



Economic Relations: Lend-Lease and the Russian Loan

From the purely economic point of view, prospects for postwar Soviet-American cooperation seemed encouraging during World War II. The United States had built up a massive industrial plant to produce war materials not only for itself but also for its allies. Reconversion to the production of consumer goods would be at best a painful process, and could be disastrous, for no one knew whether the American economy could maintain full employment in peacetime. The Soviet Union needed heavy industrial equipment, partly to rebuild its war-devastated economy, partly to satisfy its people's long denied desire for more consumer goods. Moscow could solve its reconstruction problems, it appeared, by placing massive orders for industrial equipment with American firms. Filling these orders would help the United States deal with its own reconversion problems and, in the process, would begin to integrate the Soviet Union into the multilateral system of world trade to which Washington attached such great importance. Both countries, it seemed, had a strong interest in promoting this most promising of economic partnerships.

But neither the Soviet Union nor the United States found it easy to divorce economics from politics. As the end of the war approached, American leaders became increasingly concerned about emerging areas of conflict with Russia—especially the problems of German repara-

tions and self-determination in Eastern Europe. Moreover, Congress by this time had made it clear that it would not support American efforts to finance world reconstruction unless the United States obtained substantial benefits therefrom. Accordingly, the Roosevelt Administration decided early in 1945 that the advantages of withholding aid to Russia in hopes of extracting political concessions outweighed the economic gains to be derived from extending such assistance.

Although the Russians viewed American economic aid as an important part of their reconstruction program, they were never willing to sacrifice major political objectives to obtain it. An alternative though less desirable method of rebuilding Soviet industry did exist—the extraction of massive reparations from Germany while maintaining tight controls over the Russian consumer economy. Furthermore, Soviet ideologists believed Moscow would be doing the Americans a favor by accepting economic assistance. Anticipating a postwar depression in the United States brought on by the “internal contradictions” of capitalism, they expected to have American businessmen practically forcing unsold products upon the Russians, and hence saw little need to make the concessions which Washington demanded. Conflicting political goals thus overrode congruent economic interests to produce another of the irritants which led to the disintegration of the Grand Alliance.

II

A large postwar loan to the Soviet Union seemed the most efficient way for the United States to assist Russian reconstruction. Prewar imports from the USSR had never reached substantial levels, and would not come close to balancing the vast quantity of goods which the Russians would want after World War II. The Soviet Union possessed large gold reserves, but could not finance large purchases indefinitely in that manner. A long-term loan, however, would allow the Russians to meet their reconstruction needs at once, while gradually paying off the debt through increasing exports to the United States. By extending such a loan, Washington could ensure American businessmen the foreign market they would need to maintain full employment after the war. Late in 1943 the United States government informed the Russians, through

both official and unofficial channels, that it was prepared to consider such a loan.

W. Averell Harriman, the new American ambassador in Moscow, strongly advocated postwar economic cooperation with the Soviet Union. Harriman's international banking firm had extended credits to the Soviet government in the 1920s, and Harriman himself had visited the country several times. He found the Russians to be "most meticulous" in meeting their financial commitments. In 1941, President Roosevelt had chosen Harriman to go to Moscow to help arrange for the extension of lend-lease aid. Shortly before his appointment as ambassador in October, 1943, Harriman told Roosevelt that the Soviet Union was depending on the United States for help in postwar reconstruction. At a press conference held after his arrival in Moscow, he stated that American assistance in rebuilding the Soviet economy deserved "the greatest possible consideration at this time."¹

Harriman favored aiding Russia for two reasons. Like many other Americans, he expected the end of the war to bring a sharp rise in unemployment in the United States which might cause another depression. The production of heavy industrial equipment for the USSR could keep American factories operating at full pace for some time to come. But Harriman did not view aid to Russia solely in terms of its effect on the domestic economy. Moscow's intention to dominate Eastern Europe already worried him, and he regarded a postwar loan as one of the few means by which Washington could affect Russian actions in that part of the world. "Economic assistance," he wrote Secretary of State Hull early in 1944, "is one of the most effective weapons at our disposal to influence European political developments in the direction we desire and to avoid the development of a sphere of influence of the Soviet Union over Eastern Europe and the Balkans."²

Donald M. Nelson, chairman of the War Production Board, also raised the possibility of economic collaboration with Moscow during a

¹ W. Averell Harriman, "From Stalin to Kosygin: The Myths and the Realities," *Look*, XXXI (October 3, 1967), 55-62; Harriman to Roosevelt, July 5, 1943, *FR: Tehran*, p. 15; Harriman press conference, November 4, 1943, *FR: 1943*, III, 586-89. See also Harriman, *America and Russia in a Changing World*, pp. 2-7.

² Harriman to Hull, March 13, 1944, *FR: 1944*, IV, 951. See also *ibid.*, pp. 944-45, 1052-55. For Harriman's concern about the domestic economy, see *FR: 1943*, III, 586-89, 781-86, and *FR: 1944*, IV, 1032-35.

visit to the Soviet Union in October, 1943. Nelson told the Russian leaders that "a great future" existed in trade with America. The United States would have available after the war a vast surplus of industrial equipment which the Russians could employ to rebuild their economy, while the Soviet Union had raw materials which the United States could use. Mutual self-interest called for economic cooperation, Nelson argued, for the two economies so obviously complemented each other. Stalin agreed. In a long interview on October 16, he told Nelson that Russians liked Americans and their products, and wanted to import commodities from the United States after the war. The Soviet leader asked whether his government could purchase these goods on credit. Nelson, speaking strictly as an individual, replied that credit could probably be arranged, with initial repayments kept small until the Soviets had completed reconstruction. Stalin showed great interest in this idea, repeatedly and forcefully assuring Nelson that an American investment in Soviet reconstruction would be a sound one. Impressed by what he had heard, Nelson returned to tell the American people that Russia could be "an excellent source of business for America."³

At the Moscow Foreign Ministers' Conference that same month, Secretary of State Hull told the Russians that Americans desired "to cooperate fully in the rehabilitation of war damage in the U.S.S.R.," and suggested that the Russians begin negotiations on this subject with United States Embassy officials in Moscow as soon as possible. Early in November, Harriman brought up the matter with Anastas I. Mikoyan, Soviet commissar for foreign trade. Harriman asked the Russians to start thinking about what they would need to rebuild their economy, and mentioned the possibility of an American loan. "It would be in the self-interest of the United States," the ambassador pointed out, "to be able to afford full employment during the period of transition from wartime to peacetime economy."⁴

Harriman and President Roosevelt discussed aid to Russia at the Tcheran Conference in December, 1943, but the President did not get a

³ Nelson-Molotov conversation, October 12, 1943, Nelson-Stalin conversation, October 16, 1943, *FR: 1943*, III, 710-15; Donald M. Nelson, "What I Saw in Russia," *Collier's*, CXIII (January 29, 1944), 11 ff.

⁴ Moscow Conference Document No. 36, "U.S. Proposal on Cooperation in the Rehabilitation of War Damage in the Soviet Union," *FR: 1943*, I, 739; Bohlen notes of Harriman-Mikoyan conversation, November 5, 1943, *ibid.*, pp. 781-86.

chance to bring up the matter with Stalin. He did authorize Harriman to continue his direct negotiations with the Russians. Harriman did not have to initiate discussions, however, for late in December Molotov, showing "the keenest interest in the matter," asked him what might be done about a postwar credit. One month later Mikoyan proposed to Harriman that the United States lend Russia one billion dollars, at an interest rate of one-half of 1 percent, with repayment to begin sixteen years after extension of the credit.⁵ The Russians thus responded enthusiastically to the American offer to assist their reconstruction. Only at this point, however, did Washington begin to examine seriously the economic, legal, and political implications of extending such assistance.

II

Before the United States could extend reconstruction credits to the Soviet Union, it would have to devise some way to terminate the massive flow of war material already reaching the Russians under lend-lease. From the beginning of the war Soviet lend-lease shipments had enjoyed a unique status. At Roosevelt's insistence, American authorities accepted Russian aid requests at face value, without the close scrutiny given applications from other allies. Moreover, as the war drew to a close, lend-lease shipments to Russia were not cut back, as were those to other nations. From June of 1941 through June of 1943, the Soviet Union received more than four and a half million tons of equipment of all kinds from the United States. During the next twelve months, the period of the Third Lend-Lease Protocol, shipments exceeded five and a half million tons.⁶

The original lend-lease agreement with the Soviet Union, announced on November 4, 1941, called for repayment without interest beginning five years after the end of the war. On June 11, 1942, however, the United States canceled this arrangement and put Russian lend-lease on

⁵ Roosevelt to Harriman, December 1, 1943, Roosevelt MSS, OF 220, Box 2; Harriman to Hopkins, January 4, 1944, *FR*: 1944, IV, 1032-35; Harriman to Hull and Stettinius, February 1, 1944, *ibid.*, pp. 1041-42.

⁶ Herring, "Lend-Lease to Russia and the Origins of the Cold War," p. 95; Robert Huhn Jones, *The Roads to Russia: United States Lend-Lease to the Soviet Union*, Appendix A.

the same basis as British lend-lease, thus removing the formal requirement of repayment. Congress accepted this procedure to help America's allies fight a common enemy, but, ever-sensitive to the dangers of pouring resources down foreign "rat-holes," demanded that lend-lease supplies not be used to support postwar reconstruction efforts. As Senator Vandenberg put it, lend-lease must not extend "1 minute or \$1 into the post-war period." Such a neat distinction would be difficult to make, however, for many of the items shipped to Russia for military purposes could also be used for reconstruction.⁷

Ambassador Harriman repeatedly asked the Russians to distinguish clearly between goods actually needed to fight the war and material to be used to rebuild the Soviet economy. He pointed out that although President Roosevelt wanted to interpret the Lend-Lease Act broadly, he could not do so because lend-lease would be an issue in the 1944 political campaign. In dispatches to Washington, Harriman warned that the Soviets were already ordering more under lend-lease than they needed to fight the war: "Unless we now begin to get at the least some knowledge of the purposes for which they are using our shipments we lay ourselves wide open to just criticism at home."⁸

Harriman proposed to solve this problem by having the United States government lend the Russians enough money to obtain what they needed for reconstruction. The Administration could then observe the wishes of Congress by restricting lend-lease shipments to items of strictly military utility. The ambassador suggested an initial credit of \$500 million, with repayment to take up to thirty years at an interest rate of 2 to 3 percent. Later on, larger credits could be granted. In addition to facilitating the orderly termination of lend-lease, Harriman expected the credit to improve postwar political relations with Russia and to provide "an outlet for American manufactured goods at the time our factories and labor are released from war production." Harriman emphasized the necessity of referring to this extension of money as a "credit" and not a "loan." The Russians generally understood a loan to be granted without

⁷ McNeill, *America, Britain, and Russia*, p. 24; Herring, "Lend-Lease to Russia," p. 102.

⁸ Harriman-Mikoyan conversation, November 5, 1943, *FR: 1943*, III, 781-86; Harriman to Hopkins, January 7, 1944, *FR: 1944*, IV, 1032-35; Harriman to Hopkins, January 15, 1944, *ibid.*, pp. 1039-40; Harriman to the President's Soviet Protocol Committee, March 2, 1944, *ibid.*, pp. 1057-58.

restrictions on its use. In this case, Harriman recommended insisting that the money be spent only to purchase American manufactured products, raw materials, and services. Since there were many "undetermined questions" in political relations with the Soviet Union, he advised that Washington retain control of the unallocated balance of the credit at all times, refusing to fill Soviet orders if for any reason it seemed inadvisable to do so.⁹

The Administration found Harriman's proposal impractical because it could not extend reconstruction credits to the Soviet Union without some form of congressional authorization. The Export-Import Bank had general authority to make foreign loans without specific congressional approval, but the Johnson Act of 1934 categorically prohibited both government and private loans to the Soviet Union.¹⁰ Even if the Johnson Act had not been on the books, an Export-Import Bank credit to Russia would have required special action by Congress because the bank had now virtually exhausted its allotted capital of \$700 million. Harry Hopkins, who handled Russian lend-lease matters for President Roosevelt, informed Harriman early in February, 1944, that for these reasons the Administration preferred not to extend a separate reconstruction credit to the Russians at that time.

Hopkins recommended that the Russians continue to meet their reconstruction needs through lend-lease and agree to reimburse the United States for items of more than strictly military utility. This plan would ensure a steady flow of material useful for both the war and reconstruction, without necessitating an approach to Congress. If it failed, the United States could always revert to Harriman's proposal. Hull told Harriman that he would form a special interdepartmental committee "to study and coordinate" all matters relating to the possible future extension of reconstruction credits.¹¹

Harriman reluctantly accepted the use of lend-lease machinery to cir-

⁹ Harriman to Hopkins, January 7, 1944, *FR: 1944*, IV, 1032-35; Harriman to Hull and Stettinius, January 9, 1944, *ibid.*, pp. 1035-36; Harriman to Hull, Stettinius, and Hopkins, January 9, 1944, *ibid.*, pp. 1036-37.

¹⁰ The Soviet government had never agreed to assume the debts to the United States of its predecessors, the Tsarist and Provisional governments. For negotiations on this matter, see *FR: The Soviet Union, 1933-1939*, pp. 161-91.

¹¹ Hopkins to Harriman, February 4, 1944, *FR: 1944*, IV, 1043-46; Hull to Harriman, February 8, 1944, *ibid.*, pp. 1047-48.

cumvent legal difficulties prohibiting direct aid to Soviet reconstruction, but he warned that this did not solve the problem. The Russians were planning a fifteen-year reconstruction program. Unless the American government could assure them of long-term credits in some form, they would not want to do business with the United States. Exports to the USSR were going to be vital in keeping American factories busy after the war. If the United States delayed extending credits, "we would then lose a competitive advantage in obtaining business for the time when it is most needed for the readjustment of our own war production program."

Furthermore, Harriman stressed using aid to the Soviet Union as a political weapon. Employed correctly, it could ensure that the Russians "play the international game with us in accordance with our standards." Harriman thought that Stalin would have to offer his people the prospect of rapid reconstruction in order to stay in power. A program of assistance to Russia which the United States could suspend at any time would be of "extreme value." Economic aid could also be used in Eastern Europe to prevent that region from falling under the domination of Moscow. To secure these political benefits, however, the United States would need a "well-forged" economic instrument. Vague promises to extend aid at some indefinite time in the future would only arouse suspicions in Moscow. Harriman pleaded with Hopkins not to let the question of aiding Russian reconstruction be bottled up in Hull's committee. He acknowledged the existence of difficulties in extending credits, but hoped that the economic and political advantages which he had mentioned might "offer ammunition for dealing with this aspect."¹²

Despite Harriman's reservations, the Roosevelt Administration stuck to its position. The Russians continued to satisfy their reconstruction needs through lend-lease, subject only to the condition that they reimburse the United States for material of more than military value.¹³ This decision not to distinguish between lend-lease and reconstruction credits caused trouble later on when the Russians insisted on continuing this policy, while Congress, appalled by the prospect of reconstructing the world at the expense of the American taxpayer, demanded rigid separa-

¹² Harriman to Hopkins, February 13, 1944, *FR: 1944*, IV, 1052-53; Harriman to Hull and Stettinius, February 14, 1944, *ibid.*, pp. 1054-55.

¹³ Stettinius and Leo T. Crowley to Roosevelt, March 6, 1944, *FR: 1944*, IV, 1059-60; Stettinius to Harriman, March 7, 1944, *ibid.*, pp. 1060-62.

tion. By the time Harriman's plan for a separate reconstruction credit was revived early in 1945, the political atmosphere was far less favorable to it than it had been in 1944.

III

The prospects for postwar Soviet-American trade would to a considerable extent determine the feasibility of a large American loan to the Soviet Union, for if imports from Russia failed to exceed exports, it would be difficult for the Russians to repay the loan in a reasonable length of time. Prewar trade figures were not encouraging. Between 1922 and 1938, exports to the USSR usually constituted between 1 and 2 percent of total American exports, and never exceeded 5 percent. Imports from the Soviet Union exceeded 1 percent of total imports only in 1938. The value of American exports to the Soviet Union fluctuated wildly from as high as \$113.4 million in 1929 to as little as \$8.9 million in 1933, averaging somewhat less than \$50 million during the entire interwar period. American imports from the Soviet Union averaged only about \$15 million annually.¹⁴

State Department officials felt pessimistic about the possibility of increasing imports from Russia. Elbridge Durbrow of the department's Division of European Affairs observed late in 1943 that, contrary to popular belief, the Russian and American economies were not complementary. The Soviet Union produced few goods which the United States could use. On the basis of anticipated trade figures, credits, if expected to be repaid within ten to twenty years, could not exceed \$200 million. Hence, "extreme caution" should be taken to avoid giving false impressions regarding postwar trade opportunities with the Soviet Union. In April, 1944, the department received a report which predicted that after the war the United States would import from the Soviet Union only one-third of what it exported. A large American loan might increase American exports to that country for a time, but amortization and interest requirements would make it difficult for the Soviets to continue to

¹⁴ Department of Commerce figures, cited in Ernest C. Ropes, "The Union of Soviet Socialist Republics as a Factor in World Trade," *World Economics*, II (October-December, 1944), 81.

take large American exports and still maintain a balance of payments equilibrium.¹⁵

Ambassador Harriman refused to admit that postwar American imports from the Soviet Union had to be so small. While he applauded the State Department's wish to deflate exaggerated optimism about trade with Russia, he called at the same time for a more positive program of stimulating imports "to the fullest extent possible." Russian requirements for American industrial equipment would be so great, Harriman felt, that trade between the two nations could advance significantly above prewar levels "provided we will adopt import policies that will make it possible."¹⁶

George F. Kennan, counselor of the embassy in Moscow, did not share his chief's optimism. Kennan regarded the problem of Russian foreign trade and credits as "simpler than people are apt to think." The Soviet Union would not depend on foreign trade in the postwar period and would not likely give up anything it considered vital to obtain such trade. Russia would accept credits from the West but would not be grateful for them, assuming that the nations extending them were acting in their own self-interest. Kennan worried that if a large portion of the American economy became dependent on Soviet trade orders, the Russians would not hesitate to exploit this dependence in ways detrimental to the United States.¹⁷

The Office of Strategic Services, surveying prospects for Russian-American economic relations in September, 1944, concluded that Soviet reconstruction would depend very little on foreign credit. A loan of \$1 billion a year for the next three years would speed up rehabilitation of the Russian economy by no more than a few months. The rate of reconstruction would depend more on whether the Russians felt they had to maintain a large peacetime military establishment than on the availability of credits. Early in 1945 the State Department estimated that with-

¹⁵ Durbrow memorandum, November 29, 1943, *FR: 1943*, III, 722-23; Report by the Interdepartmental Subcommittee on the Soviet Union of the Committee on Trade Agreements, "Aspects of Post-War Soviet Foreign Trade" (abstract), April, 1944, *FR: 1944*, IV, 959-60.

¹⁶ Harriman to Hull, April 1, 1944, *FR: 1944*, IV, 958.

¹⁷ Kennan memorandum, "Russia—Seven Years Later," September, 1944, printed in Kennan, *Memoirs*, pp. 503-31; Kennan to Harriman, December 3, 1944 [apparently misdated 1945], quoted *ibid.*, pp. 267-68.

out receiving foreign loans and through only limited use of its gold reserves the Soviet Union could, with the help of German reparations, regain its prewar level of capital investment by 1948. American credits would accelerate the process by only a matter of months. The Soviet Union, the department concluded, would therefore be able "to take a highly independent position in negotiations regarding foreign credits."¹⁸

Not all government officials concerned with Russian-American economic relations shared the pessimism of Kennan, the O.S.S., and the State Department. Ernest C. Ropes, chief of the Russian Unit of the Commerce Department's Bureau of Foreign and Domestic Commerce, foresaw a substantial postwar increase in American imports from the USSR. This would come about as a result of efforts by the United States to expand its world trade, and from the Soviet Union's natural desire to sell more in a market where it was making large purchases. Ropes acknowledged, however, that American imports from Russia would not come close to equaling exports, especially in the years immediately after the war. To make the purchases they wanted from the United States, the Russians would need credits running from ten to thirty years.

Ropes predicted that the Soviet Union would be a good credit risk. In lending money, one usually considered both the borrower's capacity and his willingness to repay. Russia's economic resources exceeded those of any other country, and its prewar reputation for meeting financial obligations had been excellent. "It would seem," Ropes concluded, "that the Soviet case is strong, and that the United States, to keep its war-expanded industry producing at a high rate in peace-time, could hardly find a means readier to its hand than to bid for Soviet business."¹⁹

The Treasury Department also rated the prospects for American imports from Russia higher than did the State Department. Treasury Secre-

¹⁸ Summary prepared by Samuel Lubell in March, 1945, of an Office of Strategic Services study, "Russian Reconstruction and Postwar Foreign Trade Developments," September 9, 1944, Baruch MSS, "Selected Correspondence"; memorandum by Emilio G. Collado, January 4, 1945, *FR*: 1945, V, 938-40.

¹⁹ Ropes, "The Union of Soviet Socialist Republics as a Factor in World Trade," pp. 85-86. Ropes retained his optimism about the benefits of a credit to Russia long after most people had given up hope. As late as the summer of 1946, after a trip to Russia, he was saying that the extension of a \$1 billion credit to Russia would result in purchases by the Russians of \$2 billion worth of American products. (*New York Times*, July 31, 1946.)

tary Henry Morgenthau, Jr., worried about the depletion of American natural resources, hoped to obtain strategic raw materials from the Soviet Union in return for a large, long-term loan. Early in 1944 he asked his assistant, Harry Dexter White, to estimate what quantities of mercury, manganese, chromium, and other strategic commodities the Soviet Union could produce and the United States could absorb. White predicted that the United States could import more than enough raw materials to allow the Russians to pay off a \$5 billion loan in thirty years. The Russians could use this credit to purchase badly needed industrial and agricultural equipment from American firms. This arrangement would provide the United States with an important source of raw materials while at the same time guaranteeing a vast market for American industrial products.²⁰

Although government agencies took a mixed view of the prospects for Soviet-American trade, American businessmen expressed fewer reservations. Concerned about finding postwar markets, they looked to the USSR as a new, virtually untapped field. Russia's massive reconstruction needs, they anticipated, would be met largely with American industrial equipment. Moreover, many businessmen believed that the Soviet government could not go on indefinitely denying its people a higher standard of living. Russia's masses would emerge from the war with an insatiable appetite for consumer goods, and while the Russian government might not want to import items directly from the United States, it would doubtless need to import the machines necessary to produce consumer goods for such a large market.

No one did more to propagate this point of view among businessmen than Eric Johnston, the dynamic young president of the United States Chamber of Commerce whom one admirer described as "the savior of his free-enterprise faith, the Luther of a business reformation." Johnston spent eight weeks in the Soviet Union in the summer of 1944. The Russians received him with the enthusiasm they reserved for prominent capitalists, allowing him to travel wherever he wanted and, in an unprecedented move, permitting reporters to accompany him. Johnston met with Foreign Trade Commissar Mikoyan and Foreign Minister Molotov,

²⁰ Blum, *Morgenthau Diaries: Years of War*, p. 304; White to Morgenthau, March 7, 1944, White MSS, Folder 23.

and on the evening of June 26, 1944, held a lengthy interview with Joseph Stalin.²¹

The interview started badly with Johnston suggesting that Stalin import American chain-store executives to improve Soviet distribution practices, while the Russian dictator drew wolves on his doodling pad and predicted a postwar depression in the United States. When the talk turned to economic relations with America, however, Stalin brightened. He proceeded to give Johnston the most complete account of Russia's postwar economic plans that any American had yet received. Stalin told Johnston that the Russians would import heavy industrial equipment, but not consumer goods. They would use some of this equipment to produce consumer goods themselves. Russia would not export manufactured products in large number, since these would be needed at home, but would export large quantities of raw materials. Stalin gave some hint of what would be demanded of the Russian economy when he told Johnston that steel production, then running about 10 to 12 million tons annually, would be increased to 60 million tons.

The Russian leader indicated that the Soviets wanted to purchase virtually unlimited quantities of American products, depending on what credit terms were extended. They would "pay promptly for everything, strictly in accordance with the terms of the contract." Listing possible Russian exports to the United States, Stalin asked: "Would you like manganese? We have quantities. We could give you chrome, platinum, copper, oil, tungsten. And then there's timber and pulp wood and furs. Perhaps you will want gold. . . . Most capitalistic countries want gold." Russia's requirements were so great, Stalin said, and its development so meager, that "I can foresee no time when we will have enough of anything." Ending the interview in a burst of good fellowship, the jovial autocrat told Johnston: "I like to do business with American businessmen. You fellows know what you want. Your word is good and, best of all, you stay in office a long time—just like we do over here. But a politician is here today and gone tomorrow, and then you have to make arrangements all over with a new set." ²²

²¹ John Chamberlain, "Eric Johnston," *Life*, XVI (June 19, 1944), 97–98. For an account of Johnston's reception in the Soviet Union, see Harrison E. Salisbury, "Russia Beckons Big Business," *Collier's*, CXIV (September 2, 1944), 11 ff. On Johnston's meeting with Mikoyan and Molotov, see *FR*: 1944, IV, 967–68.

²² Eric Johnston, "My Talk with Joseph Stalin," *Reader's Digest*, XLV (October,

Johnston reported to the members of the United States Chamber of Commerce that he found a growing sense of nationalism in Russia, a lessening of the traditional suspicion of foreigners, and, above all, a great desire for peace and the economic rehabilitation peace would bring: "Every top Communist leader with whom I discussed the problem talked about the need of raising the standard of living of the Russian people and the devoting of their resources as much as possible to that end after the war, particularly the production of consumer goods." The Russians greatly admired the United States, Johnston observed, especially its productive capacity. "They want to imitate America as far as possible, and that goes for the standard of living." Moscow would need long-term credits, either from private investors or from the United States government, but would constitute an excellent risk—credits to the Soviet Union would be as good as any in the postwar international field. The Russians would repay American credits with raw materials which the United States badly needed. By giving credit to the USSR the United States would not be aiding a future competitor—Russia "needs so much of almost every conceivable thing that I can foresee no period within our lifetime when Russia will be a competitor in the markets of the world with her produce."²³

Johnston's conclusions were widely reported in business and financial publications and received a sympathetic hearing from American industrialists. A. M. Hamilton, foreign sales vice-president of the American Locomotive Company, described the Soviet Union as "potentially our greatest postwar customer." William L. Batt, vice-chairman of the War Production Board and president of S.K.F. Industries, wrote that "the problem of trade with Russia is easier of solution than the problem of trade with any other part of the world. The question is not likely to be, How much and how fast does Russia want our goods, but How fast and under what conditions are we able and willing to furnish them?" New York University's Institute of International Finance reported that under favorable conditions postwar Russian-American trade could surpass all previous records. The magazine *Industrial Marketing* called Russia (1944), 1–10. For Ambassador Harriman's somewhat more prosaic account of this meeting, see Harriman to Hull, June 30, 1944, *FR*: 1944, IV, 973–74.

²³ Report to the United States Chamber of Commerce, printed in *Export and Trade Shipper*, XLIX (July 31, 1944), 5–6. See also Eric Johnston, "A Business View of Russia," *Nation's Business*, XXXII (October, 1944), 21–22.

"without doubt the richest potential export market for American industrial equipment and products in the immediate and future postwar period."²⁴

Fortune magazine reported in January, 1945, that some seven hundred American corporations had paid more than a quarter of a million dollars to place advertisements in a "Catalogue of American Engineering and Industry" which Russian representatives in New York were preparing to send to Soviet purchasing agencies. Predictions of postwar exports to Russia ran from \$500 million to \$5 billion, with most observers foreseeing exports of between \$1 billion and \$2 billion annually. The American-Russian Chamber of Commerce and the Chase National Bank were planning a public campaign to get the Johnson Act repealed so that private bankers could extend loans to Russia. Five other large banks were discussing the possibility of forming a combination to finance Russian trade. American bankers considered Russia an unusually good credit risk, oddly enough, because trade in the Soviet Union was a state monopoly. Funds would always be available to meet commitments. Since the Soviets could probably secure a loan from the United States government on more favorable terms than from private sources, however, most potential investors hesitated to act until Washington had decided what to do about a large reconstruction credit.²⁵

Prospects for trade with the Soviet Union did not cause American businessmen to change their attitude toward Russia overnight. *Fortune's* survey noted that major industrialists still felt vague anxieties about the dangers of communism, the emergence of Russia as the dominant military power in Europe and Asia, and the possibility that the USSR might in time become a major competitor for world markets. But, lacking confidence in the ability of their own economy to operate successfully in peacetime, leaders of the American business community could not help

²⁴ "What Business with Russia?" *Fortune*, XXXI (January, 1945), 153 ff.; William L. Batt, "Can We Do Business with Russia?" *Sales Management*, LV (October 15, 1945), 202; "The Prospects of Soviet-American Trade Relations," New York University Institute of International Finance, *Bulletin*, No. 139, August 27, 1945, p. 1; "Selling the Soviet," *Industrial Marketing*, XXX (July, 1945), 46 ff.

²⁵ "What Business with Russia?" pp. 153 ff.; "Russian-American Trade," *Index* [publication of the New York Trust Company], XXV (September, 1945), 62-72. On the security of Russia as a credit risk, see New York University Institute of International Finance, *Bulletin*, No. 139, August 27, 1945, p. 16; and William M. Mandel, "Russia—Our Biggest Postwar Market?" *Advertising and Selling*, XXXVII (May, 1944), 29 ff.

regarding with anticipation the advantages of helping the Russians attain that competitive position.²⁶

Interestingly enough, both the Russian bid for a loan and the willingness of American businessmen to consider it were based on the belief that after the war the United States would undergo a serious depression. Current Marxist doctrine taught that internal contradictions would bring the capitalist system grinding to a halt soon after the war, and that in order to survive industries in the United States would have to seek new markets abroad.²⁷ Many American business leaders expected precisely the same thing, though for different reasons. They knew that the New Deal had not solved the problem of maintaining full employment in peacetime, and that after the artificial stimulus of military expenditures had ceased to operate, foreign markets might be the only means of avoiding another disastrous depression.²⁸ As it turned out, post-war economic developments in the United States proved both Marxist ideologues and American capitalists wrong. But before these events had had time to occur, political difficulties intervened to alter the whole framework in which the Russian loan had been discussed.

IV

American diplomats had never really divorced political considerations from the question of financing postwar reconstruction in the Soviet Union. Ambassador Harriman consistently regarded aid to Russia as "one of our principal levers for influencing political action compatible with our principles."²⁹ But during 1943 and 1944, most discussions of

²⁶ "What Business with Russia?" p. 204. An American Institute of Public Opinion poll, taken in August, 1945, found that by a majority of more than two to one business and professional leaders believed that the Russians could be trusted to cooperate with the United States after the war, a figure significantly higher than for other major occupation groups. (Cantril and Strunk, eds., *Public Opinion*, p. 371.)

²⁷ For convenient summaries of this point of view, see Leonard Schapiro, *The Communist Party of the Soviet Union*, pp. 532–33; and Ulam, *Expansion and Coexistence*, p. 410.

²⁸ William A. Williams, *The Tragedy of American Diplomacy*, pp. 217–18, 232–39; L. Gardner, *Economic Aspects of New Deal Diplomacy*, pp. 263–64, 282–83, 290–91.

²⁹ Harriman to Hull, March 13, 1944, *FR: 1944*, IV, 951. See also Harriman to Hull, September 20, 1944, *ibid.*, p. 997.

this subject had taken place within a primarily economic framework. The main benefit which Washington expected to receive from the proposed loan to Russia—full peacetime employment—was economic in nature, as were the principal factors impeding the extension of credits—the difficulty of ensuring repayment and the existence of legal restrictions on foreign lending. But by January of 1945, when the Russians again raised the question of a postwar loan, the atmosphere had changed. As the approach of victory exposed conflicts of interest with the Soviet Union, particularly in Eastern Europe and Germany, Washington officials came to feel that the political advantages of withholding the loan might well surpass the profits to be gained from extending it.

On January 3, 1945, Russian Foreign Minister Molotov told Harriman that if the United States would extend to the Soviet Union a \$6 billion loan at an interest rate of $2\frac{1}{4}$ percent, the Soviet government would place large orders for capital equipment in the United States. Molotov pointedly reminded Harriman of "the repeated statements of American public figures" that such large orders would ease the American economy's transition from war to peace. Coming with no previous warning, the Russian "offer" surprised the American ambassador, who considered it "extraordinary both in form and substance."³⁰

Nevertheless, Harriman advised the Department of State to disregard the unconventional form and unreasonable terms of Molotov's proposal, ascribing them to "ignorance of normal business procedures and the strange ideas of the Russians on how to get the best trade." The United States, he felt, should do everything it could through the extension of credits to help the Russians develop a sound economy. Friendly postwar relations would depend to some extent on American assistance in solving Russian reconstruction problems. Moreover, the sooner the Soviet government could provide a decent life for its people, the more tractable it would become. At the same time, the United States should make it quite clear to the Russians "that our willingness to cooperate with them . . . will depend upon their behavior in international matters." Washington should retain full control of any credits granted to Moscow in order to derive from them the maximum political advantages.³¹

³⁰ Harriman to Stettinius, January 4, 1945, *FR: 1945*, V, 942–44. Molotov proposed that the credit run for thirty years, with amortization to begin at the end of the ninth year.

³¹ Harriman to Stettinius, January 6, 1945, *FR: 1945*, V, 945–47.

Meanwhile, and apparently coincidentally, Treasury Secretary Morgenthau was reviving his department's plan for extending credits to Russia. In a letter to Roosevelt early in January, he proposed giving the Russians a loan of \$10 billion at 2 percent interest for the purchase of American products. The Russians would repay the loan mainly by exporting strategic raw materials, with amortization to extend over a period of thirty-five years.³²

But Morgenthau encountered unsympathetic responses from both President Roosevelt and Secretary of State Stettinius when he talked this matter over with them on January 10, 1945. Roosevelt did not want to discuss credits with the Russians until after the forthcoming Yalta Conference, and seemed to favor using them as a device to extract concessions on other issues: "I think it's very important that we hold this back and don't give them any promises of finance until we get what we want." Later that day Morgenthau remarked to Stettinius that in dealing with the Russians one should offer the carrot and not the stick. Stettinius replied: "Henry, I don't think you'd feel that way if you knew all . . . if you had all the chips before you." On the following day Roosevelt told a group of senators that the loan might be a strong bargaining point to use in dealings with the Soviet Union, and that he had decided to take no action on the Russian request until he had talked to Stalin.³³

The State Department now began to formulate a response to the suggestions of both the Russians and Morgenthau. Emilio G. Collado, chief of the Division of Financial and Monetary Affairs, did much to establish the department's position. Collado did not attempt to evaluate the wisdom of extending the loan itself, but emphasized the domestic political and economic difficulties it would entail. Congressmen would almost certainly balk at legislating credits for either the Soviet Union or

³² Morgenthau to Roosevelt, January 1 and 10, 1945, *FR: 1945*, V, 937-38, 948-49. Morgenthau anticipated that, in addition to exporting raw materials to the United States, the Russians would repay the loan by exporting gold from their own reserves and dollars obtained from a favorable trade balance with the rest of the world, from the American tourist trade, and from the sale of some nonstrategic items to the United States.

³³ Morgenthau Diary, January 10, 1945, Blum, *Morgenthau Diaries: Years of War*, pp. 305-6; minutes, Secretary of State's Staff Committee meetings, January 12 and 19, 1945, Stettinius MSS, Box 235. According to Morgenthau, Stettinius actually prevented him from showing Roosevelt Harriman's telegram supporting the extension of a loan. Stettinius apparently did furnish Roosevelt with a summary of Harriman's views, however. See Stettinius to Roosevelt, January 8, 1945, *FR: 1945*, V, 947-48.

Great Britain. Morgenthau's plan to use the Russian loan to obtain stockpiles of strategic raw materials would not arouse enthusiasm on Capitol Hill, but would antagonize petroleum and mining interests. Consequently credits, if granted, would have to be extended through the Export-Import Bank, where special legislation would not be required. But this approach too would create problems, for Congress would have to extend the bank's lending authority before it could make a substantial loan. The lowest rate of interest which the bank could charge without discriminating against other borrowers was 4 percent, a rate almost twice what the Russians had proposed to pay. Collado admitted that a loan could benefit Soviet-American political relations, but thought that the economic boost it would give to American industry had been exaggerated.³⁴

Other government officials raised additional objections. Leo T. Crowley, foreign economic administrator, thought that long-term credits would be an important element in Soviet-American relations, but pointed out that it would take some time to secure legislation to make credits possible. Elbridge Durbrow, chief of the State Department's Division of Eastern European Affairs, argued that the Soviet loan request was simply an attempt to secure lend-lease on a permanent basis. Edward S. Mason, deputy to Assistant Secretary of State William L. Clayton, warned that if the Russians were allowed to borrow money from the United States at exceptionally low interest rates, "it will have acted as a strong stimulus to state socialism, by enabling governments to undertake developmental investment on more favorable terms than those available to private investors."³⁵

Determined to press for his proposal, Morgenthau forcefully argued that the United States should give a credit of \$10 billion to the Russians immediately, without attaching conditions of any kind. In this way the United States could reassure the Soviets of its desire to live in peace after the war. Assistant Secretary of State Clayton, responding to Morgenthau's "impossible" proposal, summarized the arguments of his colleagues and then brought out into the open the political consideration at

³⁴ Memoranda by Collado, January 4 and 17, 1945, *FR*: 1945, V, 938-40, 956-60.

³⁵ Crowley to Stettinius, January 13, 1945, *FR*: 1945, V, 951-52; Durbrow to Clayton, January 11, 1945, *ibid.*, pp. 949-50; memorandum by Edward S. Mason, February 7, 1945, *ibid.*, pp. 973-75.

which Roosevelt and Stettinius had hinted: it would be harmful from the tactical point of view to grant such a large loan "and thus lose what appears to be the only concrete bargaining lever for use in connection with the many other political and economic problems which will arise between our two countries." ³⁶

The State Department on January 27, 1945, authorized the Moscow Embassy to inform the Russian government that

this Government is now studying ways and means of providing long-term credits for postwar projects. It will be some time before the necessary legislation can be enacted and a determination made with respect to the amounts which we can make available for this purpose. Until this can be done, no definite agreement can be formalized with respect to a credit for supplies of a purely post-war nature. It is the definite opinion of this Government that long-term postwar credits constitute an important element in the postwar relations between our two countries.

Summarizing the factors behind this decision in a telegram for Harri-man, the department reiterated Collado's arguments that requests for specific congressional loan authorizations should be avoided, that the proposed interest rate would cause difficulties with the Export-Import Bank, and that the importation of Soviet raw materials would provoke opposition from petroleum and mining interests. Finally, "it would seem harmful at this time to offer such a large credit and lose what little bargaining exists in future credit extensions." The department asked that nothing more be done on this matter until Roosevelt had had a chance to discuss it with Stalin at Yalta. At the Big Three conference, however, the question of postwar credits received only passing attention from the foreign ministers. Churchill, Roosevelt, and Stalin apparently never got around to it.³⁷

James Reston of the *New York Times* learned of the Russian request for a \$6 billion loan sometime in January. Undersecretary of State Joseph C. Grew, whom Reston had asked for guidance on the story, said that he could make no comment, "but I would say, off-the-record and in

³⁶ Unsigned, undated memorandum, "Proposals Made by the Secretary of the Treasury to the Secretary of State Regarding Postwar Trade with the Soviet Union," *FR*: 1945, V, 961-63; Clayton memorandum of conversation with Morgenthau, January 25, 1945, *ibid.*, p. 966; Clayton to Stettinius, January 20, 1945, *ibid.*, pp. 964-66.

³⁷ Grew to Kennan, January 27, 1945, *FR*: 1945, V, 968-70; Grew to Harriman, January 26, 1945, *ibid.*, pp. 967-68; *FR*: *Yalta*, pp. 608-10.

a purely friendly way, that I advised him to go slow." Reston replied that the story was bound to break in two or three days and that his only wish was to present the whole picture. Grew remarked somewhat enigmatically that "there was no picture," and declined to elaborate his remarks. Two days later Reston's substantially accurate account of the Soviet loan request appeared on the front page of the *New York Times*. Reston concluded his story with the observation that "some members of the Administration [feel] that the present time is not propitious for discussing a post-war deal of this magnitude and it is said to be unlikely that it will be acted upon for some time."³⁸

The Administration therefore postponed action for the second time on a Soviet loan request, evidently with the intention of extracting political concessions. Ironically, Treasury Secretary Morgenthau's simultaneous proposal probably stiffened State Department opposition to the idea. Top State Department officials still strongly resented Morgenthau's recent attempts to influence policy on Germany, and doubtless bristled automatically at this new Treasury incursion into diplomacy. When James F. Byrnes became secretary of state in July, 1945, he expressed the general departmental attitude by placing Morgenthau's proposal in the "Forgotten File," taking time only to muse that "our Treasury officials were not always the cold-hearted, glassy-eyed individuals all bankers are supposed to be."³⁹

V

Meanwhile, the Administration's efforts to arrange for the orderly termination of lend-lease had collapsed, owing to the obstinacy of the Russians. During the spring of 1944, the United States government had proposed that the Soviet Union comply with congressional requirements by

³⁸ Grew memorandum of conversation with Reston, January 24, 1945, Grew MSS; *New York Times*, January 26, 1945.

³⁹ Byrnes, *All in One Lifetime*, p. 310. Thomas G. Paterson, "The Abortive American Loan to Russia and the Origins of the Cold War, 1943-1946," *Journal of American History*, LVI (June, 1969), 80-81, 91-92, implies that the Truman Administration was responsible for the decision to use the loan to secure political concessions from the Russians. Evidence cited above indicates that leading figures in the Roosevelt Administration supported this policy, however, and that the decision to implement it had been made by February, 1945.

providing reimbursement for lend-lease materials used in postwar reconstruction. The Roosevelt Administration offered to lend the Russians whatever amount of money was necessary to pay for these goods, at an interest rate of $2\frac{3}{8}$ percent for thirty years. Moscow accepted the basic outline of this arrangement, but balked at the interest rate. Negotiations bogged down, and the Russians refused to sign the Fourth Lend-Lease Protocol, covering shipments of supplies from July of 1944 through June of 1945. This in no way impeded the flow of lend-lease goods to Russia, but it did delay agreement on how to distinguish between items of purely military value and those potentially useful for reconstruction.⁴⁰

Both Roosevelt's advisers and congressional leaders were demanding with increasing regularity that such a distinction be made. Ambassador Harriman and General Deane repeatedly warned from Moscow that the Russians were taking advantage of American generosity by ordering more material under lend-lease than they needed to fight the war. *Newsweek* reported in August, 1944, that senators who had never criticized the use of lend-lease in wartime were now planning to oppose its use for reconstruction. Secretary of War Stimson pleaded with Roosevelt in October not to try to employ lend-lease supplies for postwar rehabilitation without securing new congressional authorization. Lauchlin Currie, one of Roosevelt's administrative assistants, warned him early in 1945 that "should the Russo-German war end and Russia *not* be at war with Japan, there will be great pressure from Congress and the press to cease lend-lease unless Russia goes to war with Japan."⁴¹

When the annual lend-lease extension bill came before the House of Representatives in March of 1945, Representative John Vorys, Republican of Ohio, introduced an amendment categorically prohibiting the use of lend-lease for postwar relief, rehabilitation, or reconstruction. Worried over congressional suspicions regarding the use of lend-lease after the

⁴⁰ For a convenient summary of negotiations on this subject during 1944, see John H. Fletcher to Collado and Clayton, January 17, 1945, *FR*: 1945, V, 954-56. The Russians finally signed the Fourth Protocol on April 17, 1945. (*Ibid.*, p. 997.)

⁴¹ Herring, "Lend-Lease to Russia," pp. 96-98; *Newsweek*, XXIV (September 4, 1944), 19; Stimson Diary, October 13, 1944, quoted in Stimson and Bundy, *On Active Service*, pp. 592-93; Currie memorandum, drafted on November 14, 1944, sent to Roosevelt on January 19, 1945, Roosevelt MSS, PSF 57: "Crimea Conf." See also a memorandum by Harry Dexter White of a conversation between Stimson and Morgenthau, September 20, 1944, *FR*: *Yalta*, pp. 139-40; and Leahy, *I Was There*, pp. 320-21, 329.

war, the Roosevelt Administration decided not to oppose the Vorys Amendment, which had attracted considerable support from Republicans and some Democrats. Foreign Economic Administrator Crowley instead suggested a compromise which would forbid use of lend-lease for reconstruction but would allow recipient nations to obtain all goods contracted for provided they paid for what arrived after the end of the war. The Foreign Affairs Committee unanimously approved this arrangement, advising the full House of Representatives that such a clear expression of congressional intent would prevent future misunderstandings. Representative Karl Mundt told the House that "with this amendment added, there can be no post-war economic activities by Lend-Lease except through the most flagrant violation of the intent of Congress." The amended version of the lend-lease extension bill passed the House on March 13, 1945.⁴²

The Foreign Economic Administration now recommended withdrawing the American proposal to let the Russians order reconstruction materials through the still unsigned Fourth Protocol. Instead the government should adopt a new policy, in line with the wishes of Congress, which would see to it that the Soviet Union did not receive significant amounts of heavy industrial equipment under lend-lease after the war. Ambassador Harriman approved this idea, pointing out that many of the arguments which a year earlier had caused him to recommend making American goods available for Russian rehabilitation were no longer present. On March 23, 1945, President Roosevelt officially approved the FEA's suggestion.⁴³

When the Senate took up lend-lease extension early in April, it showed that it felt even more strongly than the House about the post-war uses of lend-lease. One group of senators regarded the Crowley-Vorys compromise as a clever loophole designed precisely to conceal the

⁴² *Newsweek*, XXV (March 26, 1945), 46-48; *Congressional Record*, March 13, 1945, pp. 2120-21, 2124.

⁴³ Stettinius to Harriman, March 16, 1945, *FR*: 1945, V, 988; Harriman to Stettinius, March 20, 1945, *ibid.*, pp. 988-89; Grew and Crowley to Roosevelt, March 23, 1945, *ibid.*, p. 991. In his dispatch to Harriman Stettinius mentioned "recent discussions in Congress" as one reason why the Foreign Economic Administration was recommending this change of policy. Harriman, in his reply, expressed the hope that the Administration would continue to give the Russians "justifiable hopes" of working out an arrangement for a completely separate long-term reconstruction credit.

employment of lend-lease for reconstruction. Their attempt to remove this provision from the bill, thereby cutting off all lend-lease upon the termination of hostilities, failed on a 39-39 tie vote. On April 17, 1945, President Truman signed the amended lend-lease bill into law. The mood of Congress impressed itself vividly on the new Chief Executive. Truman regarded European reconstruction as a cause worthy of American assistance, but felt that this assistance should come through the Export-Import Bank. "If we undertook to use any Lend-Lease money for rehabilitation purposes we would open ourselves to Congressional criticism." ⁴⁴

Roosevelt's decision not to allow the Russians to obtain reconstruction materials through lend-lease, and his reluctance to discuss a postwar loan "until we get what we want," do not indicate that the President was about to give up his long-standing policy of cooperation with the Soviet Union at the time of his death. They do suggest, however, that recent developments—the Berne incident, the quarrel over German reparations, the Polish and Rumanian crises—had convinced him that appeals to "world opinion" or "high morality" alone would not move Stalin. In order to get the Russians to go along with the American postwar peace program, firm but friendly pressure would have to be applied, in much the same way that the United States had dealt with its British ally since 1941. Holding back aid to Russian reconstruction was one of the few means which Washington had of applying such pressure.⁴⁵ Roosevelt's successor in the White House went on to implement this policy, but in a manner far less tactful than the smooth and sophisticated squire of Hyde Park would have employed.

⁴⁴ *Congressional Record*, April 10, 1945, pp. 3246–47; Harry S. Truman, *Year of Decisions*, pp. 46, 98. See also Herring, "Lend-Lease to Russia," pp. 101–2, 104.

⁴⁵ For a more detailed discussion of the Roosevelt Administration's decision to apply economic pressure against the Russians, see George C. Herring, Jr., "Aid to Russia, 1941–1946: Strategy, Diplomacy, and the Origins of the Cold War," chapter 6.

