

RUSSIAN-AMERICAN FINANCIAL RELATIONS SINCE 1917

by

MARGARET LARSEN POSTER

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## INTRODUCTION

Before the World War, the United States government had not done a credit business with any other nations of the world. This fact, however, does not imply that American capital from private sources did not go into foreign countries in large amounts, both as investments in enterprises already established in those countries and in newly organized American-owned concerns.

By way of noting the increase in international investments of the United States, figures may be quoted from a compilation made by George N. Peek, at the time special adviser to the president on foreign trade, submitted to the president in May, 1934. (Figures were furnished by the Department of Commerce). Total investments in and loans to foreign countries July 1, 1906, were \$500,000,000. The net increase in total investments by December 31, 1933, was \$24,702,000,000 including the United States government's loans to foreign governments (war debts), of \$10,304,000,000. Total investments of the United States in foreign countries, then, on December 31, 1933, exclusive of war debts, were \$14,398,000,000. This is about thirty

times the amount of American capital invested abroad in 1906.

In the case of Russia before the World War, American business men felt with good reason that there were no more substantial, safe investments than bonds of the Imperial Russian Government. Russia was among the richest of all nations in resources which have even yet scarcely been scratched as to development. The Russian people had the confidence of foreign investors.

It has always been the policy of the United States government to protect its nationals and their property in foreign lands. A great amount of political pressure has been brought to bear upon our leaders by these same investors, a fact which has played a large part in determining our foreign policy.

After the opening of the great war, after the United States entered the conflict, our government lent large sums of money, both in cash and trade, to the Allies. This marked our first national venture into the lending business.

While there are voluminous records of debt discussions between the United States and its various debtors since the World War, only the attempted negotiations and facts underlying those discussions with Russia will be treated

here.

In view of the repudiation early in 1918 by the Soviet Union of all debts of the former Russian governments, she has placed herself in an awkward position with all her creditors. If she should now agree to pay all American claims, every European creditor nation would be demanding payment. On the other hand, if the United States proves to be too lenient and inclined to give ground to the Union of Socialist Soviet Republics, other debtor nations would expect similar favors from us.<sup>1</sup> It is not alone a question of diplomatic favors being granted, but rather a business proposition involving millions of dollars in loans and trade to both the United States and the Union of Socialist Soviet Republics. By experience during the last fifteen years, Russia has learned that trade with certain industrial countries, United States and Great Britain particularly, is essential in carrying out her program for internal development.

Complications in these financial dealings brought on by changes in the Russian government will be dealt with in the following paper. As nearly as is possible with avail-

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1 Louis Fischer, "The Soviet-American Break", in The Nation, Vol. CXL (April 3, 1935), pp. 386-396.

able material, the writer will point out the extent of Russian obligations to the United States and to its citizens, the counter-claims of the Union of Socialist Soviet Republics against the United States and some of the considerations surrounding attempts to reach agreements on debts.

A BRIEF VIEW OF RUSSIAN FINANCIAL  
DEALINGS WITH CHARLES WHEELER

As was true of every European country engaged in the World War, Russia borrowed heavily so that she might continue fighting. While her heaviest creditors were France and Great Britain, she also secured credits and loans from the United States. It is with this last that we are chiefly concerned.

The National City Bank of New York and other banking concerns agreed to accept short-term drafts by Russia to the amount of \$35,000,000 in 1915 and 1916. These transactions were not looked upon as loans, but merely as arrangements whereby the export of merchandise rather than of gold would result. Proceeds of these drafts were to be used to pay for supplies exported from the United States.<sup>1</sup>

Some detail regarding these transactions follows: In April, 1915, Russian five per cent treasury bills to the

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<sup>1</sup> Paul H. Apostol, "Credit Operations" in Russian Public Finance During the War (Economic and Social History of the World War, Russian Series), (New Haven, 1928), p. 313; Papers Relating to Foreign Relations of the United States, 1915: Russia, U. S. Department of State (Washington, D. C., 1932), p. 37.

amount of \$10,200,000 were delivered to the National City Bank for payment to the Pressed Steel Car Company. The agreement stated that the bank should undertake to discount the series of five per cent twelve-month bills up to \$11,000,000, redeemable May 1, 1917. On this date it was renewed for another year.

After the Bolshevik Revolution, arrangements were made with the holders of these bills who agreed to refrain from presenting them for redemption and were to receive interest payments on November 1, 1918 and May 1, 1919, at five per cent. If further postponed, holders would receive six per cent interest and additional security of War Loan Bonds worth 147,000,000 rubles, previously sent by the Russian credit office to the bank to be put on the American market. On May 1, 1918, redemption was deferred another six months at which time holders agreed not to liquidate the additional security pledged.<sup>2</sup>

In October, 1916, the bank group issued five and one-half per cent bills on the American market to the nominal amount of \$25,000,000. This issue was dated November 18, 1916, redeemable December 1, 1921, with interest payable

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<sup>2</sup> Apostol, op. cit., p. 315.



semiannually.

According to reports in the Commercial and Financial Chronicle, the first failure to meet interest payments on this loan occurred December 1, 1918. In February, 1919, payment of such of the coupons due on this issue of bonds as were presented was made by the National City Bank. Wall Street was in the dark as to the source of funds used for payment.<sup>3</sup>

An exchange transaction made by the banking syndicate headed by the National City Bank involved the opening of a credit of \$50,000,000 at six and one-half per cent for three years, dated June, 1918. As nearly as can be ascertained through the New York Times and the Financial Chronicle, interest payments were made on this loan as late as January, 1919, a few months before its maturity. These payments made through the National City Bank were continued with funds supplied by the Russian embassy which had charge of the Russian bank balance after the revolution.

A small controversy arose in December, 1918, as to which loans, government (which had been made to the Provisional Government) or private, should receive interest

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<sup>3</sup> Commercial and Financial Chronicle, March 1, 1919.  
p. 522.

payments from the Liquidation Fund. Interest was due on the government loan and on the \$25,000,000 private loan. The secretary of treasury could see no reason why the latter should be paid first. Finally, the State Department instructed the financial attache to meet the interest payment on the \$25,000,000 bonds held by banks and private persons. <sup>4</sup>

For political reasons, private investors in the \$50,000,000 loan were paid their interest due January, 1919, for the government did not wish to weaken Russian credit until the government status became more clearly defined. <sup>5</sup>

In a letter of June 2, 1922, from Andrew W. Mellon, secretary of treasury, to Charles E. Hughes, secretary of state, these facts are given concerning a Liquidation Fund, closed out March 4, 1921, which was set up by B. Baldmeteff to care for certain Russian obligations:

At the end of the Provisional Government, November, 1917, Russia's Liquidation Fund amounted to \$47,000,000.

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4 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 51.

5 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 50.

Apart from its indebtedness to the United States government at this time, the chief obligations of Russia in this country arose out of contracts for supplies and private loans mentioned above. Additional deposits of about \$29,000,000 were made to this fund from money accruing from the sale of Russian property in the United States and charter hire from certain Russian ships. Of this total of \$76,000,000 Liquidation Fund, part was spent for interest on loans made by the United States government and on private loans floated in this country. This explains the statement above as to interest payments on Czarist loans being made as late as 1919.<sup>6</sup>

Fearing default of this \$50,000,000 loan in June, 1919, the syndicate was taking steps to form a protective organization for the holders when Ughet, Russian financial attache at Washington, expressed confidence that arrangements would be made for payment as soon as the All-Russian government was formally recognized.<sup>7</sup>

Investment in this issue of bonds was considered one

6 Andrew H. Mellon to Charles E. Hughes, June 2, 1922, Department of State Press Bulletin, (Washington, June 4, 1922).

7 Commercial and Financial Chronicle, June 21, 1919, p. 2492.

with immense profit-making possibilities if the Russian exchange rose to normal during the life of the loan. When it was made, the ruble was equal to about one-third of a dollar instead of par value of about fifty-one cents. To balance the American credit of \$50,000,000 against which Russia could draw for payment for munitions and supplies, 150,000,000 rubles lay in Russian banks.<sup>8</sup>

One authority, in discussing Russian loans floated in the United States from 1915 to 1917, gives this listing of obligations:

December, 1916, dollar loan - \$50,000,000

June, 1916, bank syndicate - \$20,000,000

Treasury notes sold - \$25,000,000<sup>9</sup>

Private banking credits - \$ 7,000,000

It can be seen that these figures vary from those given before by about \$21,000,000. Generally speaking, it could probably be said that Imperial Russia, through private and corporation channels, had borrowed approximately \$100,000,000 from Americans before the United States

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<sup>8</sup> "Sales in this Country of New Russian Bonds", in Literary Digest, Vol. LIII (August 12, 1916), p. 386.

<sup>9</sup> Ernest L. Bogart, War Costs and their Financing (New York, 1921), p. 67.

entered the War. (Hereafter quoted as \$86,000,000 according to secretary of treasury).

This constitutes a portion of the Russian obligation to the United States which the Soviet government does not see fit to pay. Her contention is that the debt was contracted without the consent of the people by a capitalistic government which has since gone out of existence. To pay this debt now would be supporting capital, a practice which no government organized on the Soviet basis would follow.

AMERICAN PART IN FINANCING THE  
PROVISIONAL GOVERNMENT

Three days after the announcement of the Provisional Government's creation in Russia, March 15, 1917, David Francis, United States Ambassador to Russia, asked his home government for authority to recognize the new government. He wrote, "This revolution is the practical realization of that principle of government which we have championed and advocated. I mean government by the consent of the governed". On March 22, Mr. Francis formally announced United States recognition.

The members of the Root Mission which visited Russia in May of the same year found themselves at odds with the leaders of the Petrograd Soviet. The Americans talked democracy whereas the Petrograd group was for Socialism.<sup>1</sup> Despite this not too encouraging beginning of diplomatic relations, our government continued giving aid and support to the leaders of the Provisional Government until its downfall in November, 1917.

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1 "A Review of United States Relations with Soviet Russia, 1917-1928", in Congressional Digest, Vol. XII, No. 10 (October, 1933), p. 228.

Through Ambassador Francis, Secretary of State Lansing offered United States credit to the new government, April 3, 1917.<sup>2</sup> Congressional conditions, stated in the Liberty Loan Act, required that suitable terms including an obligation from the debtor government bearing three and one-half per cent interest be imposed by the secretary of treasury upon making loans to governments to prosecute war against Germany.<sup>3</sup>

Credits for the following amounts and at the times given were extended to the Provisional Government:

May, 1917	- \$100,000,000
July, 1917	- \$ 75,000,000
August, 1917	- \$100,000,000
October, 1917	- \$ 50,000,000
	<hr/>
Total	- \$325,000,000

Of these credits only \$187,729,750 was actually taken up in loans, for credit was cancelled after November 15, 1917, when Edward House reported that there was no responsible government in sight since the overthrow of Kerensky

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2 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 1.

3 Ibid., p. 7.



on November 7, 1917.<sup>4</sup> It is to be understood that these loans were to be spent for goods bought in the United States. Freight cars, locomotives and other railroad supplies, guns and emergency supplies were the chief items purchased with the loans. None of these expenditures could be made without first gaining the consent of a commission of the treasury department.<sup>5</sup>

Only a relatively small portion of the expenditures of the Russian government in the United States during the period from April 6, 1917 to March 4, 1921, was made from funds advanced by the United States treasury. It appears that of the \$157,729,750 so loaned, about \$125,000,000 was transferred to the account of the Russian Ministry of Finance at Petrograd and only the balance of about \$32,000,000 was retained for expenditure in this country.<sup>6</sup>

An editorial in "Za Industrializatsia" of April 28, 1934, argued that the bulk of the so-called Kerensky credits had not left the United States and that the United States government should have sequestrated that sum, ap-

4 Ibid., p. 28.

5 Ibid., p. 9.

6 Andrew H. Mellon to Charles E. Hughes, June 2, 1922.



plying it to repayment of Russian indebtedness. <sup>7</sup>

The minister of finance in Russia had intended selling a large amount of five per cent bonds in 1917 in the United States. However, the Russian financial agent in this country reported that our government, which was then floating its own loans, partly for the purpose of opening credits in dollars for its Allies, could not approve of the sale of internal securities of those same Allies on the American market as a means of securing dollar exchange, so the credit office abandoned the project. <sup>8</sup>

After Kerensky's brief regime had ended, Boris Bakmeteff continued to act as representative of the Russians in Washington. Reference has been made earlier to the Liquidation Fund established in December, 1917, which cared for the partial discharge of Russian obligations in the United States. According to a letter from Mr. Mellon to Mr. Hughes, June 2, 1922, these financial obligations consisted mostly of contracts for supplies and certain private loans amounting to about \$102,000,000 and

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7 Vera Michéles Dean, "The Outlook for Soviet-American Relations", Foreign Policy Reports, Vol. IX, No. 1 (New York, March 15, 1923) p. 140.

8 Apostol, "Credit Operations", in Russian Public Finance During the War, p. 317.

\$66,000,000 respectively. (Latter amount was discussed in some detail in Chapter II). By March 21, 1921, when the Liquidation Fund of approximately \$76,000,000 was closed out, about \$34,000,000 had been paid on contracts, and about \$10,000,000 on loans. These two items alone are in excess of the portion of liquidation funds estimated by the Russian ambassador to have been derived from United States government loans (about \$10,000,000 in November, 1917).

The remainder of the disbursements were made for supplies, transportation, storage, inspection, interest on loans made by the United States and on private loans floated in this country, salaries and upkeep of the Russian embassy and miscellaneous purposes. It seems that the outstanding contracts were settled by payment, cancellation and other means without loss to American contractors. All this was done in cooperation with representatives of the department of state, of the treasury and of the War Industries Board. Since March 4, 1921, sums amounting to \$37,766.73 have accrued to the liquidation account and have been applied on interest due on Russian obligations. 9

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9 Andrew H. Mellon to Charles E. Hughes, June 2, 1922.

As to private investments of Americans in Russia at the time of the revolution, the American Trade Union Delegation's report estimates the amount at \$59,000,000. This was mainly confined to such interests as General Electric Company, International Harvester Company and Singer Sewing Machine Company. Holdings of Czarist securities, mostly by the New York Life Insurance Company, totaled \$75,000,000 at the same time.

From these figures, it would seem that \$76,000,000 of the "certain private loans" referred to by Mr. Mellon had not been touched by liquidation, not to mention interest which has steadily piled up on this amount.

In March, 1921, then, it was clear that practically the entire principal of the private loans made Russia before November, 1917, remained unpaid and all of the government loan was unredeemed.

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10 "Russia after Ten Years", Report of American Trade Union Delegation, (New York, 1927), p. 91.

INTERVENTION IN 1918-1919 FROM A FINANCIAL VIEWPOINT

Following closely after the fall of Kerensky's short-lived government, came two events which determined a later policy of intervention in Russia on the part of United States and other Allies.

The first of these events was the announcement, February 8, 1918, of the repudiation by the Central Executive Committee of the Soviet Government of all state loans concluded by the previous governments of Russia. All foreign loans were annulled unconditionally and without any exception. Lenin's idea in destroying Russia's foreign credit was a part of his program to strike at capitalism.<sup>1</sup> On February 12, the American ambassador, David Francis, and those of almost all other countries entered protests saying their governments would reserve rights to claim from Russia at an opportune time, damages for all loss which the decree caused their nationals.<sup>2</sup> The notes went further by saying that these governments considered

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1 New York Times, February 19, 1918; Papers Relating to Foreign Relations of the United States, 1918; Russia, Vol. III, pp. 31-32.

2 Papers Relating to Foreign Relations of the United States, 1918; Russia, Vol. III, p. 33.

the decree null and void.<sup>3</sup>

The other circumstance which brought on the decision to take a hand in Russian affairs on the part of the Allies was the signing of the Brest - Litovsk Treaty of peace between the Soviet Government and Germany. After this, the Allied forces felt entirely justified in entering north Russia and Siberia with a view to protecting supplies from seizure by Germany and to prevent German invasion.

Coupled with these two factors was the very important consideration of the threatening nature of the new government in Russia. It was a minority rule as much as or more than the old Czarist regime, its communistic principles were too radical to be countenanced by even liberal democratic nations, and there seemed a decided tendency to spread this radicalism over the world.

As late as May, 1918, the secretary of state voiced a policy of strict neutrality on the part of the United States.<sup>4</sup> The "White Russians", or those just thrown from power under the Provisional Government, desire Allied

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3 Apostol, "Credit Operations", in Russian Public Finance During the War, p. 329.

4 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 107.

intervention to check "Red" control. Also, famine was imminent, and American help was necessary.

By July, the secretary of state said that the United States would intervene in Russia, not so much to help Russia, as to aid the Czecho-Slovaks who were attempting to help their brother-Slavs against radicalism. The "only legitimate object for which American or Allied troops can be employed is to guard military stores . . . and to render such aid as may be acceptable to the Russians in the organization of their own self-defense".<sup>6</sup>

By September, there were about 5,000 American troops in Archangel, with a few to be detailed to Murmansk and Vladivostok later.<sup>7</sup> By this time, orders were to confine all efforts of troops to guarding ports.<sup>8</sup>

The story of Allied intervention in Russia is one of which it is difficult to secure an unbiased version.

Of the Russian factions, there were the "Whites" who sought to seize power of governing from the "Reds" who controlled only a small part of Russia, geographically, in

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5 *Idea*, Vol. II, p. 157.

6 *Ibid.*, p. 288.

7 *Ibid.*, p. 519.

8 *Ibid.*, pp. 394-395.

1918. The "Reds" were trying to hold what they had won and to set up a recognized, responsible government. The Allies were seeking to alleviate suffering among Russian people through relief supplies, and to keep Germany from entering the country.

At one time a White Russian government was headquartered at Omsk with Kolchak at its head. He stated in June, 1919, the decision of his government to pay all debts of former governments up to November, 1917. American and British bankers advanced \$40,000,000 to the Omsk government in October of this same year. This loan was secured by a deposit of gold bars and coin by the Omsk government at Hong-Kong. <sup>9</sup>

The United States War Department sold supplies to Kolchak, who after the failure of his project was able to pay only \$600,000. The treasury department allowed payment of \$1,239,000 out of the Liquidation Fund for the printing of paper money for the various de facto Russian governments. Knowing the fates of those governments, it is obvious that that investment was not a profit-making one.

There may be a question as to the financing methods

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<sup>9</sup> New York Times, February 19, 1918.



used by the United States to ship needed supplies to Russia during the period of intervention.

The War Trade Board of the United States Russian Bureau Incorporated was established to carry out certain details of supplying Russia, not possible through ordinary channels. The capital of the corporation was \$5,000,000 given for the purpose by the president.<sup>10</sup> This organization had to establish a ruble medium of exchange which would provide for redemption in commodities with proper and elastic provision for conversion into credits in New York, London and Paris. (The value of the ruble in gold was then ten or fifteen cents.) Agents were dispatched through the regions being supplied to determine needs of the different sections. Cooperative societies had charge of distribution of goods. It was also agreed that goods to be shipped from Russia in exchange should be of such nature as can be used to advantage in the United States. The War Trade Board under which this Russian corporation was operating, had been active in almost every country controlling exports and imports of the United States.<sup>11</sup>

As to famine relief through the Red Cross and private

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10 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 135.

11 Ibid., pp. 148-151.



agencies, very little may here be said. In 1921, Congress appropriated \$24,000,000 for famine relief in Russia; a like sum was subscribed by private funds. When Omsk was taken by the Bolsheviks, Red Cross supplies valued at \$10,000,000 fell into the captor's hands. American relief was withdrawn in 1923. <sup>12</sup>

Claims against Russia for relief work have been entered by the United States government to the extent of \$4,465,465, which obligations were acquired by the American Relief Administration under an act of February 25, 1919. Under this act, Congress appropriated \$100,000,000 as a revolving fund for participation by the United States in furnishing foodstuffs and other supplies to Europe. This claim is a very reasonable one, considering the amounts spent in Russia for relief purposes.

It has been said before that the Bolsheviks naturally opposed Allied intervention, for it was working contrary to their cause. This intervention was afterward made the basis of their counter-claims against the United States for damage done Russian property by American armies and by munitions

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<sup>12</sup> Albert C. Ritchie, "Facts Underlying the Relationship Between the United States and Russia", in Annals of American Academy, Vol. CXXVI (July, 1926), p. 98.

furnished the "Whites" by the United States. <sup>13</sup> To quote one militant Bolshevik who expressed resentment at the use of part of the Provisional Government loan for arming White Russian troops against Soviets, "Will the laboring masses of the Union of Socialist Soviet Republics be asked to pay for the bullets with which they were shot?". <sup>14</sup>

Later, in 1930, Litvinoff in discussing debt settlements stated that counter-claims would be raised only in connection with claims of private citizens for payment on Czarist bonds and for nationalized property. <sup>15</sup> (Nationalized property is that belonging to foreigners which was seized by the Soviet government.)

Other portions of counter-claims arose through the chartering of ships of the Russian Volunteer Fleet to the United States in 1918. These transactions were concluded by the Provisional Government with the United States Shipping Board. <sup>16</sup> One controversy arose in July, 1918, when

13 "Russia after Ten Years", Report of American Trade Union Delegation, p. 95.

14 Dean, "The Outlook for Soviet-American Relations," Foreign Policy Reports, Vol. IX, No. 1. p. 8.

15 Frederick L. Schuman, "Soviet Russia's Claims against the United States", in Current History, Vol. XXXIII (August, 1930), p. 915.

16 Papers Relating to Foreign Relations of the United States, 1918: Russia, Vol. III, p. 308.

a Russian fishermen's association claimed losses because four steamers were not released for their use at a certain time. At another time, the Soviet government protested the seizure of three or four ships, saying they were needed for trade.<sup>17</sup> Some of these claims have been taken to the United States Court of Claims for settlement, but information as to the decisions and awards is lacking at this time.

From time to time after Soviet repudiation of all debts of previous Russian governments, during and immediately following the intervention period, Soviet leaders showed willingness to discuss debts in return for peace and renewed trade with Russia.

On January 12, 1918, Litvinoff sent to the state department a note declaring the wish of the Soviets to reestablish normal relations with the United States and that "we are ready to eliminate everything which may be an obstacle to such relations". On March 12, 1919, Chicherin, Commissar from Foreign Affairs, in a note to William C. Bullitt, offered "recognition by the Soviet government of the debts of the former Russian empire" in return for a

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<sup>17</sup> Ibid., p. 313.

peace settlement. 18

The New York Times of October 30, 1921, carries a story revealing that Chicherin, according to a Rosta Dispatch, sent a note to the British, French, American, Italian and Japanese governments saying the Soviet Government would recognize old debts incurred up to 1914 under condition that Russia be given "certain privileges making possible a practical fulfillment of those obligations" by the great powers making peace with and recognizing the Soviet government. The conference at Genoa (to be mentioned in the following section) dealt with Soviet terms.

Krassin, a foreign trade minister for Russia, was quoted in the New York Times for September 13, 1921, as declaring that the Soviet Government disavows legal obligations of foreign debts, but would be willing to negotiate on a consolidation basis. Korff, former deputy-governor of Finland, according to the August 2, 1921, New York Times, "had no hesitation in saying that these loans will be paid to the last centime". It should be kept in mind that all these statements were made in connection with Soviet bids.

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18 "Russian Soviet Peace Offers", in The Nation, Vol. CX (January 17, 1920), p. 83.

for peace and a return to normal trade.

It is difficult to say just what gains, if any, were made by United States intervention in Russia. The Allies were successful in keeping Germany out of the country and were able to relieve the suffering of many starving Russian people. However, the government they were championing failed, much expense was involved in maintaining troops in Russia, the lives of nearly 500 Americans were lost and the United States government was made liable for certain damages.

The next section will deal with trade and with debt conversations between the Soviet government and the United States up to the present time.

TRADE RELATIONS AND TREATY NEGOTIATIONS BETWEEN  
THE UNITED STATES AND UNION OF SOCIALIST  
SOVIET REPUBLICS, 1922-1935

Before the war, the United States always enjoyed a favorable trade balance with Russia, but for the year 1916, there was a much greater increase in exports noticeable. From \$30,000,000 in 1914, they mounted to \$37,400,000 the following year, while imports from Russia decreased from \$20,800,000 in 1914 to \$2,500,000 in 1915.<sup>1</sup>

Of course, the war blockade crippled trade for a time, but after that was past and the United States had lifted her trade restrictions with Russia in July, 1920, a profitable trade with the Soviet Government sprang up. Along with this lifting of trade restrictions went the warning of the government that individuals and corporations engaging in Russian trade would be acting at their own risk. In 1924 Russia imported more American goods than pre-war

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1 Lewis C. Sorrel, "Dislocations in Foreign Trade of the United States Resulting from the European War", in Journal of Political Economy, Vol. XXIV (January, 1916), p. 31.

Czarist Russia had.<sup>2</sup>

Until 1931, the United States ranked as one of the principal markets for Soviet purchases, for as a part of the five-year plan, the Soviet Union wished to equip its factories and large-scale farms with modern machinery. In 1930, the high-water mark of Soviet-American trade, American exports to Russia totaled \$114,398,837, nearly five times Soviet exports to United States. In 1932, trade figures show a drop of 88 per cent in United States exports to Russia. One reason for this decline is lack of American credits, another, administration restrictions on Soviet export to United States. As a result, the Soviet government in the early part of 1933 placed its orders with Germany and Great Britain where it enjoys government-guaranteed credits ranging from fourteen to fifteen months.<sup>3</sup> The effect of United States recognition of the Soviet government was noticeable in trade figures for the latter part of 1933 which showed a 70 per cent increase over the first half. Russian export to United States showed a smaller

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2 "Russia in Wall Street", in The Nation, Vol. CXXI (October 21, 1925), p. 453.

3 Dean, "The Outlook for Soviet-American Relations", Foreign Policy Reports, Vol. IX, No. 1, p. 8.



increase.<sup>4</sup>

On the other hand, 1934 Russian imports from the United States came to a bare \$1,000,000 a month. This decline of imports may be explained partly by the necessity of Russia to meet maturing foreign credits by means of export balance, partly by progress of the five-year plan which has reduced the country's needs for foreign supplies of capital equipment.<sup>5</sup>

Some may wonder how trade with a country whose government is officially unrecognized is carried on as to details of money exchange and credit.

There are several trading firms in the United States serving as agents of the Soviet government; the principal one of these is the Amtorg Trading Corporation. All direct sales of Soviet products in United States are handled by these particular firms except for a few with special contracts for certain products such as furs, manganese and precious stones.<sup>6</sup> Amtorg has received extensive credits,

4 Edgar S. Furniss, "Fetters on Soviet Commerce", in Current History, Vol. XL (June, 1934), p. 371.

5 Edgar S. Furniss, "Russian Debt Barrier", in Current History, Vol. XLI (October, 1934), p. 119.

6 Saul G. Bron, Soviet Economic Development and American Business (New York, 1930), p. 46.



on open accounts from banks, and on goods accounts from sellers of machinery and other export commodities aggregating large sums corresponding to the total amounts of goods exported to the Soviet Union. There were also some credits advanced by American purchasers of Soviet products, but no estimate, even approximate, can be made of the amounts for the various years. Some of these trade figures were quoted at the beginning of this section.

No American loans have been made, either by the government or by private firms, to the Soviet government. Constructive loans to Russia would have been difficult and perhaps impossible to make under the government's policy in 1927. In the first place the state department would probably discourage investments if submitted for its approval. If loans were made, they would have to be floated on the open market where there would be very little sale unless investors had some assurance of Russian recognition.<sup>7</sup>

An instance of credit extension in aid of Soviet trade lies in the \$400,000,000 R. F. C. loan made to exporters in 1933 for one year at five per cent secured by

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7 "Russia after Ten Years", Report of American Trade Union Delegation, pp. 87-88.

notes of Amtorg and unconditionally guaranteed by the State Bank of the Union of Socialist Soviet Republics. This loan was for the purchase of American cotton, and marks the first time since the war that the United States has sanctioned a shipping deal with Russia.<sup>8</sup> It will be noted that this loan was made to American exporters, not to a Russian agency.

The Soviet Union whose currency is not quoted on foreign exchanges must pay for purchases with cash secured by sales in foreign countries or else buy on credit. In the long run, if the Soviet were allowed to trade on credits as she wished, these credits would be paid by one of two methods: (1) increased Soviet sales in United States, or (2) export of gold from Russia.<sup>9</sup>

The Department of State has taken the position that before any consideration can be given to the question of loans by any federal agency, the debts contracted by the former Czarist government must first be acknowledged and

<sup>8</sup> Commercial and Financial Chronicle, July 8, 1933, No. 191.

<sup>9</sup> Vera Micheles Dean, "Collapse of Soviet-American Negotiations", Foreign Policy Bulletin, Vol. XIV, No. 16, (New York, February 15, 1935).

settled in some way by the present regime. This policy of the state department might be traced through statements of several secretaries of that department, beginning with Bainbridge Colby, who in 1920, in a note to the Italian ambassador to the United States had this to say regarding the Russian attitude toward obligations:

"The responsible leaders of the regime have frequently and openly boasted that they are willing to sign agreements and undertakings with foreign powers while not having the slightest intention . . . of carrying out such agreements."

Mr. Colby also said that the United States was averse to any dealings with the Soviet regime beyond the narrow boundaries of an armistice; that the reluctance of United States to recognize the Soviet government was determined, not by its disapproval of Russia's political institutions, but by the attitude of Bolshevik leaders with respect to debts and repudiation.

Charles E. Hughes, secretary of state under President Harding, in addressing a delegation of the Women's Committee for Recognition of Russia, 1925, said in part:

"Of what avail is it to speak of assurances, if valid obligations and rights are repudiated and property is confiscated? It is a question of principle. . . . it would be a mistaken policy to give encouragement to repudiation and confiscation . . . ."

Later in the same year, in reply to a note from

Chitcherin, Soviet foreign minister, suggesting debt negotiations, Hughes also said:

"There would seem to be at this time no reason for negotiations. . . . If Soviet authorities are ready to restore confiscated property of American citizens . . . they can do so. If they are ready to repeal the decree repudiating Russia's obligations to this country . . . they can do so." 10

In 1928, Frank B. Kellogg, secretary of state under President Hoover, made a general statement of policy:

"United States views with disfavor the flotation of a loan (Russian) in United States . . . for the purpose of making advance to a regime which has repudiated the obligation of Czarist Russia to United States . . . and confiscated property of American citizens in Russia." 11

The Department of State issued another statement in 1928 voicing objection to the floating of Russian railroad bonds in United States. This came after an attempt had been made to send bonds by mail to investors with provision made for interest to be paid through fiscal agents in this country. Holders of repudiated railroad bonds in Russia (notably New York Life Insurance Company) had ob-

10 Ritchie, "Facts Underlying the Relationship Between the United States and Russia", in Annals of American Academy, Vol. CXXVI, p. 116.

11 "A Review of United States Relations with Soviet Russia", 1917-1928, in Congressional Digest, Vol. XII, No. 10, p. 256.

jected strenuously to the new flotation. 12

The foregoing quotations show the trend taken by our government's policy up to 1928 regarding debt settlements with Russia as tied up with the recognition question.

We shall look now at an act passed by congress in April, 1934, the Johnson Act, which followed the recognition of the U.S.S.R. by President Roosevelt in November, 1933. This act places a ban on loans by American firms and individuals (United States government agencies such as Export-Import Bank not included) to any foreign government in default on its obligations to the United States treasury. 13

The Johnson Act might have been interpreted to prevent further sale of Soviet government bonds, expressed in gold rubles and redeemable at any time by the Soviet State Bank in gold values of the dollar at the exchange rate fixed in Moscow. Two issues, one bearing ten per cent interest, and another bearing seven per cent interest, have been sold. At the time of the passage of the Johnson Act,

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12 "Soviet Loan Barred in United States", in Current History, XXVII (March, 1928), pp. 908-910.

13 "Congress Refuses Credit to Defaulters", in News Week, Vol. III (April 14, 1934), p. 27.

about \$3,000,000 had been sold on the second issue. As this is written, sales have advanced to nearly \$10,000,000.

The Soviet government says that the Johnson Act should not affect it, since the Union did not default its own debts. <sup>14</sup> A. P. Rosengaltz, Soviet commissar for foreign trade, in the New York Times of January 31, 1935, is quoted as saying the Johnson Act is unfairly applied to the Soviet. He also points out that the Soviet Union had bought 530,000,000 gold rubles' worth of goods from United States on its first five-year plan and 820,000,000 rubles' worth since its establishment, hence debts to United States should have been discharged.

Interpretation of the Johnson Act was referred to Attorney-General Cummings by the state department when debt negotiations with Russia were imminent. The attorney-general apparently was not told that negotiations were being carried forward on a basis of measuring claims against counter-claims. At any rate, he ruled that the Soviet was in default. Interpretation of the Johnson Act makes settlement of the debt problem indispensable to a trade revival with Russia. Even without this obstacle, it

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<sup>14</sup> Furness, "Fetters on Soviet Commerce", in Current History, Vol. XL, p. 371.

is by no means certain that our government or our banks would provide the four or five year credits demanded by Soviet trading agencies. <sup>15</sup>

Before going into a discussion of recent debt negotiations between United States and the U.S.S.R., it might be well to review a few of the claims against the Soviet Union. While figures vary slightly as quoted by different authorities, this official statement of American claims against Russia seems to strike an average:

I. United States Government Claims	
(taken from Annual Report of Secretary of Treasury ending June 30, 1925, p. 49).	
a. Total principal under Liberty Loan Acts . . . . .	\$187,729,750.00
b. Sale surplus war materials under Act of July 9, 1918 . . . . .	406,092.00
c. Obligations acquired by American Relief Administra- tion (Act of February 25, 1918) . . . . .	4,468,465.00
Total principal . . . . .	<u>\$192,601,297.00</u>

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15 Furniss, "Russian Debt Barrier", in Current History, Vol. XLI, p. 119.



II. Russian Bonds held by American citizens  
(Federal Reserve Bulletin, Aug. 1922,  
p. 839).

a. Five and one-half per cent five-year gold treasury bonds . . . . .	\$25,000,000.00
b. Six and one-half per cent three- year short term notes (di- rect external obligation of Russian government) . . . . .	50,000,000.00
Total . . . . .	<u>\$75,000,000.00</u>

III. Miscellaneous Claims . . . . .<sup>16</sup>  
(American nationalized prop-  
erty, mostly) \$400,000,000.00

Adding these totals together, we find the grand total to be \$667,601,297.00 without counting defaulted interest which is estimated by the treasury at \$139,918,594 (not on \$400,000,000 item).<sup>17</sup>

On the treasury department claims of about \$325,000,000 almost one-half of which is interest, a "payment on account" of \$8,000,000 had been arranged by Bakhenteff through the liquidation of Russian assets before his return to Russia in 1922.<sup>18</sup>

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16 "Issue Between United States and Russia on Recognition", in Current History, Vol. XXIII (February, 1926), p. 626; World Almanac, 1933, p. 703.

17 New York Times, November 18, 1933.

18 Ibid., July 16, 1933.



Investments by American nationals in industrial securities, railroad or other stocks are practically absent. A half dozen large American concerns hold practically all of American claims against Soviet Russia (under Miscellaneous Claims in table given before). A summary published by the Russian Institute of Economic Research in its periodical, National Economics, October, 1922, itemizes ten American enterprises with a total investment of 117,750,000 rubles. Of these, two were manufacturing concerns - the International Harvester Company and the Otis Elevator Company. The Singer Manufacturing Company, the Russian Babcock and Wilcox Corporation and other trading corporations were engaged in commerce. As has been mentioned before, the New York Life Insurance Company and another life insurance concern were represented in Russia by sizable investments.

Mention might here be made of debt agreements made by the Soviet Union in 1927 with other nations. By these treaties, Russia is bound to give to the signatory nations the same treatment as to confiscated property which she accords the most favored nation. Russia has appeared unwilling to reimburse French and English holders of property for their losses, because these nations were most active in

inflicting damage in intervention. The American Trade Union Delegation offers the opinion that the United States should enter into an agreement with Russia which will protect American investors, yet not involve Russia's diplomatic relations with other countries under the most favored nation clause.<sup>19</sup> That Russia has had somewhat this same idea is shown by suggested terms for debt settlements in the 1934 discussions.

Among the demands of the United States as the price of Russian recognition were full compensation for confiscated property and full payment to American holders of Czarist bonds as well as payment to the government of the Provisional Government obligations. As we know, recognition of the U.S.S.R. was granted in November, 1933, with no definite solution of the debt problem being reached. One of the points covered in the Roosevelt-Litvinoff conversations of 1933 was the statement that the Soviet Union would not hold the United States responsible for property damage arising during the activities of the United States troops in Siberia after January 1, 1918. The Murmansk expedition was not mentioned in this waiver, it will be noted. Rus-

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19 "Russia after Ten Years", Report of American Trade Union Delegation, p. 92.

also assigned to the United States any moneys resulting from American court decisions in favor of the Soviet Union and undertook to bring no new causes in our courts for past injuries.

In February, 1934, the Export-Import Bank was created by the government to encourage trade with Russia. Its initial capital was \$11,000,000, to be supplied jointly by the R. F. C. and ERA emergency funds. The bank was to begin to function only after settlement of debts and claims with the Soviet Union. <sup>20</sup>

By September, 1934, the state department had given as the "limit" to which it would go, the scaling down of debts and claims to between 100 and 150 million dollars to be paid over twenty years' time. Credits were to take the form of loans which the Export-Import Bank was to make to manufacturers extending credits on Soviet purchases in the United States. The bank would collect ordinary interest (five per cent) on credits, but the U.S.S.R. was to pay an additional interest (three per cent), the excess of which was to go to a fund for paying American debts. <sup>21</sup> Russia

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<sup>20</sup> Bron, Soviet Economic Development and American Business, p. 138.

<sup>21</sup> Dean, "Collapse of Soviet-American Negotiations", Foreign Policy Bulletin, Vol. XIV, No. 16.

asked for a loan twice as large as the settlement figure, to be used financing large orders from United States, instead of the credits offered. 22

A possible reason for the Soviet's rejection of the United States proposal might have lain in European bids for Russian trade by very favorable credit offers. 23

Another writer on this subject partly explodes this theory by saying that in June, 1934, Russia's earlier expectations of favorable trade arrangements are not so promising. The Anglo-Soviet trade agreement carries a stipulation of balanced export and import trade which raises practical difficulties. In Germany the Soviet Union has been refused a request for a new five-year credit. Since it will take Russia until 1935 to get itself out of debt on trade and this must be done by excess of exports over imports, Soviet trade is not a valuable trade factor to the remainder of the world. 24

22 "Soviet Rebuff", in Business Week, (February 9, 1935), p. 31.

23 Dean, "Collapse of Soviet-American Negotiations", Foreign Policy Bulletin, Vol. XIV, No. 16.

24 Furniss, "Fetters on Soviet Commerce", in Current History, Vol. XI, p. 372.

Troyanovsky, who delivered the Soviet rejection message to Secretary of State Hull, January 31, 1936, needed only five minutes in which to conclude his business. The disagreement may have been in the length of time mentioned in the credit proposal, or it is possible that the word "loan" used in the document meant "credit" to Roosevelt, "money" to Litvinoff.<sup>25</sup> If Troyanovsky had expected Mr. Hull to have another proposal ready should Russia refuse the first one, he was evidently disappointed, for none was forthcoming.

After the failure of negotiations, January 31, 1936, preparations were begun for dissolving the Export-Import Bank. The second Export-Import Bank provides credit for trade with all other countries.

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<sup>25</sup> Fischer, "The Soviet-American Break", in The Nation, Vol. CXL, p. 386.

## CONCLUSION

It is extremely difficult, if not impossible, to make predictions as to the outcome of the Russian-American debt problem.

In the debt discussions which have taken place during the last two years, the United States has negotiated on a basis of an approximate debt of \$700,000,000 owed us by the Russians.

Of this sum, the government claims \$187,729,750 for its loan to the Provisional Government, commonly called the Kerensky loan, \$406,062 for sale of surplus war materials, and more than \$4,000,000 for American Relief Administration expenditures. On claims due American banks and private individuals, there are the gold treasury bonds and short-term notes sold in this country before our entrance to the World War, totaling \$75,000,000. Miscellaneous claims including nationalized property and other confiscated investments of Americans in Russia make up another \$400,000,000. This does not take into account the interest which would have accrued on these sums had they been recognized obligations by the debtor.

Over against this, the Russians offered the United States about \$125,000,000 payment to be accumulated as surplus interest on a proposed loan should pile up. Also, the rosy picture of increased purchase of American goods by Russia was mentioned. Of course, as we know, a halt to negotiations was brought about by American refusal to grant a monetary loan, and Russian refusal to treat without that factor being included in the agreement.

Recognition of the U.S.S.R. by the United States government on November 16, 1933, did not have the magic effect on trade between the two countries that certain advocates of recognition had virtually promised. Those trade effects have been mentioned before in this paper. In fact, failure of debt settlement destroyed all hope of immediate improvement of export trade with Russia, thus depriving recognition of the principal benefit expected from it, according to E. A. Purcell in *Current History*, April, 1935.

Furthermore, the Johnson Act closed the door to private credits, while abolition of the Export-Import Bank removed the mechanism through which government credit might have been extended.

Without these conditions being true, American capital



would reasonably feel a hesitancy in going into a country whose pre-revolutionary debts have remained unpaid, for with that being the case, government protection would never be given such investments.

To the outside world, the territory east of Poland and Rumania, and which stretches from the Arctic Ocean to Asia Minor, is Russia no matter what form of government may be at the head of that vast region. Russia's national debt of 1914, of 1917 and of 1935 is regarded as an obligation to be paid by Russians. This is the view of those uncompromising nationalists of the United States to whom a debt is a debt.

There have been large profits realized by American manufacturers of production goods sold in Russia during the last seven or eight years, particularly, when Russia was seeking to realize her extended five-year plan of industrializing that country so that she need not depend so greatly on outside imports. The rather large degree of success of this plan has brought about the inevitable drop in demand for goods from manufacturing countries such as Great Britain, Germany and United States. And yet, Americans railed at previous administrations for not recognizing the U.S.S.R. so that "we might enjoy full trade bene-



fits with Russia". It appears from present indications that that trade has already reached and passed its peak under a condition of non-recognition on the part of our government.

If debt negotiations had been completed before recognition was granted, Litvinoff might have come to terms with the United States. After the conversations of November, 1933, resulting in Soviet recognition, the only thing Litvinoff wanted from the United States was a monetary loan - he could get all the credits he wished from Paris and London.

During 1934, France arranged a 1,000,000,000-franc credit for a fairly long period at a low interest rate for the U.S.S.R. Germany offered a 200,000,000-mark credit at better terms. Great Britain had made similarly liberal offers. Undoubtedly, the Soviet Union was in a better bargaining position, both because of these proffered credits and because her outstanding foreign obligations had been reduced to little more than \$100,000,000. The U.S.S.R. expects a gold production of \$250,000,000 in 1935, a fact which will further raise her standing as a credit risk.

Enough detail of Troyanovsky's brief session with

Secretary Hull, January 31, 1935, has been given to acquaint the reader with the facts set forth on both sides. The Soviet diplomats were wise enough to know that an agreement on the part of the government they represented to make an outright payment to the United States would place their heaviest creditor (and now apparently best friend), France, in a compromising position. Should Russia pay the United States, the latter might conceivably point to Russia's example in demanding payments from her other European debtors. It would seem from this, that the Russian debt discussions are almost inseparably bound up with those of other European nations.

While it is not within the capabilities nor is it the intention of the writer to suggest a solution of the debt stalemate now existing between the United States and the U.S.S.R., it is possible to voice a few observations and opinions.

With world conditions as well as national conditions subject to changes from so many different causes, why should it not be the wisest course to complete a phase of diplomacy when the stage seems set and conditions favorable? It would seem that in November, 1933, either Litvinoff or Mr. Roosevelt brought discussions to an end be-

fore all details had been taken care of. When debt repudiation was one of the principal reasons for withholding Soviet recognition for sixteen years, the failure to make that point a major factor in final recognition is like awarding the prize before the race has been won.

Since our recognition of Russia, the status of European nations among themselves has changed, Russian Far Eastern concerns are not the same, European credits have been offered, and sometimes accepted by, Russia. American exporters are worried about the drop in trade with Russia and see no improvement in sight, with continued government adherence to the present policy.

If the United States should open negotiations with the U.S.S.R. now on the debt question, she would not be in a position to dictate terms as she was in 1933, with something to offer which Russia coveted.

It is possible that at some future time, international politics and diplomacy may provide an opportunity for this debt question to be reopened and a mutually satisfactory settlement made. It is also a possibility that American exporters and Russian industry will feel the need of the services that each could provide the other, and so cause their respective governments to make an adjustment

of this open problem. As matters stand at the time of writing this paper, there seems to be no immediate promise of such discussions being brought about.

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