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*Credits of Export-Import Bank to Finland, 1945-48**

By HANNU HEIKKILÄ*

First Steps Towards Credit Negotiations

When Finland signed the armistice with the USSR and Great Britain in the autumn of 1944, Sweden promised considerable economic aid to the Finns, but she made it clear that because of her limited means she could not remain sole benefactor. Great Britain had announced that because of her difficult economic position, no credit could be considered; the Finns therefore turned to the United States, a move that even the Soviets expected.

At the beginning of November, the American Legation in Stockholm informed Washington that John Scott, correspondent of *Time* and *Life* magazines, had visited Risto Ryti, the Director of the Bank of Finland. Scott made a report of this meeting for the Stockholm Legation. In a Bank of Finland memorandum to Scott, it was stated that the Finns wished to have a 250 million dollar loan, paid in two instalments - 140 million dollars in 1945, 110 million dollars in 1946. According to information received by Scott, the USSR was in favour of these proposed loans to Finland.¹ By requesting such large loans, Ryti may have been trying to demonstrate the apparently desperate nature of Finland's position after the armistice.

The stand taken by the Bank of Finland obviously did not correspond to the official position of the government. Eero A. Wuori, Minister of Transport and Public Works in Paasikivi's second government of 17 November 1944, had talks with American diplomatic representatives in Stockholm on 5 and 6 December 1944. Wuori's chief task was to negotiate aid from Sweden to finance the first instalment of war reparations. Although the report received in Washington made no mention of Wuori's request that Finland receive credit from the United States, it is likely that the subject was conversationally referred to in passing. In mid-December, Washington informed the British Foreign Office that Wuori did in fact enquire about the possibility of credit from a representative of the US Treasury at the Stockholm Legation.²

The US Legation in Stockholm had received no instruction concerning what position to take vis-à-vis credit enquiries from Finland. After the discussions with Wuori, the Embassy did ask for information on this,³ and the instructions sent from Washington became the basis for American policy in questions of credit and war reparations.⁴ The State Department first of all considered it very unwise to adopt a policy of aid to countries with heavy war reparations; on the other hand, this would mean that the possibility of aid for reconstruction would be hampered by heavy war reparations, particularly in their first stages.

The State Department referred to experience gained in the aftermath of the First World War, when the United States had financed the German war reparations through loans, and therefore shouldered much of the burden. Because of this, the United States now preferred to pay war reparations in goods which went directly where they were needed for reconstruction. If the burden of war reparations was too heavy, then the country receiving reparations should lower its demands. Neither those paying nor those receiving war reparations should get the impression that the United States would yet again start to finance reparation transactions. It was of more benefit to the United States to give aid direct to those she considered to be in need.

There was an unwillingness to give aid for reconstruction to those countries with war reparations to pay, because it indirectly made war reparations possible, as well as perhaps encouraging further reparation

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Abbreviations used:

NA - US National Archives, Washington

PRO- Public Record Office, London

FR - Foreign Relations of the United States

¹ Johnston to Secretary of State, 7.11.44, NA, RG59 711, 60D/ 11-744

² Halifax to Foreign Office, 17.12.44, PRO, FO 371/ 43200 N7925/ 5976/ 56

³ Johnson to Secretary of State, 9.12.44, NA, RG59 740.000119EW/12-944.

⁴ Department of State to Johnson, 19.12.44, FR 1945 IV, 633-5.

demands on defeated countries, despite the fact that the aid was designated for reconstruction work. Besides, the United States was not convinced that the USSR had actually made its final demand on Finland for war reparations, and the cases of Hungary, Germany and Italy remained open.

On the face of it, Finland seemed to have little chance of direct aid from the United States; however, instructions from Washington did not rule out all loans absolutely. In certain circumstances it was possible to give relatively small loans for special projects for the manufacture and export of goods that were not part of the reparations. These projects would have to be such that the country earned enough foreign currency from exports to meet the loan. The number of projects was already restricted because any country involved in the first stages of war reparations would be likely to experience balance of payments difficulties, thereby making significant foreign loans impossible to deal with.

Washington's advice was that the American representatives should not start any discussions about loans, or any other form of aid, to Finland. If anyone else should raise the matter in the presence of embassy representatives, the latter were to pour cold water on any idea of American loans.

From early in 1945, the Finns did have the opportunity of influencing American opinion with the arrival on 16 January 1945 of L. Randolph Higgs, from the American Legation in Stockholm, as secretary of the newly re-established Legation in Helsinki and the establishment of Maxwell M. Hamilton as envoy to Finland on 24 February 1945. This raised Finnish hopes regarding the possibility of beginning

fiscal relations with the Americans; however, Hamilton and Higgs were not very forthcoming, the United States wishing to wait and see how Finland organised the post-war situation.

Despite Finnish activity, there were no developments leading to loan negotiations until the summer of 1945. On 18 June 1945 Åke Gartz, Minister of Trade and Industry, suggested to Hamilton that he should put up the names of a few people who would be able to present the Americans with a list of special projects proposed by Finland. Hamilton had previously refused such offers, but he now considered that the time was right for forwarding the proposal to his government; he was not however prepared to hazard a guess as to what Washington's reply would be.⁵

Hopes of sending a Finnish delegation to the United States were immediately raised, Gartz proposing that its members should be Sakari Tuomioja, Hella Wuolijoki, Walter Gräsbeck and a secretary. However, Hamilton did not want anybody included whose name was connected with either the Ministry of Finance or the Bank of Finland; this was to prevent the circulation of any idea that there was to be discussion of credits in Washington.⁶ Hamilton was supported in this by the State Department, who then gave permission for a reply to be made to the Finns on these lines.⁷ Walter Gräsbeck (Finnish Cellulose Association), Artturi Lehtinen (Ministry of Supply), and Ragnar Smedslund (Trade Department of Foreign Ministry) were selected for the delegation, with a right being reserved for the addition of further experts. All of this won the approval of both the State Department and the Department of Commerce.⁸

After the granting of permission to send the trade delegation, the Finns began to place even more stress on the need to have Sakari Tuomioja, Director of the Bank of Finland, in Washington at the same time, although they did not absolutely insist on it. The Americans assumed that Tuomioja would be engaged in sounding out the financing of credit purchases, and the Helsinki Legation was ready to suggest he cancel his visit.⁹ However, Washington did not want to delay Tuomioja, even though the State Department's attitude towards credit had not changed.¹⁰

The Finnish general election of March 1945 had been regarded as legal and democratic by international opinion: Finland had been able to resolve many of the outstanding political matters vis-à-vis the USSR, and had effected a trouble-free armistice. After resuming economic relations with the Western countries important to both the USSR and Finland, it now seemed possible to make a fresh attempt to negotiate with the United States.

⁵ Hamilton to Secretary of State, 19.6.45, NA, RG59 611.60D31/6-1945

⁶ Hamilton to Secretary of State, 16.7.45, FR 1945 IV, 651-2.

⁷ Department of State to Hamilton, 23.7.45, NA RG59 611.601331/7-2345

⁸ Department of State to Hulley, 6.9.45, NA, RG59 611.60D31/ 9-545.

⁹ Hulley to Secretary of State, 18.9.45, FR 1945 IV, 655-6.

¹⁰ Department of State to Hamilton, 18.9.45, NA RG59 611.601331/9-1845

Before negotiations in Washington began, the American Legation in Helsinki gave its estimate of the likely American political stance towards Finland,¹¹ namely that it was sensible to refuse credits which would be channelled to war reparations and to allow credit for the financing of special projects. The granting of modest aid was based on securing American interests in the Finnish market, and a willingness to support a political system founded on principles of western parliamentaryism.¹² However, Finland was only one of many countries asking for United States aid, her economic situation was not desperate, and as a former ally of Germany, could perhaps not expect preferential treatment.

The trade delegation led by Walter Gräsbeck very soon dealt with the political questions of trade, and by the time Tuomioja arrived in Washington at the beginning of November the Finns were ready to put the credit question. They proposed a 110 million dollar credit from the United States, 65 million dollars of which would be allocated for the first year, and 45 million dollars for year two. Finland would then export cellulose to the United States; 25,000 tons, worth 2 million dollars, was in fact awaiting shipment.¹³

The Americans were at first cool to the idea of credits as Finnish economic difficulties seemed likely to outweigh proper dealing. At the request of the Americans, the delegation prepared a memorandum on Finnish credit needs for 1946 and 1947 and her ability to manage the debt.¹⁴ Taking cognizance of the American attitude, the Finns emphasised that the credits were for the revival of industrial output - particularly the export side. The memorandum comprised a prognosis of Finnish imports and exports; the conclusion stated that the credit figures were justified. The Americans regarded the estimates put to them as realistic and feasible, the memorandum obviously removing some of the doubts concerning Finnish prospects. The rise in Finnish exports seemed to cover all difficulties of foreign debt management, even during the programme of war reparations.¹⁵ However, despite all this received information, the Americans did not deviate from their established policy of credits.

The Finnish delegation further reassured the Americans by stating that on no account would they ask the Americans to finance war reparations to the USSR. American doubts about Soviet policy on war reparations were similarly unfounded. The term for payment had been extended from six to eight years, just one example of Soviet-Finnish economic arrangements favourable to Finland. Gräsbeck submitted a list of American goods required by Finland; this did not include any raw materials, or products which could be used for war reparations.¹⁶

By mid-November the Americans were more sure of Finland's economic base regarding the requests for commercial credit, although the relationship between credits and war reparations was still a cause of concern. The calculations made by the Finns showed that credits for the revival of productive capacity were an absolute necessity even if there had been no war reparations or any other economic links with the USSR. The State Department, however, did not fully accept Finnish assurances that credits would not be used for acquiring commodities for war reparations.¹⁵

In the list of commodities submitted by Gräsbeck, the Americans took particular note of requests for iron and steel. The Finns also wanted 200,000 tons of coal and 100,000 tons of coke. The USSR had agreed to supply the same tonnage, but this was only expected to arrive in Finland towards the end of 1946. It seemed then that the total amount to be imported was to be equally shared between the USSR and the United States, there being no significant fuel purchases from elsewhere. The State Department agreed that it was reasonable to suppose that American coal and coke would support the Finnish economy in general, and not simply help to pay the war reparations as such, the annual value of the latter being then less than

¹¹ Hulley to Secretary of State, 18.10.45, *FR* 1945 IV, 658-9.

¹² Raimo Väyrynen, 'Suomi lännen politiikassa toisen maailmansodan jälkeen', in *Suomen ulkopolitiikka*, eds. Harto Hakovirta & Raimo Väyrynen, Jyväskylä 1975, pp. 275-310.

¹³ Department of State memorandum (Livesey, Otey), 5.11.45, NA RG59 FW11.60D31/10-1845

¹⁴ Memorandum on Finnish credit needs for 1946 and 1947, 7.11.45, NA RG59611.60D31/10-1845. is Department of State memorandum (Livesey), 8.11.45, NA, RG59 FW611.60D31/10-1845.

¹⁵ Department of State memorandum (Livesey), 8.11.45, NA RG59 FW611.60D31/10-1845.

¹⁶ Gräsbeck to Secretary of State, 9.11.45, NA, RG59 FW611.60D31/11-945.

¹⁷ Finnish reparations and need for commercial credit, Department of State memorandum (Livesey), 14.11.45, NA, RG59 FW 611.60D31/10-1845.

half the value of Finland's economic output and Finnish exports (37.5 million dollars). Gräsbeck's request for 98,725 tons of iron and steel was reduced to 50,000 tons by the Americans, the State Department feeling that this would go towards the general rebuilding of the Finnish economy, and not directly to the USSR.¹⁶

After clarifying the relationship between the war reparations and the Finnish requests for American aid, the State Department announced in mid-November that it would not oppose the application for credit from the Finnish delegation to the Export-Import Bank, but did not wish to express any view as to the amount.¹⁹ The Finnish negotiations with the Export-Import Bank began on 20 November 1945. The bank seemed willing to grant the 110 million dollars requested by the Finns, with the possibility of a 5 million dollar cotton credit in addition. However, the State Department thought 110 million dollars excessive in the light of the fact that it exceeded the Finnish war reparations to the USSR over the two year period in question and it was much greater than sums granted to other small countries such as Norway or Denmark. The State Department felt that with the 5 million dollar cotton credit, 25 million dollars was sufficient, with the possibility of a further 10 million dollars for purchases of surplus stocks. The State Department also felt that credit terms should be advantageous to Finland because of war reparation commitments and general economic difficulties.²⁰

In October 1945, the Export-Import Bank put 100 million dollars in reserve for the financing of cotton exports particularly to Europe, repayment of which was to be at 21/2 per cent interest over 15 months maximum. China was an exception, being given 24 months because of her special difficulties. These credits were intended to separate cotton exports from the financing of other commodities, thus bringing foreign textile plants into production more quickly. It was also possible to adopt trading practices that were particularly suitable for marketing cotton.²¹

On 12 December 1945, the first credit of 5 million dollars was given to Finland, allowing the export of 46,000 bales of cotton. According to the terms of credit, individual Finnish importers were to contact American exporters and on agreement of purchase, the Bank of Finland was to advise the Export-Import Bank of the name of the American exporter and other relevant matters. The Export-Import Bank was then to pay the agreed sum to the exporter, with the Bank of Finland supervising repayment.²²

In early January 1946, the Export-Import Bank asked the National Advisory Council on International Monetary and Financial Problems (NAC)²³ if there was any objection to the proposed credit for Finland. The Bank also suggested that the 25 million dollar debt incurred by the Finnish-American Trading Corporation should be added to this credit.²⁴ The NAC Staff Committee looked at the relationship of the proposed credit to the war reparations but finally came to the unanimous conclusion that granting the credit should be recommended.²⁵ On 8 January, NAC approved the credit.²⁶ The credit application returned to the Export-Import Bank, the board of which confirmed it on 16 January 1946. The publication of this decision was left to the judgement of the State Department.²⁷

¹⁸ Finland's request for an Eximbank loan and the indisposition of the United States to grant loans to countries trying to meet reparation payments, Department of State memorandum (Otey), 15.11.45, NA, RG59 860D.51/11-1545.

¹⁹ Department of State memorandum (Livesey), 16.11.45, NA, RG59 FW611.60D31/10-1845. According to the well-known American journalist C. L. Sulzberger, Paasikivi said to him in an interview on 25 November 1945 that the Finnish government hoped for a 150 million dollar loan, *New York Times*, 26.11.45, p. 11.

²⁰ Department of State memorandum (Ronhovde), 30.11.45, NA, RG59 860D.51/11-3045.

²¹ Export-Import Bank of Washington, First Semiannual Report to Congress, for the period July-December 1945, p. 19.

²² Cotton Export Credit No. 387, 12.12.45, NA RG275 387 Finland/2878 Bank of Finland.

²³ NAC was an inter-departmental body chaired by the Secretary of the Treasury and included in its membership the Secretary of State; it coordinated the policies and operations of the US representatives to the International Monetary Fund, the International Bank and the Export-Import Bank, *FR* 1949 V, 440.

²⁴ Export-Import Bank to NAC, NAC Document No. 33, 4.1.46, US Department of the Treasury, NAC.

²⁵ NAC Staff Committee minutes, meeting No. 5, 5.1.46, NA RG56 box 2

²⁶ NAC minutes, meeting No. 7, 8.1.46, NA, RG56 box 2.

²⁷ Department of State to the Amlegation London, 16.1.46, NA RG59 860D.51/1-1646. It was a question of credit for the purchase of certain commodities and not a non-commodity loan as inferred by Geir Lundestad in *The American Non-Policy towards Eastern Europe 1943-1947*, New York 1975, p. 291.

This new 35 million dollar credit was designated for the purchase of those American commodities deemed necessary for Finnish rebuilding as listed by Gräsbeck. With the addition of about 25 million dollars - the credits given to the Finnish-American Trading Corporation in 1939 and 1940 - the total to be repaid amounted to 60 million dollars. The repayment terms were: the first 20 million dollars to be paid at 2½ per cent between 1951 and 1956, the second 20 million dollars to be paid at 3 per cent between 1956 and 1961, the third 20 million dollars to be paid at 3½ per cent between 1961 and 1966. The average interest was thus 3 per cent.²⁸ One of the major criteria in determining the beginning of credit repayment was the expectation of improved Finnish potential after the end of war reparations.

The State Department emphasis on the separation of credits from war reparations did not completely square with the real American attitude. Some commodities apparently directly destined for war reparations had indeed been deleted from Gräsbeck's list so that the remainder could be regarded as being for general rebuilding only. The Americans knew however that the purchase of fuel and raw materials would indirectly ease the problem of Finland's war reparation industry, and it must be remembered that the scheduled end of war reparations in the early 1950s was a factor in determining when repayment should start. The business of granting the credit was not entirely free of political strings, although the State Department wished to stress that it was. The credit granted to Finland was a measure of the Export-Import Bank's obligation to revive war-devastated economies with American commodities, as laid down in the legal statutes of the Bank. Seen from this angle, the credit could be shown to advance the cause of American political interests by reinforcing a political system based on the tenets of Western democracy.²⁹

New Credits post Paris Peace Conference

In their credit request, the Finns had hoped for dollars for both 1946 and 1947, but as there had been agreement on only one loan, they very soon considered what other possibilities were open. The Finnish political leadership had anticipated this at the announcement of the first loan³⁰ and mention of further negotiations had been made to Gräsbeck; however, the State Department had given no promise of further credit being available. Besides the cotton and reconstruction credits already granted, the State Department was prepared to consider a 10 million dollar credit for buying out of surplus stocks and this was in fact agreed on 11 March 1946, on condition that all purchases were completed by 1 January 1948. A repayment term of 25 years was agreed, beginning on 1 July 1952 at an interest of 2 ³/₈ per cent.³¹ On 14 May 1946 a further credit of 5 million dollars was concluded.³²

In the spring and summer of 1946, the Finns made several unsuccessful attempts to persuade American representatives to allow a Finnish delegation to go to Washington. Given the political circumstances, the State Department did not consider the granting of credits to be a viable proposition. The international status of Finland had to be determined by the Council of Foreign Ministers, and then by the Paris Peace Conference. There also had to be final agreement on the War Reparations Article; as long as this remained unclear the State Department considered the making of credit commitments to be imprudent. On 8 August 1946, Walter Gräsbeck and Matti Virkkunen of the Finnish Foreign Ministry, visited Hamilton to discuss their proposed visit to the United States, where they were to investigate what credits might be available primarily from the Export-Import Bank, and secondarily from private banks.³³ On 12 August 1946 the State Department confirmed their view that the visit was undesirable and should be cancelled. Reference to 'private banks' was interpreted as merely an excuse to open negotiations with the Export-Import Bank.¹⁷ On the following day, a representative of the United States told Matti Virkkunen face to face of Washington's negative response. On 14 August 1946 even the Minister for Foreign Affairs Reinhold Svento's suggestion that Gräsbeck should go privately was opposed by Hamilton. Despite all attempts to find a solution, matters simply had to await a change of attitude on the part of the State Department.¹⁸

²⁸ Export-Import Bank of Washington, Second Semiannual Report to Congress, for the period January-June 1946, p. 21.

²⁹ *ibid.*, p. 17; Department of State memorandum (Ronhovde), 30.11.45, NA, RG59 860D.51/11-3045.

³⁰ Hulley to Secretary of State, 12.2.46, NA RG59 860D.51/2-1246.

³¹ Office of the Foreign Liquidation Commissioner to the Legation of Finland, 11.3.46, US Department of the Treasury, Bureau of Government Financial Operations, Lend-Lease & Surplus Property Agreed/Finland.

³² *New York Times*, 14.6.46, p. 35.

³³ Hamilton to Secretary of State, 9.8.46, *FR* 1946 IV, 243-4

³⁴ Department of State to the Amlegation Helsinki, 12.8.46, *FR* 1946 VI, 244.

³⁵ Hamilton to Secretary of State, 14.8.46, *FR* 1946 VI, 244-5.

At the beginning of November 1946 it became clear to the Paris Peace Conference that the USSR was sticking to its demand for 300 million dollars war reparations and that any pressure for a reduction of this figure would be unsuccessful. The maximum sum was now known, even if the final decision was to be made at foreign minister level in New York. The USSR accused the United States of mischief-making when the latter had tried for a lower figure. As a response to this the State Department felt that granting a loan would show a real desire on the part of Americans to help Finns solve their economic problems.¹⁹

On approval of the War Reparation Article in New York, the State Department told Helsinki to inform President Paasikivi of the possibility of granting some credits to Finland, stressing however that discussions would not necessarily be successful.²⁰ Despite these provisos, Paasikivi gained the opposite impression. Carl Enckell, the Foreign Minister, said that as no more credit was available from Sweden, the only possible source was the United States, and that without a reasonable level of consumer goods, it would be difficult to avoid political unrest in Finland.²¹

Gräsbeck, who was assisted in the negotiations by Matti Virkkunen, travelled to Washington, and along with Finnish Legation officials, met representatives of the State Department on 4 December 1946. Gräsbeck emphasised Finland's lack of foreign reserves, her need for credit, and the difficulties resulting from the postponement of credit discussions. He showed that Finland had a 76 million dollar balance of payments deficit which he expected to clear with a loan from the Export-Import Bank.²² Despite the fact that they thought this was too great a figure, the State Department decided on 12 December 1946 that, having first scrutinised requested information about the Finnish economy, there was nothing to prevent the commencement of negotiations with the Export-Import Bank. After the withdrawal of the Finns, the representatives of the different sections of the State Department decided that the credits for 1947 should be fairly small, perhaps 20-25 million dollars.²³ This credit limit was a direct result of Finland's responsibility for paying off the war reparations. It was felt that after 1953, the time limit for repayment of war reparations, Finland would be better placed economically, and former restrictions need no longer apply.⁴¹

At the commencement of negotiations on 13 December 1946 with the Export-Import Bank, the bank's representatives said that 76 million dollars was unacceptable as such and therefore recommended that the Finns sound out both private banks and exporters as to the possibility of raising loans that way. Alternatively, American importers could establish long-term contracts, paying at least part of the purchase price in advance. The Finnish representatives provided a great deal of information about Finland's economy. In the course of negotiations, it was agreed that there should be some reduction in the original application and a final figure of 51 million dollars was arrived at for 1947.²⁴

The Staff Committee of NAC thought that in spite of achieving a satisfactory balance of payments, Finland might still face future deficits in strong currencies; however, the credit facilities provided by the private banks were regarded by the Staff Committee as realistic, and in their opinion it should be noted that Finland had announced its intention to apply for membership of the International Monetary Fund and International Bank. The Staff Committee then approved a credit of 25 million dollars,²⁵ which Gräsbeck unsuccessfully attempted to have increased. The credit proposal met with no opposition in NAC on 7 January 1947. W. Averell Harriman, the then Trade Secretary, wanted to know about the relationship between the war reparations and the loan. However, as it was not to be used to pay the war reparations, it was felt that Finland could manage and Harriman did not oppose the credit. On the

³⁶ Department of State memorandum (Ness), 6.11.46, NA RG59 811.51 Export-Import Bank/11 646.

³⁷ Department of State to the Amlegation Helsinki, 15.11.46, NA RG59 860D.51/11-1246.

³⁸ Hulley to Secretary of State, 18.11.46, *FR* 1946 IV, 249; Hulley to Secretary of State, 21.11.46, NÄ RG59 860D.51/11-2146.

³⁹ Department of State memorandum (Otey), 4.12.46, NA RG59 860D.51/12-446.

⁴⁰ Department of State memorandum (Otey), 12.12.46, NA RG59 860D.51/12-1246.

⁴¹ Department of State memorandum (Havlik), 21.1.47, NA RG59 860D.51/1-2147.

⁴² Report on credit negotiations with USA, 4.12.46-24.1.47 (Gräsbeck, Virkkunen), 2.2.47, Finnish National Archives, Archives of the Ministry of Trade and Industry, EIVA ya:l (1946-1950).

⁴³ NAC Staff Committee minutes, meeting No. 57, 2.1.47, NA RG56 box 2

contrary, he hoped that the Export-Import Bank would grant it because then Finland could produce goods much needed by the United States. The NAC approved the Export-Import Bank proposal of up to 25 million dollars credit for the realisation of essential Finnish purchase requirements in the United States. This was to take the form of either a loan to the Finnish government or export credits.²⁶

At the board meeting of the Export-Import Bank, which Gräsbeck attended for part of the time, the decision to grant the credit was taken.²⁷ This could not be confirmed until the NAC had approved the credit for foodstuffs, which it did on 21 January 1947.²⁸ The 20 million dollar general credit was apportioned so that the reserve for the buying of coal, fuel and lubricating oils was 6 million dollars, to be repaid in two equal instalments on 15 June and 15 December 1954 respectively. It was decided that the repayment of credit for the other goods should begin on 15 June 1955 with consecutive half-yearly payments, terminating on 15 December 1958. The reserve for export credits was 5 million dollars, in addition to which each exporter took a financial risk on the purchased goods. These credits had to be used by 30 June 1948, the interest rate being 3½ per cent per annum, except on foodstuffs, which were at 2½ per cent.⁴⁷ The 2 million dollar cotton credit granted in this connection had an annual interest rate of 2½ per cent and a fifteen-month term of repayment⁴⁸ The Export-Import Bank made its final decision to grant the credits on 22 January 1947.

In the course of negotiations the Americans, paralleling the general credit policy of the Export-Import Bank, persuaded Gräsbeck to change the planned usage of the credits from consumer goods to machinery and equipment for the development of export industry. From early 1947, the Export-Import Bank would not allow any large general purpose reconstruction credits which had the character of an emergency programme of war relief. In fact new credits were granted for selective projects which aimed at a better trade balance between the United States and the recipient. The primary means was the development of the recipient's export industries. Along with Finland, Italy was granted 100 million dollar credit for stimulating its export business, Brazil received a loan for industrial machinery, and the Dutch airline KLM was granted a credit for the purchase of aircraft.⁴⁹

The change in the credit policy of the Export-Import Bank was directly connected with the prevailing economic conditions. Directly after the war the main problem of world finance was the lack of resources for production. Reconstruction work accounted for a great deal of raw materials, plus the fact that there was a shortage of foodstuffs, transport and skilled labour amongst many other problems preventing a revival. By 1947 the food problem had been overcome, and the United Nations Relief and Rehabilitation Administration (UNRRA), financed almost solely by the United States, was dismantled by the middle of that year. The main problem then was how to finance the purchase of American goods by the Western European nations. The balance of payments was seriously lop-sided, the United States exporting considerably more to Europe than she imported from that source. The result was a scarcity of dollars in Europe.⁵⁰

As UNRRA declined, the importance of loans and investments granted by the United States increased; however, the difficulties were so great that the United States political leadership did not believe that it could ameliorate the situation without recourse to special arrangements. Hence a new assistance plan became operational in the spring of 1947; this later became the European Recovery Program, known simply as the Marshall Plan. With the shift of emphasis away from grants to credits and investments, the United States had a greater opportunity than ever before to use its economic strength for political purposes, and the Export-Import Bank which officially acted according to the general principles of banking, was sometimes affected by political considerations.⁵¹

Gräsbeck was well aware of the political character of the Export-Import Bank when he was in Washington, being able to report to Helsinki the bank's refusal to grant credits to Iran, Greece and Turkey in spite of the

⁴⁴ NAC minutes, meeting No. 49, 7.1.47, NA, RG56 box 2.

⁴⁵ Report on credit negotiations... (see note 42).

⁴⁶ NAC minutes, meeting No. 51, 21.1.47, NA RG56 box 3.

⁴⁷ Export-Import Bank memorandum (Riddel, Holbrook, Forbes, Lary), 20.1.47, NA RG275 415 Finland, Republic of; Department of State memorandum (Stenger), 21.1.47, NA, RG59 811.516 Export-Import Bank/1-2147.

⁴⁸ Export-Import Bank of Washington, Fourth Semiannual Report to Congress, for the period January-June 1947, p. 12

⁴⁹ *ibid.*, pp. 4-5.

⁵⁰ Daniel Yergin, *Shattered Peace. The Origins of the Cold War and the National Security State*, Boston 1978, pp. 301-8.

⁵¹ Olin S. Pugh, "The Export-Import Bank of Washington", University of South Carolina, Bureau of Business and Economic Research, *Essays in Economics*, No. 5, June 1957, pp. 28-30

importance attached to them by the State Department. The Export-Import Bank did after some pressure grant a 100 million dollar credit to Italy, but even then, the bank's director included a clause in the credit letter addressed to the Italian Prime Minister which determined that right of usage depended on Italy's stability and evidence of sound economic management in general, including branches of industry which were not to receive credit. The interpretation placed on this was that credits were to be used to support an economic system based on private enterprise, and prevent nationalisation.⁵²

Conditions of credit for Finland did not include either directly political clauses or additional conditions, as occurred in the Italian document. However, Gräsbeck's report stated that he had been given to understand, on several occasions, that the implementation of any socialist policies might very well lead to a termination of credit rights. Hamilton did in fact enquire both from the Finnish government and people in the business world as to the future possibility of nationalisation. Reassurances were given that economic experimentation was inappropriate at that time.⁵³ These American political feelers regarding credit for Finland were restricted to questions of nationalisation, and there is no documentary evidence to show, for example, that communists had to be kept out of the government.

When Gräsbeck left for the United States, he had instructions to try to obtain credits from private American banks. This line had also been recommended by the Export-Import Bank. The National City Bank, Brow Brothers Harriman & Co, Chemical Bank and the Bank of Manhattan Co. were all approached, but Gräsbeck failed to secure any promises of long-term credits, the reason given being that although they regarded Finland as a first-class risk, the political situation in the world and the uncertainty of Finland's special position would not allow these credits. The banks made particular note of what political consequences might occur should Finland fail to honour her war reparation debt; in fact, no long term credits were available from these sources until 1952. The banks did promise short-term credits for fixed sales contracts, provided that the private enterprise system continued in Finland.⁵⁴

Before Gräsbeck arrived in the United States, the director of the Finnish Foreign Trade Association, Jaakko Kahma, had sounded out the Export-Import Bank on the possibility of credit. A new Finnish-American Trading Corporation was founded in New York on 26 October 1946 under the sole control of companies representing the light and medium-heavy sectors of Finnish industry. It was on behalf of this corporation that Kahma had enquired about a 20 million dollar credit, the intention being to import machinery and equipment for other industries besides those directed at exports; the resulting export capacity was to be steered towards the United States.⁵⁵

The Export-Import Bank preferred to grant loans to private enterprise rather than governments; hence Kahma's negotiations somewhat contradicted the aims of Gräsbeck. They agreed however that the Finnish government's application should supersede that of the Finnish-American Trading Corporation. As Kahma was unable at that time to present itemised details of requirements and usage, this would have happened anyway. The initial purchase lists of both men were partly duplicated;⁵⁶ thus the credit granted to the Finnish-American Trading Corporation on 19 February 1947 was only 2.5 million dollars. The credit had an interest rate of 4 per cent to be repaid within 31/4 years from 19 November 1950.⁵⁷

The Credits and the Deepening Cold War

The former alliance between the United States and the USSR ended with an East-West division into blocs, causing a deepening of the Cold War from early 1947. In this spring, the Truman plan was adopted, the

⁵² Report on credit negotiations...

⁵³ Hamilton to Secretary of State, 23.12.46, NA, RG59 860D.50/12-2346, and 8.1.47, NA RG59 860D.50/1-847.

⁵⁴ Report on credit negotiations...

⁵⁵ Department of State memorandum (Havlik), 14.1.47, NA RG59 811.516 Export-Import Bank/1-1447.

⁵⁶ Report on credit negotiations

⁵⁷ Export-Import Bank of Washington, Fourth Semiannual Report to Congress, for the period January-June 1947, p. 10.

practical application of which was Marshall Aid. The USSR and Eastern Europe were not party to Western cooperation, building up their own network of mutual aid. Finland lay between the two. For security reasons, the USSR wished to include Finland in its politico-military zone, so that the West would not be able to use Finland as a bridgehead in any attack on the USSR. They mainly achieved this via the Treaty of Friendship, Co-operation and Mutual Assistance of April 1948. The United States had no such security interests in Finland, and having no direct economic interests to protect there either, simply waited to see how the Finns would manage international politics.

The signing of the Friendship Treaty was not enough to clarify the Finnish position, and the United States preferred to await the results of the general election. The local government elections of 1947 had shown decreasing Communist support, and in the 1948 general election, the Finnish People's Democratic League lost 13 seats, while the number of seats held by non-socialist parties increased from 101 to 108. After the election the government resigned in the usual way. It was impossible to form a majority government, so at the end of July, President Juho Paasikivi nominated Karl-August Fagerholm to form a minority government, which actually included nine new ministers with no cabinet experience. The government programme laid emphasis on the status quo in foreign affairs, i.e. a continuation of the friendly and confidential relationship established with the USSR. Fagerholm very much hoped that the USSR would not regard his government as an iron fist in a velvet glove. His hopes were not fulfilled, however, as his government soon suffered a good deal of negative comment in the USSR, as well as the opposition of Soviet representatives to what were regarded as Finnish anti-Soviet attitudes.⁵⁸

Finland had received cotton credits totalling 12 million dollars (5 million dollars in 1945 and 7 million dollars in 1947) of which they had spent 10,123,000 dollars, repaid 4,902,000 dollars, and had 1,778,000 dollars in reserve. It was noted that the Finnish foreign debt had increased by less than the value of war reparations, so that there was no obstacle here to stop the credit; according to the report the war reparations had been managed very conscientiously, the amount of foreign debt being less than that of war reparations. After about half the war reparations had been paid by 1948, and with the other half being reduced by 50 per cent, the burden was not dangerously excessive.

The report stated that Finland had been a 'remarkably good' debtor. It was the only country still honouring World War I dollar credits. As Finland did honour foreign debts even in difficult times, it was believed that repayment on the cotton credit was a certainty, provided of course that the country remained independent. This credit was granted on 1 September 1948,⁶⁵ the credit document being dated 15 September 1948,⁶⁶ but in the books of the Export-Import Bank, this credit was put back to the beginning of 1948, alongside the previous cotton credit.

The dollar credit for cotton purchase was not the only economic aid given by the United States to Finland. In September 1948, Gräsbeck (Finnish Cellulose Association), Johan Nykopp (Foreign Ministry) and Sakari Tuomioja (Bank of Finland) went to the United States to represent Finland at the International Bank and the International Monetary Fund. They informed some of the directors of the Export-Import Bank at an initial meeting that they intended to apply for credit, and in fact an application for 20 million dollars signed by Gräsbeck and dated 21 September 1948 was sent from the Finnish Legation in Washington.⁶⁷

In this application the uses to which the loan was to be put were not itemised and it was partly because of this that the Export-Import Bank asked the Finns to apply for a general purpose credit from the International Bank as the Export-Import Bank was only able to give modest credits aimed at increasing the Finnish wood processing industry's exports to members of the European Recovery Program in particular.⁶⁸ At the beginning of October, the Finns stated that they had left the credit application, comprising goods to the total value of 182.8 million dollars, with the International Bank.⁶⁹

⁵⁸ Lauri Hyvämäki, 'Valtioneuvosto 2. maailmansodan jälkeen vuoteen 1957', in *Valtioneuvoston historia 1917-1966*, II, Helsinki 1977, pp. 324-30.

⁶⁵ Secretary's memorandum No. 92, 7.9.48, NA RG275 387 Finland/387B Bank of Finland.

⁶⁶ Export-Import Bank to Bank of Finland, 15.9.48, NA RG275 387 Finland/387B Bank of Finland.

⁶⁷ Legation of Finland to Export-Import Bank, 21.9.48, Export-Import Bank of Washington, 453 Finland, Bank of.

⁶⁸ Export-Import Bank to Legation of Finland, 23.9.48, Export-Import Bank of Washington, 453 Finland, Bank of.

⁶⁹ Export-Import Bank memorandum (Tirana, Briggs), 8.10.48, Export-Import Bank of Washington, 453 Finland, Bank of.

On 1 October 1948, Finland submitted a new application for 20 million dollars to the Export-Import Bank for the development of export industry, as stipulated by the Bank. In considering this the Export-Import Bank was able to use the reports on the Finnish economy made for the cotton credit negotiations. The Americans still thought that Finland's ability to pay was mostly dependent on the possibility of an exchange of sterling as provided in the European Recovery Program. The fact that Finland had had a good deal of credit from the Export-Import Bank, and the war reparations to pay meant that she had to bear a heavy responsibility in terms of repayment in future years. Bearing this in mind the Export-Import Bank eventually recommended a credit reduction of 10 million dollars.

They were also dubious as to the purpose of the credit, there being no mention of reconstruction or development - the Export-Import Bank's speciality - nor of general credit, normally obtained from the International Bank. What the application did contain was a type of export credit not normally granted by the Export-Import Bank at that time. It was not in the 'special project' form as advised by the bank; however, this was not interpreted as an unwillingness to make a correct application. The bank did in fact recognise the special nature of the Finnish dependence on the timber-processing industries, i.e. that it was not sensible to make distinctions between, for example, the manufacture of pit props and plywood because most factories were engaged in the whole process of wood manufacture from the saw- to the paper-mill.

The Export-Import Bank's emphasis on 'projects' was mainly because of the ease of supervision, it being easier to check the progress of, for example, a particular building project than to attempt to oversee the distribution of money throughout the economy of the country in question. In the case of Finland the credit holder would be the Bank of Finland which according to the Export-Import Bank would supervise and distribute monies 'carefully, skillfully and honestly'. The Export-Import Bank believed that the export capacity created by these credits would be for the benefit of Europe and the West, and not elsewhere.

The Finnish credit application came up before the NAC Staff Committee on 22 October 1948, who postponed their decision, calling for yet one more economic report on Finland, based on the cotton credit information.²⁹ This delay enabled the State Department to have another look at the credit application. Its Division of Northern European Affairs (NOE) found that the granting of post-war credits designated for the reconstruction of Finnish export capacity had been largely successful, and that on this basis Finland should be given further credit from the International Bank, and not directly from the United States.³⁰

NOE did admit that although the International Bank could not be expected to act as quickly as the Export-Import Bank, there was an International Bank delegation going to Finland on a three-week fact-finding mission at the end of October; therefore action might be possible within a reasonable length of time. It seemed sensible in any case to wait for the results of this investigation, and possibly for the International Bank's decision, before making any move on the application now in the hands of the Export-Import Bank.

NOE tried to justify its procrastinations by referring to the political situation in Finland with the Communists being left out of the government after the July elections. Finno-Soviet relations had worsened, and Soviet pressure had increased; with further action expected, the USSR might be in a position to use American credit for its own purposes. The International Bank could not easily become entangled in a dispute of this sort.

The other sections of the State Department did not agree with NOE. They doubted whether it would make any difference to the USSR where the credits came from - the Export-Import Bank or the International Bank. They were also dismayed that money might go to a country which in the future might be swept behind the Iron Curtain. The NOE was not prepared to hold out absolutely, provided that representatives of the State Department put the political consequences of the credits to the Export-Import Bank Board of Directors.⁷²

⁷⁰ NAC Staff Committee minutes, meeting No. 157, 22.10.48, NA, RG56 box 6.

⁷¹ Department of State memorandum (Hickerson), 28.10.48, NA, RG59 811.516 Export-Import Bank/10-2848.

⁷² Department of State memorandum (Knapp), 2.11.48, NA, RG59 811.516 Export-Import Bank/11-248.

On 3 November 1948, the Export-Import Bank decided to grant the credit,⁷³ at an annual interest rate of 3' $\frac{1}{2}$ per cent, to be paid back in twelve equal half-yearly instalments beginning on 31 December 1952.⁷⁴ The credit contract especially stated that the bank was not responsible for obtaining export licenses, that being the duty of the purchaser; that goods must be exported in American ships - a clause included in previous contracts as well; that the Finns must provide further information required by the bank. It was agreed that the credits should be tied to the purchase of particular goods, viz:⁷⁵

	Millions of dollars
Machinery for wood-processing industry	5.00
Iron and steel	0.50
Spare parts	0.75
Chemicals	1.00
Miscellaneous	1.75

The Export-Import Bank Credits to Europe

Even if economic aid to Finland was consciously modest, it was quite significant when compared with that of other European countries.

*Credits of Export-Import Bank to European Countries on 31 December 1948:*⁷⁶

Country	Credit authorised (Totals in	outstanding dollars)	Principal on loans
Austria	14,225,000.00	7,424,353.42	
Belgium	132,000,000.00	123,299,856.00	
Czechoslovakia	23,728,931.61	15,344,223.74	
Denmark	30,000,000.00	20,000,000.00	
Finland	135,146,204.68	93,311,461.77	
France	1,200,000,000.00	1,158,568,500.00	
Germany	26,603,412.93		
Greece	25,000,000.00	14,593,958.99	
Hungary: Past operations	2,375,000.00		
Iceland: Past operations	1,000,000.00		
Italy	151,181,197.91	47,087,209.78	
Latvia: Past operations	1,903,000.00		
Netherlands	209,878,142.50	190,151,186.44	

⁷³ Secretary's memorandum (Conger), 5.11.48, Export-Import Bank of Washington, 453 Finland, Bank of.

⁷⁴ Resolution (Conger), 30.11.48, Export-Import Bank of Washington, 453 Finland, Bank of.

⁷⁵ Agreement (Juttila, Lehtinen, Martin), 2.12.48, Export-Import Bank of Washington, 453 Finland, Bank of.

⁷⁶ Export-Import Bank of Washington, Seventh Semiannual Report to Congress, for the period July-December 1948, pp. 30-9.

Norway	61,000,000.00	42,087,908.15
Poland	52,906,742.56	42,031,555.04
Portugal: Past operations	5,500,000.00	
Romania: Past operations	50,000.00	
Spain: Past operations	15,072,871.78	
Sweden	17,155,000.00	2,155,000.00
United Kingdom: Past operations	22,500,000.00	
Yugoslavia: Past operations	517,667.00	
Miscellaneous Europe:		
Foreign Banks	19,402,968.98	
	2,147,146,139.95	1,756,055,213.33

The other Scandinavian countries were granted less than Finland; Belgium and Italy received similar sums to Finland, though their economies were relatively larger.⁷⁷ Understandably the Export-Import Bank was not the only agency by which aid to Europe was organised; for example, Belgium and Italy received dollars by other means. The credits Finland received from the Export-Import Bank were large compared with those granted to other countries in Europe. Of countries paying war reparations after the Second World War, Romania and Hungary present a similar profile to that of Finland in its dealings with the USSR; however, neither of these countries was granted any Export-Import Bank credits during the period under investigation. Hungary was granted a 7 million dollar cotton credit early in 1947, but this was later revoked.⁷⁸

Summary

It was characteristic of American credit policy during the period under discussion that new means were granted to Finland only after certain crises had been resolved. The first post-war credits of any significance were granted in 1945-46 after the Finns had dealt with certain key points outstanding from the armistice; the second lot came about after the results of the Paris Peace Conference had been promulgated; the third and final group of credits were granted after the clarification of Finland's position vis-à-vis the 'front line' in the Cold War. The United States did not use its economic muscle to force the Finns to toe the American political line. The Americans in fact waited for an advantageous situation to develop, the aim being to allow moderate aid so as not to arouse the suspicions of the Eastern bloc. This policy was so successful that despite its geographical position, Finland did not become a subject of open dispute in the Cold War. The amount of credit given was not of the magnitude to court suspicions that the Finnish war reparations were being paid by the Americans.

From the Finnish point of view, the credits in question helped in the construction of the post-war economy. The export capacity of the wood-processing industry in particular increased, creating income out of which Finland could buy the raw materials and machinery necessary for the war reparation industry. The metal industry, which was directed towards trade with the East, did not receive credits as the Americans wanted the Finnish export trade to be western-oriented, to the countries in the European Recovery Program. Because of the advent of the credits Finland and the United States became important trading partners.

⁷⁷ *ibid.*, pp. 32-5.

⁷⁸ Export-Import Bank of Washington, Fourth Semiannual Report to Congress, for the period January-June 1947, p. 12; Geir Lundestad, *op.cit.*, p. 139.

Statement of Credits of Export-Import Bank to Finland on 31 December 1948

Credit No.	Commodity or purpose (names of exporters from whom bank purchased obligor's notes are shown in parentheses)	Credit authorised		Cancellations and expirations	Balance not yet disbursed Amount	Amount disbursed		Principal repaid on loans	Principal outstanding on loans	Interest per cent
		Date	Amount, US dollars			By Eximbank	By commercial banks at EIB risk			
250	US agricultural and industrial products	13.12.39	35,000,000.00	7,596,167.81		27,403,832.19		2,341,424.61	25,062,407.58	3
251	Finnish-American Trading Corporation	1.3.40								
387	Cotton	12.12.45	8,992.23			8,992.23		8,992.23		2 ½
387	...do....	12.12.45	4,962,212.45				4,962,212.45	4,962,212.45		2 ½
387	...do....	22.1.47	12,000,000.00		4,383,405.03		7,616,594.97		7,616,594.97	2 ½
391	US products and services	16.1.46	35,000,000.00			35,000,000.00			35,000,000.00	3
414a	Coal and petroleum	22.1.47	6,000,000.00			6,000,000.00			6,000,000.00	3 ½
414b	US products	22.1.47	14,000,000.00		954,230.50	13,045,769.50			13,045,769.50	3 ½
416	Industrial commodities	22.1.47	701.97	701.97						
416	Atlas Supply Co.	22.1.47	83,333.00		480.61	82,852.39			82,852.39	3 ½
416	B.F. Goodrich	22.1.47	216,666.33	0.98	10,470.43	206,194.92			206,194.92	3 ½
416	Firestone International	22.1.47	700,000.00	47.58	5,540.42	694,412.00			694,412.00	3 ½
416	Fisk Tire Export Co.	22.1.47	283,334.82		2,938.94	280,395.88			280,395.88	3 ½
416	General Motors Overseas Operation	22.1.47	999,296.88			999,296.88			999,296.88	3 ½
416	General Tire & Rubber Export Co.	22.1.47	66,667.00		46,722.64	19,944.36			19,944.36	3 ½
416	US Rubber Export Co.	22.1.47	700,000.00	79.14	58,296.46	641,624.40			641,624.40	3 ½
416	Ford Motor Co.	18.2.48	1,950,000.00		1,850,023.99	99,976.01		12,310.37	87,665.64	3 ½
421	Machinery and equipment	19.2.47	2,500,000.00		1,600,000.00	900,000.00			900,000.00	4
445	Passenger car & bus chassis (General Motors Overseas Operation)	12.5.48	675,000.00		696.75	674,303.25			674,303.25	3 ½
453	US equipment and raw materials	3.11.48	10,000,000.00		8,000,000.00	2,000,000.00			2,000,000.00	3 ½
	Total Past operations		125,146,204.68	7,596,997.48	16,912,805.77	88,057,594.01	12,578,807.42	7,324,939.66	93,311,461.77	
			10,000,000.00			10,000,000.00		10,000,000.66		
	Total		135,146,204.68	7,596,997.48	16,912,805.77	98,057,594.01	12,578,807.42	17,324,939.66	93,311,461.77	