occupation of the Baltic states. However the Consulate General would have not been able to finance its operations with the Estonian accounts, if the accounts were part of a court battle.

The second issue why the Consul Generals kept information about the Estonian accounts secret, was because of the bolemics that would ensue among the Estonian diaspora if it were to come out that the Consul General had almost full access to large bank accounts. Even when

¹⁰¹ Federal Reserve to Ernst Jaakson, 09.12.1994, ERA.1608.2.573.

¹⁰² Ernst Jaakson to Indrek Tarand, 12.12.1994, ERA.1608.2.573.

¹⁰³ Jaakson p.111

information about the accounts was kept near none, there was judgment on how the funds should be used with Estonian organizations in Canada suggesting scholarships for Estonian students be set up,¹⁰⁴ and the Estonian “Government-in-exile” criticizing the Consulate General’s financial policies anyways.¹⁰⁵ Revealing the truth would have caused the need for endless explanations against endless accusations of embezzlement. It might have increased the longevity of the Estonian dollar accounts, however it would have been at the expense of the Consulate Generals reputation.

¹⁰⁴ Hugo Muru to Johannes Kaiv, 15.05.1959, ERA.1608.2.558.

¹⁰⁵ Heikkilä p.44

Conclusion

Ernst Jaakson and Johannes Kaiv managed to maintain the continuity of the Estonian Legation throughout the period of 1940-1991, when Estonia was occupied by the Soviet Union. This was a very difficult task due to which the two men are legends in Estonian foreign service. However, as we have seen in this dissertation, some major difficulties were their own doing when handling the Estonian funds irrationally and wasting them with little thought on long term issues. Representing a country existing only *de jure* meant that they had to find funding themselves, so long term investments should have been the aim, however for some reason they were not.

At first the Consulate General survived financially thanks to Estonian shipowners and captains, who faced court cases with the Soviet Union that fought for nationalizing their ships. It was in the interest of the shipowners to keep the Consulate going, as Consul General Kaiv was the main force in defending their property. However financial troubles soon hit the shipowners themselves and in April of 1941 the Consulate was on the verge of bankruptcy. In perfect timing, the U.S. Congress adopted Public law 31 in April 1941 by which the Secretary of State could grant a diplomatic representative access to accounts and funds deposited by the representative's homeland. Already in May of 1941 the law was put to use, when Consul General Johannes Kaiv was granted access to a part of the Republic of Estonia's bank accounts in the United States.

The Federal Reserve set up a special bank account called "the Government of Estonia Dollar Account" through which the Consul General got access to an annual budget of 35 000 USD, taken from the Estonian bank accounts. The access was given on three conditions. Firstly, the access was only to 35 000 USD a year. Secondly, only the Consulate General in New York and the Consulate in Sao Paulo were to be funded with this account. Thirdly, Kaiv had to give a statement to the Department of State regarding the expenses made every month.

Whilst Johannes Kaiv had found clarity concerning some Estonian bank accounts thanks to the State Department, he did not have a complete overview of the Republic of Estonia's accounts in the United States, due to which Kaiv also did not know about the state of Estonia's gold deposits in the United States. Worrying that Estonian deposits would be handed

over to the Soviet Union due to potential deposit periods ending, Kaiv started searching for information from Estonians in exile who had worked for the Bank of Estonia, with success and in 1947 got a complete overview of Estonian assets in the U.S..

Estonia had 2.5 million USD deposited in bank accounts and 2.6 tons of gold. As it turned out, the gold was deposited in the U.S. Federal Reserve but through the Bank of International Settlements (BIS) as a correspondent bank. BIS demanded that to get access to the gold, an overall agreement is needed concerning the assets in the United States belonging to countries now under Soviet rule. This would have meant the end of the U.S. non-recognition policy of the Soviet occupation of the Baltic States. A policy fiercely defended by the United States.

With the new complete overview, Kaiv realized the dire strait of Estonian funds abroad. By December of 1950, the Consulate General had spent nearly 670 000 USD. Considering the inflation and the rate with which the accounts were spent, the Estonian bank accounts would not even last two decades. Kaiv successfully applied for increased authorization from the Secretary of State so he could invest the dollar accounts in U.S. Federal Reserve issued Bonds, which would generate a profit covering roughly half of the annual budget. The increased authorization gave almost complete control over the Estonian dollar accounts, although the State Department still checked the annual budgets.

For some unknown reason, Kaiv went against Federal Reserve recommendations, deciding to invest only a part of the dollar accounts, and even reducing the amount invested afterwards. Kaiv's successor as Consul General Ernst Jaakson, kept only a part of the funds invested, leaving the accounts to be eaten away by inflation and the yearly budget. The irrational investment policy caught up in 1987 when Consul General Jaakson had to take a "national loan" of 185 000 USD from the Latvian Charge d'Affaires Anatol Dinbergs in order to finance the 1988 budget. The 2.5 million dollars had been completely spent.

In 1988, by sheer luck a court case over a private Estonian bank's assets in the United States ended. The Republic of Estonia owned half of the bank's shares, due to which the Consul General had contested for the bank's assets in the U.S. against different investors since the 1950-s. The case was for over nearly 1.1 million USD held by the bank in the U.S., which was given to the Consulate in 1988. Jaakson did not make the same mistake twice and

invested the sum whole. Thanks to this sum, the Consulate General survived until the restoration of Estonian independence.

Throughout the period when the Consulate General had to find funding independently, the question of how the Consulate General finances itself and handles the “frozen” Estonian accounts was kept secret, and it has been a subject untouched after Estonia regained its independence. Due to this, the fact that Estonian funds worth 2.5 million dollars were spent due to negligence by the Consul Generals in handling the funds went unnoticed, as did the financial crisis of 1987/1988 and its subsequent solution with the Krediid Pank funds.

The Consulate General kept the financial question a secret to avoid the highly likely situation that the accounts belonging to the Republic of Estonia end up in a legal deadlock like the Krediid Pank accounts did, due to U.S. based investors demanding compensation for their investments that were lost with the Soviet occupation. It is highly unlikely that the court would have compensated the investments, as it would be against the non-recognition policy adopted by the United States of America, regarding the Soviet occupation of the Baltic states. However the Consulate General would have not been able to finance its operations with the Estonian accounts, if the accounts were part of a court battle.

Another reason why the Consul Generals kept information about the Estonian accounts secret was the Estonian diaspora. Even when the accounts were kept secret, debate about the accounts was strong. If it were to come out that the Consul General had almost full access to large bank accounts, it would have caused the need for endless explanations against endless accusations of embezzlement. It might have increased the longevity of the Estonian dollar accounts, however it would have been at the expense of the Consulate General’s time and reputation.

The effort by Kaiv and Jaakson in keeping the Consulate General going through the occupation was immense, due to which the two men deservingly have a place in the history books. However Estonia did lose its dollar reserves in the United States due to their decision not to invest them. Yet still they cannot be judged on this dissertation alone and neither based on the literature brought out in the introduction, as the accomplishments of Kaiv and Jaakson deserve further research.

As demonstrated in the introduction, research has been done on what the Consulate General of Estonia, in charge of Legation meant in international law. Very little research has been

done at the grassroots level, like this dissertation did with the financing question. For instance no research has been done on how the Consul Generals managed to keep the consulate going regardless of the anomalous diplomatic title Consul General, in charge of Legation. Research on how Kaiv and Jaakson managed to represent Estonia to the extent that they did with a diplomatic title that limits diplomatic options, is needed to do justice to their efforts.

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Järjepidevuse hind: Eesti Peakonsulaadi finantseerimine USA-s aastatel 1940-1991.

Nõukogude Liidu okupatsiooni ajal jätkas Eesti Vabariigi Peakonsulaat New Yorgis riigi esindamist. Peakonsulaat toetus USA mittetunnustamise poliitikale Balti riikide annekteerimise suhtes ja oli vundament Eesti juriidilisele järjepidevusele. Seda väga unikaalset saavutust on põhjalikult uuritud rahvusvahelise õiguse kontekstis, kuid ebapiisavalt kuidas seda praktiliselt ja finantsiliselt teostati. Sisuliselt on seni tähelepanu alt välja jäänud, kuidas Johannes Kaiv, Peakonsul aastatel 1939-1965 ja Ernst Jaakson, peakonsul alates 1965 kuni Vabariigi taasiseseisvumiseni, suutsid jätkata Peakonsulaadi tööd ilma toetuseta riigilt mida nad esindasid. Kõige suurem küsimus siinjuures on, et kuidas Peakonsulaat end finantseeris selle perioodi vältel?

Johannes Kaiv ja Ernst Jaakson on väitnud, et Peakonsulaati rahastati Eesti Vabariigi summadega mille üle USA oli sisse seadnud enda kontrolli, aga eraldades riigidepartemangu poolt igal aastal kindla eelarve. Kuid Kaiv ja Jaakson ei kirjelda kui suur oli see iga aastane eelarve, kui palju Eestil varasid USAs oli, kuidas ja kui palju nad rahadele ligi pääsesid ning mis nendest sai? Ühtlasi Kaiv ja Jaakson järjepidevalt eitasid Eesti kulla olemasolu USA-s, väide mis oli juba toona kaheldav. Infosulg teeb võimatuks hinnata kuidas Peakonsulid käsitlesid potentsiaalselt väga suuri Eesti Vabariigile kuuluvaid reserve. Kas oli omakasupüüdlisust või hoiti kulutusi minimaalsena?

Seetõttu on selle uurimistöö eesmärk vastata küsimustele kui palju oli Eesti Vabariigil varasid USA-s, kuidas anti Peakonsulile ligipääs nendele varadele, millisel määral seda tehti ja kuidas Peakonsulid kasutasid seda võimalust? Kas käituti sihiga säilitada neid varasid võimalikult arukalt ja jätkusuutlikult või esines näiteks omakasupüüdlisust?

Kuna kirjandus käesoleva teema kohta sisuliselt puudub, on uurimistöö koostatud New Yorgi Peakonsulaadi arhiivi baasil, mis on leitav Eesti Rahvusarhiivis. Arhiveeritud dokumentide põhjal on üles ehitatud terviklik ajatelg perioodil 1940-1991, mis annab esmakordse tervikliku ülevaate sellest kuidas Peakonsulaat end finantseeris.

Esiialgu püsis Peakonsulaat pinnal Eesti laevaomanike ja kaptenite abiga, kelle huvides oli Peakonsulaadi töö toetamine, sest Peakonsul Kaiv kaitses nende laevasid USA kohtutes Nõukogude Liidu riigistamiskatsete vastu. Ajapikku tabasid majanduslikud mured ka laevaomanikke, sest Nõukogude Liidu palgatud juristidel õnnestus saada kohtu arestima laevu mõneks ajaks, mistõttu ei olnud laevaomanikel enam võimalik peakonsulaati toetada. Aprillis 1941 oli Peakonsulaat sisuliselt pankrotis.

Õnneks võttis sama aasta aprillis USA Kongress vastu seaduse millega välisminister sai õiguse tagada välisriigi esindajale ligipääsu oma riigi varadele USA pankades. Seda seadust rakendati juba 1941 aasta maikuus, kui Johannes Kaiv sai ligipääsu Eesti Vabariigi kontodele Ameerika Ühendriikides.

USA Föderaalreserv tegi spetsiaalse “Eesti Vabariigi Valitsuse konto” kuhu kogus kokku erinevad Eesti pangakontod, millest Peakonsul sai iga-aastase kindla summa. See toimus kolmel tingimusel. Esiteks, iga aastane eelarve oli 35000 USD. Teiseks, see eelarve oli mõeldud vaid New Yorgi Peakonsulaadi ja Sao Paulo konsulaadi jaoks. Kolmas tingimus oli et, Peakonsul pidi andma iga kuu USA Välisministeeriumile aruande tehtud kulutustest.

Johannes Kaivil oli olemas selgus Eesti Vabariigi dollarikontode asjus, kuid puudus info Eesti Vabariigi kullavarude kohta. Kartes, et kuld satub hoiuste tähtaegade lõppedes Nõukogude Liidu kätte, asus Kaiv otsima abi eestlastelt eksiilis, kes olid töötanud Eesti Pangas.

Aastal 1947 sai Kaiv kontakti Johannes Künnapuuga kes oli Eesti Panga esimese allkirjaõigusega prokurist. Põgenedes Eestist oli Künnapuu võtnud kaasa erinevaid Eesti Panga dokumente mille baasil ta sai anda täieliku ülevaate Eesti Vabariigi varadest USA pankades. Eestil oli 2.5 miljonit dollarit pangakontodel ja 2.6 tonni kulda.

Künnapuu dokumentidest selgus, et kuld oli hoiul Ameerika Ühendriikide Föderaalreservis kuid deponeeritud Rahvusvaheliste Arvelduste Panga (BIS) kaudu. Seetõttu ei suutnud ka USA Riigidepartemang Eesti kulda leida, sest see oli arvel BIS-i nimel. Asjaolu, et kuld oli deponeeritud BIS kaudu tegi Eesti kulla olukorra keeruliseks. BIS saavutas oma kurikuulsuse kui pesi Natsi-Saksamaa jaoks puhtaks varastatud kulda, mistõttu külmutas USA kõik BIS-i varad enda pankades. Peale Teist Maailmasõda USA vabastas BIS-i varad ja pank jätkas tegevust, kuid nüüd külmutas Eesti kulla BIS ise. BIS hoiustas suures koguses kulda riikidele,

mis sattusid Nõukogude Liidu okupatsiooni alla, mistõttu peale sõda otsustas BIS nende riikide varad külmutada, sealhulgas ka Eesti kulla.

Kaiv ja Jaakson pidevalt tegid USA Välisministeeriumis lobitööd, et saada kullale ligipääsu kuid ilma eduta. Kulla vabastamiseks nõudis BIS üldist kokkulepet Nõukogude Liidu ja USA vahel Nõukogude Liidu okupatsiooni alla jäänud riikide varade kohta, sest BIS ei oleks saanud vaid Eesti varadele erandit teha. Selline kokkulepe USA ja Nõukogude Liidu vahel oleks tähendanud Balti riikide okupatsiooni tunnustamist, ehk sellisel kokkuleppe puhul oleks USA pidanud lõpetama Peakonsulaadi tunnustamise.

Tänu Künnapuu jagatud dokumentidele sai Kaiv esmakordselt täieliku ülevaate Eesti varadest USA-s, millega märkas Kaiv suurt probleemi. 1950 aasta detsembriks oli Peakonsulaat kulutanud 670 000 dollarit. Arvestades inflatsiooni ja tempot millega Eesti varad vähenesid, ei oleks sellise tarbimisega finantsid kestnud kaua.

Kaiv taotles USA Välisministrilt luba investeerida Eesti kontod USA riiklikesse võlakirjadesse, mille intressid oleks katnud umbes pool iga-aastasest eelarvest. USA Välisministri antud litsents võimaldas rohkem kui loodeti. Uue loaga USA Välisministeerium endiselt hoidis iga-aastaselt eelarvel silma peal. Luba siiski andis Peakonsulile pea täieliku kontrolli Eesti Vabariigi dollarikontode üle USA-s.

Täiesti arusaamatult otsustas Kaiv ignoreerida Föderaalreservi soovitusi investeerida kontod terviklikult võlakirjadesse ja kord aastas võtta vajalik summa välja. Kaiv investeeris ainult osa dollarikontodest, hiljem isegi vähendades investeeringuid. Kaivi järglane Peakonsulina Ernst Jaakson samuti hoidis ainult väikese osa kontodest investeerituna jättes kontod kaotama oma väärtust inflatsioonile. Irratsionaalne investeerimispoliitika maksis kätte aastal 1987, kui Peakonsulaat oli sisuliselt pankrotis ja oli vaja võtta Läti Charge d'Affaires Anatol Dinbergs-ilt 185 000 dollarit laenu et finantseerida 1988 aasta eelarvet. Kaks ja pool miljonit dollarit mille Eesti Vabariik algselt USA pankadesse hoiustas, olid Peakonsulite poolt täielikult kulutatud.

Peakonsulaadi õnneks lõppes 1988 aastal keeruline ja pikk kohtuprotsess A/S Krediit Panga varade üle, mis oli kestnud 1950 aastatest saadik. Kohtuprotsessi keskmes oli A/S Krediit Panga varad USA-s väärtusega pea 1.1 miljonit dollarit mille nimel võitlesid erinevad panga

omanikud, investorid ja ka Peakonsul, sest pool panga aktsiatest kuulus Eesti Vabariigile. Kohtuprotsessi lõppedes sai Peakonsulaat selle summa endale, tagades Peakonsulaadile finantsieeringu Eesti Vabariigi iseseisvumise taastamiseni.

Kogu perioodi 1940-1991, kui Peakonsulaat pidi finantseerima end iseseisvalt, hoiti andmed Eesti Vabariigi külmutatud kontode kohta salajasena ja on jäänud suuresti puutumata teemaks kuni tänaseni. Seetõttu on jäänud puutumata asjaolu, et Peakonsulite poolt kulutati 2.5 miljonit dollarit Eesti Vabariigi varasid, mille väärtust oleks saanud märkimisväärses osas säilitada kui seda oleks tahetud. Tähelepanuta on jäänud ka Eesti varade täielikust kulutamisest tulenenud 1987/1988 aasta majanduskriis konsulaadis ja selle lahendamine Krediit Panga varadega.

Peakonsulaat hoidis info finantsküsümuse kohta sihilikult salajasena, et vältida olukorda kus Eesti Vabariigi kontod satuvad samasugusesse keerulisse kohtuprotsessi nagu Krediit Panga konto sattus, kus investorid nõudsid Eesti varadest USA-s kompensatsiooni Nõukogude okupatsiooniga kaotatud varade eest. USA kohtusüsteem ei oleks investeringuid kompenseerinud, sest see oleks murdnud mittetunnustamise poliitika Balti riikide okupatsiooni suhtes, kuid seni kuni Eesti dollarikontod oleks olnud osa kohtujuhtumist, ei oleks Peakonsulaat saanud nendega enda tegevust finantseerida.

Teine põhjus miks Peakonsulid hoidsid Peakonsulaadi rahaasjad salajasena, oli Eesti diasporaa. Isegi kui info kontode kohta hoiti minimaalsena, oli väliseestlaste seas palju debatti sellest kuidas neid kontosi peaks kasutama. Kui oleks selgunud, et Peakonsulil on pea täielik kontroll niivõrd suurte summade üle, oleks see tähendanud lõpmatut bolemikat ja omastamise süüdistusi Peakonsulaadi suunal. Eesti dollarikontode eluiga oleks võibolla pikenenud, kuid pikenenud Peakonsuli maine, aja ja seetõttu ka muu töö arvelt.

Kaivi ja Jaaksoni saavutus hoida Peakonsulaadiga Eesti järjepidevust läbi Nõukogude Liidu okupatsiooniperioodi oli meeletu, mistõttu positiivne koht ajalooramatutes on välja teenitud. Samas Eesti Vabariik kaotas oma varad Ameerika Ühendriikides Kaivi ja Jaaksoni otsuse tõttu neid mitte investeerida. Siiski nende pärandit ei saa hinnata vaid selle vea põhjal ega üldsegi seni tehtud uurimistöode põhjal, sest seda teemat on niivõrd vähe uuritud. Palju on vaadeldud mida tähendas Peakonsulaadi tegevus rahvusvahelise õiguse kontekstis, kuid ei ole näiteks selgitatud mida tähendas Kaivi ja Jaaksoni anomaalne teenistusaste Consul General,

in charge of Legation nende tööle esindades Eesti Vabariiki. Vaid edasine uurimistöö võimaldaks hinnata nende kahe mehe pärandit.

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