CHAPTER 3

THE DEVELOPMENT OF SOVIET AMERICAN ECONOMIC RELATIONS

With the assumption of power by the Bolsheviks in November 1917, Russia's trade with the United States was considerably curtailed for a certain period. This was because all unlicensed trade with Russia was stopped by the Department of State soon after the Bolshevik revolution, and after February 1918, licenses were no longer granted without its permission. A year later, the State Department stopped entirely the issuance of export licenses. (1) The restrictions were, however, withdrawn toward the end of 1920. (2)

Trade Prospects

Owing to the Soviet monopoly of foreign trade, (3) American businessmen interested in trading with Russia had to deal directly with the Soviet Government. When they sought assurances from the State Department regarding the safety of their transactions with the Soviet Government, they were informed that although the United States Government did not

(1) Condoide, Mikhail V., Russian American Trade (Columbus, Ohio State University, 1947) 76.

(2) Ibid., 77.

consider the established authority in Russia safe enough to be accorded recognition, it had no objection to American businessmen trading with Russia if they wished to do so. (4) Despite the unwillingness of the United States Government to establish normal relations with the Soviet Union, a substantial volume of American opinion favoured trade with the latter. This fact was borne out after the post-war recession of 1921 when labour urged trade with the Soviets as a means of relieving unemployment. (5) Thus, the West End Labour Association in a petition to the President on February 26, 1922, wrote that there were "6,000,000 working men and women in the United States asking for work and suffering because they could not find it" and demanded that "the government establish trade relations with Soviet Russia so that there may be work for American workers." (6) Similar petitions were made by numerous other Labour Unions all of which urged the opening of trade relations with Russia and expressed the belief that this would materially relieve the unemployment situation. (7)  

(4) 66th Cong., 3rd Sess., House Committee on Foreign Relations, Hearings, Conditions in Russia (Washington, GPO, 1921) 215.

(5) It should be noted, however, that the American Federation of Labour remained bitterly hostile to the Soviet regime and vigorously opposed any dealings with them. Cf. Samuel Gompers, President of A.F. of L. to Secretary of State Hughes, NA, RG 59, file 661.01/623.

(6) Cf. NA, RG 59, file 661.1115, P 81.

(7) Ibid., files 661.1115, P 81/1 to 661.1115, P 81/15.
The restoration of trade relations with Russia was also favoured by several Senators, foremost among them being Senator France of Maryland and Senator Borah of Idaho. The latter was of the opinion that Soviet Russia would "prove the foundation upon which a sane free form of Government may be established". (8) Soviet Russia was also regarded as "a potential customer of American goods and a tremendously rich field for American investment." (9)

In view of the pressure from various quarters, a Congressional enquiry was conducted to enquire into the feasibility of re-establishing trade with Russia. But this enquiry did not affect any change in United States Policy towards the Soviet Government. (10) The latter had ardently hoped that the United States Government would realize the immense advantages which would accrue to both the countries from a restoration of commercial relations. It pleaded that "the interests of both peoples required the removal of barriers separating them." (11) The U.S. Secretary of Commerce Herbert Hoover, however, made it clear that nego-

(8) 60 CR (66: 3, 1921) 1868.
(9) NA, RG 59, file 861.01/991.
(10) 66th Cong., 3rd Sess., Senate Committee on Foreign Relations, Hearings, Relations with Russia (Washington, GPO, 1921)
tions could be opened only after the Soviets announced the "abandonment of the present economic system". (12) He seems to have implied that negotiations for a trade agreement were futile until the Soviet Government adopted economic principles acceptable to the United States. Secretary of State Hughes expressed the same view when he stated that no discussion could take place until there was "convincing evidence" that "fundamental changes" had been effected in the economic structure of the Soviet Union. (13)

The official view was, however, not shared by the business community in the United States, much of which favoured an immediate resumption of trade with Russia. This view was reflected in a memorandum submitted to the Senate Committee on Foreign Relations in which it was emphasized that "trade with Russia should be resumed upon the largest possible scale regardless of Communism" if it could be accomplished "with safety to the United States". (14) The eagerness of the American business community to foster trade with the Soviet Union was clearly indicated by the fact that trade between the two countries continued to increase despite the American Government's reluctance to have dealings with the Soviets.

(13) 14 Current History (October 1921-March 1922) 189.
(14) Spargo, John., A Memorandum of Trade with Russia (New York, Russian Information Bureau, 1921) 3-4.
Among those individuals who played important parts in American-Russian economic relations was Alexander Gumberg who was associated with Raymond Robins and Senator Borah in the battle for securing the recognition of Russia. Gumberg's most important work was the organization of the All-Russian Textile Syndicate in December 1923, which, though primarily intended to promote cotton trade, also handled a considerable volume of other Soviet-American trade. Gumberg was aided by Reeve Schley, Vice President of the Chase National Bank, who arranged for a loan of $2,000,000 for the setting up of the All-Russian Textile Syndicate. (15)

**Amtorg Trading Corporation**

The other organization which handled a considerable volume of Soviet-American trade was Amtorg Trading Corporation. It was an agency of the Soviet Commissariat of Foreign Trade in the United States and was formed by the amalgamation of the American office of Arco, the Russian trade outlet in Britain, and the Producer's Exchange Corporation, an American firm incorporated in England. It was formally established on May 27, 1924. The new firm was chartered as a joint-stock company under the Laws of New York. At the same time, it concluded a special license agreement with the People's Commissariat of Foreign Trade of U.S.S.R. by virtue of which it acquired the right to

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(15) 2 Russian Review (December 16, 1924) 239; also see Heymann, Hans., *We Can Do Business With Russia* (Chicago, Ziff Davis, 1946) 77.
export and import various merchandise to and from the U.S.S.R. (16)

Foreign trade being a state monopoly in the U.S.S.R., the total volume of exports and imports were subjected to general supervision and control of the state planning organization and the government. All imports from the United States and exports to the United States were tightened to a system of licenses by the government which exercised this function through the Commissariat for Trade. Within the limitations implied by the nature of this governmental monopoly of foreign trade, the actual export and import business of the U.S.S.R. was carried on by special Corporations or Syndicates handling a definite group of Commodities. To name a few of them, "Mashtransimport" (Machine and Transport Equipment Importing Corporation), "Electroimport" (Electrical Equipment Importing Corporation), "Gornemashimport" (Mining and Metallurgical Importing Corporation), "Rudoexport" (Ore Exporting Corporation) and "Koverkustexport" (Rug and Artisan made goods Exporting Corporation), were some of the Corporations handling the export and import of different commodities.

(16) Cf. NA, RG 59, file 661.1115 Amtorg Trading Corporation/15. For the text of the agreement between the People's Commissariat of Foreign Trade of the U.S.S.R. and the Amtorg Trading Corporation, see Appendix II.
Amtorg Trading Corporation conducted its business with the various exporting and importing organizations of the U.S.S.R., in so far as the purchase of goods and services in the United States for the U.S.S.R. and the sale of Soviet goods in the United States was concerned. Most of the imports from the U.S.S.R. into the United States were handled by Amtorg by means of direct purchase of such goods from the Soviet exporting organizations. In some cases only Amtorg received goods from those organizations on consignment.

In all cases of direct purchases, Amtorg bought Soviet goods on the basis of contracts either for each individual purchase or of contracts specifying price, quality, terms of payment, and delivery. Such goods purchased by Amtorg from Soviet exporting organizations were then disposed of by it in the United States in the same manner as that practiced by other wholesale importers in the United States.

Purchases in the United States by Amtorg for export to U.S.S.R. were made on a commission basis. Orders received from importing organizations of the U.S.S.R. were placed by Amtorg with American firms, subject to approval of the Soviet importing organization as to the terms of payment, price and delivery. (17) Through its trading operations,

(17) NA, RG 40, file Amtorg Trading Corporation 90034/3.
Amторг gradually inspired confidence in the American companies with which it dealt.

The New Economic Policy and Trade

In the meantime, the introduction of the New Economic Policy (18) had initiated a rapid process of recovery in Russia's foreign trade which had been seriously affected during the years of civil war and intervention. In order to stabilize the shaken foundations of the national economy, the Soviet Union turned to the United States for such items as agricultural implements, machine tools and tractors of which it was one of the largest supplier.

The Allied American Trading Corporation (which represented the Ford Motor Company, American Tool Works, American Rolling Mills, U.S. Rubber Company, Toledo Machine and Tool Company and a number of others), did considerable business with the Soviet Union in 1923 amounting to over $2,000,000. (19)

(18) The New Economic Policy, which was introduced in March 1921, provided for a tax in kind in substitution of the forced levy upon foodstuffs and fodder as prevailed during the period of War Communism. The peasant was allowed to dispose of his surplus grain in any way he wished after paying the tax. Private trade was legalized and private manufacturing for profit was also partially revived. In this respect the New Economic Policy constituted a shift towards capitalism. It began as an agricultural policy to increase the supply of food by offering fresh inducements to the peasant; but it gradually developed into a commercial policy for the promotion of trade. Cf. Carr, E.H., The Bolshevik Revolution (London, Macmillan, 1952) II, 272.

(19) Acting Chief of Commercial Intelligence, H.W. Gruber, to the Foreign Trade Secretary, Erie Chamber of Commerce, Pennsylvania, August 16, 1924, NA, RG 151, file 448 U.S.
In 1923 and 1924 it was the largest exporter to Russia of automotive and electrical equipment. (20)

As a result of these concerted efforts to revitalize American-Russian trade, exports to Russia which totalled $7,617,000 in 1923 and $42,103,000 in 1924, jumped to $68,906,000 in 1925. During the same period, imports into the United States also increased from $1,619,000 in 1923 and $8,168,000 in 1924 to $13,120,000 in 1925. (21)

In the absence of diplomatic relations between the United States and the Soviet Union, a modus vivendi was set up which permitted commercial relations between them. The American Government did not object to its citizens "doing business with the Russian people". This was stated by President Coolidge in his message to the Congress on December 6, 1923. (22) In a further pronouncement on the American policy in April 1928, Secretary of State Kellogg reiterated his government's desire not to place any obstacle in the way of the development of trade and commerce between the two countries. At the same time, however, he made it

(20) Acting Chief of Eastern European Division, L.J. Leway to American Trade Commissioner at Riga, Carl J. Mayer, July 23, 1924, in ibid.


(22) 65 CR (68:1, 1923) 97.
clear that "individuals and corporations availing themselves of the opportunity to engage in such trade do so on their own responsibility and at their own risk." (23)

Obstacles to Trade

Official pronouncements notwithstanding, certain factors arising out of the United States Government's actions hindered the smooth development of trade between the two countries. Thus, the Soviet Union was handicapped with respect to the method of covering the unfavourable trade balance with the United States. The difficulty arose from the embargo imposed in 1920 upon gold of Soviet origin which was continued even after other restrictions on trade with Russia had been removed. This measure was justified on the ground that all gold in the Soviet Union had been confiscated from its rightful owners by the Soviet Government which, therefore, had no right to dispose of it. The State Department ruled that the metal would not be accepted by the United States Mint or Assay Offices without a sworn affidavit to the effect that it was not of Soviet origin and had never been in the possession of the Soviet Government.(24) The Soviet Union being a large gold producing country, and gold being a natural medium for adjusting

(23) 3 For. Rel. 1928 (Washington, GPO, 1943) 824.
unfavourable balance in trade, the prohibition on the importation of Soviet gold acted as an impediment to the development of trade.

Another obstacle that hindered the expansion of Soviet-American trade was the difficulty encountered by the Soviet Government in obtaining long-term credits in the United States. Long-term credits were particularly important in view of the fact that Soviet purchases in the United States consisted mostly of producer goods such as industrial and agricultural equipment, which did not yield return for some time. Saul G. Bron, Chairman of the Board of Directors of Amtorg made it clear that "only on the basis of long-term credits can Soviet-American trade fully realize its opportunities."(25)

The Bureau of Foreign and Domestic Commerce advised American firms trading with Russia that they should preferably procure "a downpayment of at least 50 per cent of invoice before shipment to cover material and labour costs, leaving the gamble to apply only to profits".(26) Officially, however, there was no restriction upon the granting of

(25) 3 ERUS (Nos. 22-23, 1928) 366.
(26) B.C. Ropes to T.L. Gaukel, April 27, 1928, NA, RG 151, file 448. U.S.
long-term credits by American firms. "Bank arrangements necessary to the sale of American goods on long-term credits" were also not objected to, provided the financing did not involve the sale of securities to the public.(27) As a matter of fact, some of the larger American firms like the International General Electric, the International Harvester and a few others did grant sizable commercial credits to Russia for relatively long terms.(28) In relation to the total needs, however, the credits granted were insignificant. The uncertainty arising out of the absence of political relations acted as a hindrance to widespread credit grants. Beside these handicaps from which Soviet-American trade suffered, American businessmen desiring to trade with Soviet Russia had to do so without the help normally rendered by American consuls and commercial attaches in other lands.  

**American-Russian Chamber of Commerce**

Partly to overcome this difficulty, the American-Russian Chamber of Commerce was revived in 1926, with offices in New York and Moscow and with Reeve Schley as its President. It sought to supply some of the information which a Commercial Attaché would ordinarily gather and at

(27) For.Rels. (n. 23) 825.  
the same time promoted Soviet-American trade relations. The Chamber had existed before the revolution, but had dwindled to nothingness after the Kerensky regime. After its revival, the Chamber soon drew to it the representatives of all American firms who had or wanted to have dealings with U.S.S.R. Schley's connection with the Chase National Bank and his "impeccable integrity" inspired confidence in the Chamber, which thereafter became a powerful factor in the growth of Soviet-American commerce.(29)

In 1926, exports to the Soviet Union which had shown an increase during the previous two years, dropped down considerably - by about $20,000,000 from 1925 figures.(30) This decrease helped to resuscitate the American-Russian Chamber of Commerce.

The prospects of trade, however, brightened in 1927. Orders to the United States increased in proportion to the general increase in Soviet foreign trade.(31) The diplomatic breach with England after the Arco's raid in May 1927 (32)

(29) Heymann (n. 15) 78.

(30) Foreign Commerce and Navigation, 1926 (Washington, GPO, 1927) XI.


also resulted in the shift of many orders from English to American firms. The Soviet Government believed that a sharp increase in the volume of its purchases in the United States was likely to influence the latter toward establishing normal diplomatic relations. It did not, however, force the issue but waited for the impact of its buying on the American market to produce the desired effect and then encouraged the resulting trend toward diplomatic relations with persuasive statements.

**Contract with Hugh L. Cooper & Company**

Direct trade, however, was not the only aspect of Soviet-American economic relations. In 1926, the Soviet Government entered into a contract with the firm of Hugh L. Cooper of New York, for the construction of the huge Dnepropetrovsk dam on the Dnieper River for the development of hydroelectric power.

Colonel Hugh L. Cooper, senior partner of the firm, had vast experience in this field. He had previously constructed hydro-electric installations for the Missouri River Power Company in Iowa, the Toronto Power Company at Niagara Falls, and the water power project at Muscle Shoals.(33) In his opinion, the construction of the Dnepropetrovsk dam constituted "one of the most difficult, if not the most.

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(33) Heymann (n. 15) 17.
difficult engineering work of its kind... ever attempted". (34) The successful completion of this difficult project against heavy odds greatly impressed the Soviet Government and led to "the acceptance once and for all, of American engineering standards in the Soviet Union". (35)

**Concessions to Americans**

The Soviet Government also granted concessions to Americans with a view to attracting foreign capital into the country. One of the first concessions in Russia was granted in 1925 to the Lena Gold-Fields Company, a British and American concern. The concession covered mines of various kinds in Siberia and the Urals, running for fifty years and involved an investment of $11,000,000. (36) This concession was, however, annulled in 1929. (37)

**Tchiatury Concession Agreement.** An important concession was granted to W.A. Harriman and Company of New York in 1925. By virtue of it, the Company obtained the sole right to exploit the mineral resources of the Tchiaturi region

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(34) 6 ERSU (Nos. 15-16, 1932) 315.
(35) Heymann (n. 15) 23.
(36) Ibid., 38.
(37) 5 ERSU (Nos. 14-15, 1930) 323.
in Russia as well as the sole right to export the exploit-
ed manganese ores and peroxide stocks for a period of 20
years. The Harriman Company was also freed from almost all
taxes (with the exception of a very few fixed in the con-
cession contract) and was entitled to import duty-free all
necessary machinery and materials for the undertaking.

At the same time, Harriman was obligated, under the
terms of the contract, to organize within the first three
and half years an enterprise with the most modern equipment.
He was also obligated to transform in the course of five
years the narrow gauge railway line of Tchiaturi into a
normal line and to extend it to Poti. In Poti, he was
supposed to erect an elevator with an annual capacity of
two million tons. The operation required an investment by
Harriman of at least $4,000,000.

During the life of the agreement, at least sixteen
million tons of manganese ores and peroxide were required
to be produced. The annual production was fixed at
300,000 tons in the first year, 400,000 in the second year,
and 450,000 tons in the third year, and not less than
500,000 tons in the following years. Harriman was further
required to pay an export fee of $3 per ton of manganese
during the first three years, and $4 subsequently, and a
fee of $8 per ton of peroxide in the first three years
and $9 per ton thereafter. (38) The Harriman concession did not, however, prove a success. Harriman had expected to concentrate in his hands a large part of the world production of manganese which would enable his concern to secure a monopoly of the manganese supply on the American market. Harriman’s hopes were based on the fact that under normal conditions existing before World War I the Trans-Caucasian mines were actually producing approximately 40 per cent of the total world’s production of manganese.

Harriman’s hopes were, however, upset by an increase in the manganese production in Brazil and Africa. This increase was stimulated by the high price of manganese which Harriman himself had been trying to maintain. Since he was compelled to lower his prices, he was under the necessity of reducing the cost of production by introducing the most modern methods of work as well as technical equipment of the most modern order. This required a far greater monetary investment than he had anticipated when he took over the exploitation of the Tchiatury concessions. (39)

Harriman was also confronted with other difficulties. The Soviet Government did not permit him to purchase Soviet

(38) Tchiatury Concession Agreement, June 12, 1925, enclosed in Coleman to Hughes, June 26, 1925, NA, RG 59, file 861.637/17.

(39) NA, RG 59, file 861.637/25.
currency abroad and to import it into the U.S.S.R. in order to cover expenses connected with investments at the Tchian-
tury mines. The fact that it was necessary for Harriman to import foreign currency, exchanging it for the legal currency at the official rate of exchange meant "an increased expenditure approximately, 100 per cent greater than Harriman had originally expected". (40) Furthermore, Harriman hardly succeeded in extracting the minimum quantity of manganese as had been agreed to, owing perhaps, to the trouble he encountered in securing the co-operation of the labourers. He was subjected to "pressure on the part of the Trade Unions." (41)

All these factors led to a negotiated abrogation of the concession agreement on August 28, 1928, (42) and Harriman received $4,450,000 as compensation for his original investment. (43) The abrogation of Harriman's concession agreement did not, however, affect the development of Soviet-American trade.

(40) Ibid., file 861.637/25.


(42) NA, RG 59, file 861.637/23.

(43) Ibid., file 861.637/26.
The Soviet Union's trade with the United States increased considerably after 1928. The principal reason for this increased trade was the huge demand for machinery and other implements arising out of the adoption of a Five Year Plan in 1928 for the industrialization and mechanization of the country.

The First Five Year Plan

The aim of the first Five Year Plan was to lay the basis for transforming a backward agricultural country into a highly industrial nation. The object was to make Soviet Russia capable of satisfying the rapidly growing demands of her population for agricultural and manufactured products. This was sought to be achieved by the development of the productive forces of the country through the exploitation of its natural resources, the building up of industries, and the development of agriculture on a higher technical level. The industrialization of the country involved the construction of new plants, the creation of new industries and the mechanization of agriculture. In other words, the Five Year Plan sought to transform the economic life of the country including agriculture, to a new technical basis, the technical basis of modern large-scale production. (44)

(44) Meisel and Kozera (n.3) 177.
In the words of G.T. Grinko, Vice Chairman of the State Planning Commission,

the great task set by the Five Year Plan for the development of the productive forces of the Soviet Union through rapid industrialization and steady strengthening of the socialist elements in the national economy is that of attaining and surpassing the technical and economic level of the advanced capitalist countries, thus assuring the triumph of the socialist system in its historic contest with capitalism.(45)

The ultimate aim of the Five Year Plan was "to undermine capitalist stabilization"(46) through the development of a strong Soviet economy. Ironically enough, it sought to do so with the help of the capitalist countries, particularly the United States.

Development of Agriculture under the Five Year Plan. So far as agriculture was concerned, the government wanted to increase its production to a level where it could fully satisfy domestic needs and also provide a reasonable surplus for export. It was realised that in order to achieve an increase in production, it was necessary to do away with the small individual peasant farms and to introduce the system of collective farming which permitted the use of modern agricultural machinery and scientific methods of farming.

(45) Grinko, G.T., The Five Year Plan of the Soviet Union (New York, Martin Lawrence, 1930) 30.

(46) Ibid.
In his report to the Fifteenth Congress of the Communist Party, Stalin enunciated this policy as follows:

The way out is to turn the small and scattered peasant farms into large united farms based on common cultivation of the soil on the basis of a new and higher technique . . . with the use of agricultural machines and tractors and scientific methods of intensive agriculture. (47)

The Soviet Government's need for grain had increased as its "program of rapid industrialization got under way" since an increasing number of "industrial and construction workers" had to be fed from "government controlled supplies." But the peasants had become extremely reluctant to "grow and sell grain at the government fixed price," since other crops could be produced more advantageously. (48) Also, it was found to be "more profitable to feed grain to livestock and sell the resulting meat and diary products than to sell grain itself at the state price." (49)

Collectivization. The government sought to overcome the difficulty resulting from the reluctance of the

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(48) The total grain supply sold shrank considerably during the 1920's being only 13.3% in 1926-1927 as against 25% before World War I. Cf. Schwartz, Harry., Russia's Soviet Economy (New York, Prentice Hall, 1954) 111.

(49) Ibid., 112.
peasants to sell grain, by collectivization of farms. (50)
It meant the organization of large-scale farms based on
joint utilization of land and the means of production. In
justification of the programme it was argued that 25,000,000
individual farms because of their inefficient methods and
lack of capital, had not been able to raise the agricultural
production of the country to the level required by the
expanding industry. (51)

But in the process of collectivization, the govern-
ment resorted to fairly drastic measures when it encoun-
tered resistance from the kulaks or the rich peasants.
The latter, on their part, disposed of as much of their
moveable property as they could before being forced to
join the collective farms and in many cases actually destr-
yed livestock rather than hand it over to the collec-
tive farms. As a result the total head of livestock was
reduced to half within a space of four years. (52)

In a very short time, the campaign of forced collec-
tivization caused such chaos in the countryside that the

(50) Collective farming existed even before the
First Five Year Plan period, but it was of little account.
Thus in November 1927, there were only 14,832 collective
farms. But by June 1, 1929, after the Plan had been in
operation for eight months only, the number of collec-
tive farms increased to 57,000. Cf. Baykov, A., The
Development of Soviet Economic System (Cambridge,

(51) 5 ERSU (No. 5, 1930) 80.

(52) Hubbard, Leonard E., The Economics of Soviet
government was compelled to change its method to prevent the ruin of agriculture. As a result, the principle of voluntary collectivization was introduced and those who had been forced to submit against their will were allowed to leave. In March 1930, Stalin in a letter entitled "Dizzy with Success", sharply reproached the collectivisers for having used force against the peasants where persuasion was called for. He reminded them that "collective farms cannot be set up by force. To do so would be stupid and reactionary." (53)

Even after compulsory methods had been dropped and a return made to voluntary collectivization, however, indirect pressure continued to be exerted on the peasants to throw their holdings into the collective farm. The pressure took the form of the existence of a number of privileges to members of the collective farms, privileges which were combined with differential taxation upon those who persisted in farming their own holdings. As a result, the peasants who had left the collective farms were only too glad to be readmitted before long.

(53) Stalin, J., Problems of Leninism (Moscow, Foreign Languages Publishing House, 1940) 336; also see Meisel and Kozera (n. 3) 186.
The government thus ultimately won, (54) but at a very heavy cost. It "included the loss of half the nation's livestock, much of its other agricultural capital" and a demoralization of agriculture. Besides, "as many as 5,000,000 kulak families may have been deported to Siberia and the Far North for their resistance" (55)

Collectivization was, however, accompanied by a program for the mechanization of agriculture which called for a large number of tractors, trucks and farm machinery. In the absence of any domestic industry to manufacture them, the Soviet Union was compelled to turn to foreign producers. The United States with its enormous output of machinery and implements was in the best position to satisfy its demands. Apart from this, the American wheat magnate Thomas Campbell who owned the huge Campbell Farming Corporation in Montana, gave valuable suggestions to the Soviet Government in respect of increasing

(54) At the beginning of the campaign for "the extermination of the Kulaks" in January 1930, there were 59,400 collective farms in the U.S.S.R. When the principal stages of the "extermination" had been accomplished by March 1, 1930, there were 110,200 collective farms comprising 55% of the total peasant homesteads. When collectivization was made voluntary, the number declined to 82,300 by May 15, 1930. This decline, however, was temporary and the figure started rising again with the grant of special privileges to those who joined collective farms. By August 1, 1931, the number of collective farms increased to 224,500. In these were merged 57.9% of the peasant homesteads. This figure rose to 62.3% in May 1932. Cf. Kulevsky-Kalivitich, P., ed., Russia, USSR, A Complete Handbook (New York, William Farquhar Payson, 1933) 421, 423; Baykov (n. 50) 199.

(55) Schwartz (n. 48) 115.
the production of wheat. The Soviet Government sought his help and offered him "one million acres of land for his own use and profit if he would consent to stay there and personally operate a farm, just to show the aspiring agriculturists of Russia how he did it. But he turned it down and came home after supplying the Kremlin with a thesis that covered agriculture from the Garden of Eden all the way to Montana." (56)

As a result of improved methods of farming, Soviet state farms on the unplowed and endless Steppes grew from a scratch in 1928 to almost 15,000,000 furrowed acres by 1931. (57)

Industrial Development under the Five Year Plan. The main emphasis of the plan, however, was on the development of heavy industry; it was believed to be the foundation upon which a better life for all the people could be built. The ultimate goal of planning was to raise the standard of living of the common people. The development of heavy industry necessitated the importation of huge quantities of machinery and, as in the field of agriculture, so also in the field of industry, the United States was best suited to meet the demands of the Soviet Union.

Saul G. Bron, Chairman of the Board of Directors of the Amtorg Trading Corporation, speaking at the luncheon of the


(57) Ibid.
Export Managers Club on November 27, 1928 stated,

It is not accidental that we look towards the United States for the necessary equipment and study the American experience. We do so not only because the United States is the richest and technically the most developed country in the world, but also because the United States whose industries have emerged upon the basis of the richest and most diverse natural resources is the only country which can satisfy the diverse needs of the Soviet industry. . . . Not a single European country is in a position to satisfy all the requirements of our industry. (58)

The United States had developed agricultural machinery for use over a terrain very similar to that of the grain growing areas of the Soviet Union. She also had industrial machinery which Russia wished to install in her factories. As a matter of fact, Russia's preference for American machinery was because the United States possessed "the technical knowledge and the experience" necessary for the production of the kind of machinery which the Russians considered peculiarly suited to their needs. This knowledge and experience was largely lacking among European manufacturers. (59)

In 1928, the International General Electric Company entered into a contract with the Amtorg Trading Corporation. By this contract, the latter agreed to purchase electrical apparatus for export to the USSR worth $26,000,000, over a

(58) 3 ERSU (Nos. 22-23, 1928) 336.

(59) 132 Nation (June 24, 1931) 669.
period of six years on the basis of long-term credit purchases. (60)

Soviet American Trade

The increased demand for American goods was reflected in the orders placed by Amtorg with American firms which in 1929 amounted to $94,500,000. This figure was substantially high as compared to the orders placed during the preceding year. (61) American exports to the Soviet Union at the same time showed considerable increase which in 1930 totalled $114,399,000 as compared with $64,921,000 in 1927, $74,091,000 in 1928 and $85,011,000 in 1929. (62) Imports into the United States from the Soviet Union also rose from $12,877,000 in 1927, $14,025,000 in 1928 and $22,551,000 in 1929 to $24,336,000 in 1930. As can be seen from these figures, imports lagged far behind exports. As a result, there was substantial balance of trade in favour of the United States which, in 1930, amounted to over $90,000,000. (63)

(60) The contract provided for the purchase on the part of the Amtorg Trading Corporation of not less than $5,000,000 or more than $10,000,000 worth of apparatus and material during the first two years. If the purchases during the first two years proved to be satisfactory, the contract was to continue for a further period of four years, involving purchases of not less than $4,000,000 annually. Cf. 3 ERSU (Nos. 20-21, 1928) 348.

(61) 5 ERSU (No. 6, 1930) 26-27.

(62) Foreign Commerce and Navigation, 1930 (Washington, GPO, 1931) XI-XII.

(63) Ibid.
In 1930, the Soviet Union was the eighth most important foreign market of the United States as compared to seventeenth in 1929 and twentieth in 1922-26. The Soviet Union ranked twenty-sixth in the list of countries supplying the United States' imports in 1930, as compared with twenty-ninth in 1929 and thirty-fifth in 1922-26. (64)

Of the various kinds of machinery purchased by the Soviet Union in the United States, agricultural implements took the first place. During 1930, the total exports of agricultural machinery from the United States amounted to $43,000,000 or 29.1 per cent of the total. (65) The Soviet Union had, indeed, become the leading market for American agricultural implements. This fact was emphasized in the Commerce Reports of September 1, 1930, which stated in part that "the increase in export to Russia resulted chiefly from larger sales of electrical apparatus, machinery and agricultural implements." (66)

The Agricultural Implements Division of the Department of Commerce also reported "an active demand by the Soviet Administration through the Amtorg Trading Corporation of New York to several of the largest and most important tractor

(64) Ibid.

(65) Department of Commerce, Monthly Summary of Foreign Commerce (June, 1930) 129.

(66) Department of Commerce, Bureau of Foreign and Domestic Commerce, 3 Commerce Reports (No. 35, September 1, 1930) 504. Hereafter cited as Commerce Reports.
manufacturers (in the United States) for tractors for use in Russia". (67) In 1929, the International Harvester Company supplied 5900 tractors to the Soviet Union valued $5,900,000, while the Caterpillar Tractor Company furnished 1200 ten-ton tractors valued $5,000,000. In 1930, the Allis Chalmers Company of Milwaukee had orders for 1250 tractors valued $3,500,000 and the total tractor shipments to Russia of all United States orders in 1930 was estimated at $30,000,000. In addition, ploughs, grain drills and other agricultural implements valued $100,000,000 were ordered for the Soviet collective farms in 1930. (68)

For many other types of American machinery and equipment the Soviet Union had also become one of the most important markets. In 1929, the Soviet Union was the second largest foreign customer for American construction machinery, (69) the fifth for American mining and quarrying machinery, (70) and ninth for electrical machinery and apparatus. Her purchases in this last item alone amounted to $2,021,967. (71)

(67) Note from Agricultural Implements Division to the Assistant Secretary of Commerce, September 23, 1929, NA, RG 40, file 90034/1.

(68) Business Week (February 15, 1930) 35.

(69) 2 Commerce Reports (No. 18, May 5, 1930) 308.

(70) Ibid. (No. 21, May 26, 1930) 506.

(71) 1 Foreign Commerce and Navigation, 1929 (Washington, GPO, 1930) 138-139.
In 1930, the Soviet Union was the leading foreign customer for American oil drilling and refinery equipment, having taken $8,161,733 worth of oil well machinery out of a total of $23,817,270 exported from the United States that year. (72) During that year the U.S.S.R. was also the foremost foreign market for American agricultural machinery and equipment and second in industrial equipment. In 1931, it was the leading market for both industrial and agricultural machinery and an important purchaser of electrical equipment and automobiles. (73) In 1930 and 1931, the Soviet Union took about two-thirds of all the tractors and one-half of all the combined harvesters exported by the United States during those two years. (74)

Although, in relation to the total exports of the United States, exports to Russia constituted only a tiny fragment (being only 3 per cent in 1930 and 4.3 per cent in 1931), there was, nevertheless, an increase in exports to that country as compared to the earlier years (1.4 per cent in 1928). This was highly significant, especially after the Wall Street stock exchange crash in October 1929 that plunged

(72) American Russian Chamber of Commerce, Memorandum on American Russian Trade (New York, American Russian Chamber of Commerce, 1932) 14.

(73) Ibid., 14.

(74) Ibid., 16.
the world in a severe economic depression. (75) Although the effects of this crisis was catastrophic throughout the world, the United States was the hardest hit of all with thousands of bank failures and millions thrown out of work. (76) In the wake of the depression when markets were rapidly shrinking, Soviet Russia offered the possibility of absorbing a substantial volume of machine-tool products. Under such circumstances, the Russian market acquired special significance to American economic interests as an outlet for exports at a time when markets capable of absorbing exports were rare.

The substantial effect which the Soviet orders had on certain American industries can be ascertained from the opinions expressed in the various journals and newspapers. Thus, Business Week of February 19, 1930 stated that "Russia, unrecognised politically by the United States... has come to the aid of depressed American industry". It further stated that "had it not been for the enormous machinery purchases, many Cleveland factories would have faced a shutdown" at a time when orders were fast decreasing. (77)


(76) Gannes, Harry., "The Economic Crisis in the United States and the Drive to War", 11 International Press Correspondence (No. 63, December 10, 1931) 1140-1141.

(77) Business Week (February 19, 193) 35.
The Boston Herald on January 17, 1930 reported that
"employment for several hundred additional men will be fur-
nished by the Bethlehem Shipbuilding Corporation Ltd., in
filling a contract possibly amounting to more than
$1,000,000 to recondition thirteen steamers recently acquir-
ed by the Soviet Government."(78)

The New York Evening Post of February 15, 1930 carried
a dispatch from Chicago which stated in part, "More bright
spots are visible in the business situation, particularly
in the industrial line. A good sized order for tractors,
agricultural implements and tools from the Russian Govern-
ment is being filled..."(79)

The Wall Street Journal of February 20, 1930 quoted an
article in the Iron Age reviewing the situation in the
machine tool industry. This quotation read in part, "In
export trade, the outstanding purchases are for shipment to
Russia."(80)

From press reports, it appears that purchases by the
Soviet Union assumed considerable importance for American
machine-tool industries whose exports constituted 12 per-
cent of the total American exports in 1929. Therefore, the

(78) Quoted in Ibid.
(79) New York Evening Post (February 15, 1930).
(80) Wall Street Journal (February 20, 1930).
The Soviet Union, as one of the principal machinery markets, was far from a negligible factor in America's foreign trade.

There was a general decline in American production after the depression set in. In 1930 and 1931, when business prospects were none too bright, the Soviet Union purchased 18.3 and 27.5 per cent respectively of the total industrial equipment exported, and 36.3 and 66 per cent respectively of all agricultural machinery shipments. (81)

The large Russian purchases of agricultural machinery to a great extent helped that industry to survive at an acute stage.

**Technical-Assistance Contracts**

Apart from the requirements of machinery and implements, the Five Year Plan also created a demand for technical assistance from American firms in various fields of industry and agriculture. This demand resulted in technical-assistance contracts between the Soviet Government and a large number of American firms - many of which played vital roles in the reconstruction of the Soviet economy.

Thus, the Freyn Engineering Company of Chicago, Arthur G. McKee and Company of Cleveland, the United Engineering and Foundry Company, and Kooper's Construction Company of Pittsburgh rendered valuable technical assistance in the

building up of Russian steel centres at Stalinsk, Magnitogorsk and elsewhere. The McKee Company was responsible for the construction of the largest steel plant at Magnitogorsk with a total output of pig iron of 2,500,000 tons per year, while the Freyn Engineering Company was engaged in the designing and construction of the 50,000,000 Kuznetsk steel plant at Stalinsk with an output of 1,100,000 tons of pig iron annually. It also entered into a further contract in 1929 to participate in the preparation of plans and in the supervision of construction within five years of eighteen new metallurgical works in the Soviet Union and in the re-equipment of forty other plants which was to involve a total expenditure of 1,000,000,000.(82)

Albert Kahn Inc. of Detroit also rendered technical assistance to the Soviet Government. The major project which it helped to construct were the Stalingrad Tractor Factory - designed to produce 40,000 tractors per year,(83) the Cheliabinsk Tractor Plant in the Ural Mountains, a truck plant known as Autostroy in Moscow, and a structural

(82) 4 ERSU (No. 7, 1929) 140.
(83) Heymann (n. 15) 31-36.
steel fabricating plant at Nizhni Tagil in the Ural mountains. (84)

The firm of Stuart, James and Cooke of New York rendered assistance in the mechanization of Soviet Coal mines. (85) It was also engaged in conducting an investigation of the Donetz State Coal Trust. Charles Stuart, the senior partner of the firm, who conducted the investigation, submitted a report in 1930 in which he was very critical of Soviet methods. But Stuart's report was appreciated by the Soviet authorities who went to the extent of expressing their gratitude to the firm and to Charles Stuart for having “contributed greatly towards the elimination of many difficulties which arose during the initial phase of the work.” (86)

The Soviet coal industry also received technical assistance from the firm of Allen and Garcia of Chicago. In 1929 the latter entered into a contract with the Donugol Coal Trust and the Gyproshacht, the Soviet Institute for Designing of Mines, for rendering technical assistance in the design and construction of new coal shafts in the Donetz

(84) Ibid., 50.
(85) Business Week (November 20, 1929) 29.
(86) Heymann (n. 15) 30.
Basin and in Siberia. Together with Stuart, James and Cooks, the firm of Allen and Garcia assisted the Soviet coal trusts in their effort to increase the production of coal from 35,000,000 tons in 1928 to 75,000,000 tons in 1933. (87)

A technical assistance contract was also concluded with the International General Electric Company on March 6, 1929, effective from July 1, 1929. (88) It provided for a broad exchange of patents as well as exchange of designing, engineering and manufacturing information between the General Electric and the Soviet State Electro-Technical Trust for a period of ten years.

Further, under the terms of the contract, American engineers were to be sent to the Soviet Union "to assist the Soviet Electro-technical Trust in carrying out the plans of expansion of the electrical industry in all its phases". The engineering assistance to be rendered by the International General Electric Company involved the "construction of electrical apparatus and machinery for use in electric lighting, the generation and transmission of power and its application to industry."

(87) 4 ERSU (No. 18, 1929) 302.

(88) NA, RG 59, file 661.115. General Electric Co. - State Electro-technical Trust Contract. For details of the contract, see Appendix III.
Previous to this contract, the International General Electric had rendered assistance to the Leningrad Power System supplying it with first complete American 110,000 volt outdoor sub-station. (89) It was also responsible for supplying the power plant of the Dnieper Dam, and later it guided the Electrosila factory in Leningrad in building four more generators for the same dam. Besides these assistance, during the First Five Year Plan period, when rapid construction of electrical power systems took place in the USSR, the latter relied to a great extent upon the high voltage apparatus supplied by the General Electric which also trained a number of Soviet engineers to run the plants and develop new projects. (90)

A further agreement for technical co-operation was concluded in 1928 between the Soviet State Electro-technical Trust of Weak Current Factories and the Radio Corporation of America. The agreement provided for the exchange of patents and engineering information in regard to radio equipment. Technical assistance with reference to the manufacture of certain radio apparatus was also provided in the agreement. (91)

(89) Heymann (n. 15) 42-43.
(90) Ibid., 47.
(91) 3 ERSU (Nos. 16-17, 1928) 281.
In 1929, the Ford Motor Company entered into a special deal whereby it undertook to establish within four years an automobile factory at Nizhni-Novgorod, capable of producing 100,000 cars and trucks annually. After the conclusion of the contract, Valery I. Meshlauk, Vice Chairman of the Supreme Economic Council, and Saul G. Bron, Chairman of the Board of Directors of the Amtorg, made the following announcement.

This contract is the result of the decision of the Soviet Government to build an automobile factory in the U.S.S.R. to produce 100,000 cars per annum . . . The Ford Motor Company will supply us with all the plans and other technical data required in order to organize the factory and to carry on production in the most efficient manner . . . The Soviet automobile works will be located at Nizhni-Novgorod on the Volga River and will produce more trucks than passenger cars . . . (92)

As part of the contract, the Soviet Government was required to purchase Ford Cars and parts worth $30,000,000. The contract, which was for a period of nine years, provided for technical co-operation between the Ford Motor Company and the Soviet Automobile Trust for five years after the completion of the factory at Nizhni-Novgorod. (93)

In 1930, the Soviet Vsekhimprom (United Chemical Industries) concluded a contract with Westvaco Chlorine Products Inc. of West Virginia, for technical assistance in the production of liquid chlorine and the manufacture in the Soviet

(92) 4 ERSU (Nos. 12-13, 1929) 230.
(93) Heymann (n. 15) 52; also see 71 CR (71: 1, 1929) 230.
Union of vorce chlorine cells for salt-brine electrolysis. The contract also provided for the use of the patents of the American company by the Soviet chemical industry and the sending of American engineers to the Soviet Union.(94) Another contract signed in 1930 was between the Supreme Economic Council of the Soviet Union and J.G. White Engineering Corporation of New York for consultation services of the latter in examining the designs for the Svir-River hydro-electric power plant.(95) When completed in 1933, it ranked as the second largest hydro-electric power station in the Soviet Union, after the Dnieper River plant.

Among the other firms which provided technical assistance were the Akron Rubber Reclaiming Company in the construction of a rubber reclamation plant; Seiberling Rubber Company, in the construction of a rubber tyre plant and in planning the technological phases of rubber production at the Rubber and Asbestos Combine at Yaroslavl; Du Pont De Nemours and Company, in the construction of fertilizer factories - the latter having played an important role in the construction of the Berezniky Chemical combine designed to produce chemical fertilizers; Lockwood Greene and Company, in the design and construction of textile plants; McDonald Engineering Company in the construction of industrial

(94) 5 ERSU (No. 5, 1930) 81.
(95) Ibid., 82.
plants; Sperry Gyroscope Company in the manufacture of marine instruments; Newport News Shipbuilding and Drydock Company in the construction of turbines, and Hardy S. Ferguson and Company in the construction of paper mills.(96)

It is evident from the above account that the technical assistance provided by various American firms covered a very broad field. Seen in retrospect, it appears that the successful completion of Soviet Russia's first Five Year Plan was aided to a considerable extent by American technical assistance.

Contracts with American Engineers and Technical Advisers

Besides the technical assistance furnished by American firms, several American engineers and technical advisers also played valuable roles in the industrialization of Soviet Russia, their talents being employed in the whole fabric of the Soviet economy. Owing to the lack of sufficient technicians in the Soviet Union, it became necessary to seek the assistance of foreign experts, mostly Americans, for the operation of the various industries.

Thus 78 American engineers were engaged by the non-ferrous metals industry (Tsvetmetzoloto), and among them were a number of prominent engineers. W.A. Wood, an eminent consulting and designing engineer in the non-ferrous metals

(96) Ibid., 131-132; also see 71 CR (n. 93) 2305.
industry, was engaged as chief consulting engineer for Soviet brass and copper manufacturing plants. Frank E. Dickie, who was for a long period associated with the Aluminium Companies of America and Canada, also signed a contract with Tsvetmetzoloto to act as consulting engineer for Aluminstroy (Bureau for the Construction of Aluminium Plants). Norman L. Wimmler, another eminent engineer, was engaged by the Tsvetmetzoloto as chief consulting engineer in the prospecting, research, and mining of gold. (97)

Prominent American engineers were also engaged in other fields. Thus, W. L. Gorton, a former chief engineer of the Idaho Public Utilities Commission was engaged by the Sredazvodkhоз (Central Asiatic Water Economy) as consulting irrigation engineer. Arthur P. Davis a former head of the U.S. Reclamation Service, was another eminent engineer engaged by the Sredazvodkhоз to serve as consultant in the irrigation projects in Central Asia and Trans Caucasia. (98) A prominent chemical engineer of New York, Alcon Hirsch, was engaged by the United Chemical Industry of the Soviet Union (Veskhimprom) as the chief consulting engineer of the Bureau for designing chemical plants. (99)

(97) 5 ERSU (No. 5, 1930) 82.
(98) 7 ERSU (No. 5, 1932) 105.
(99) Ibid. (no. 6, 1932) 123.
The Soviet Rubber industry also engaged a number of American rubber and asbestos specialists. (100) Many other American engineers were also engaged by the various trusts, the sewing machine, knitting, oil, paper, tractor and other trusts. (101)

Soviet trusts at the same time sent Russians to America for a period of six months to a year for training in American factories, oil fields, and mines, as well as in the techniques of farming. (102) In this last item, the Russians were greatly helped by Thomas Campbell, the owner of the huge Campbell Farming Corporation in Montana who undertook to teach more than two hundred Soviet experts the techniques of mechanized farming. (103)

An important ramification of this training was the further rise in orders for American agricultural machinery. Also, the use of American engineering industrial units tended to increase the orders for American machinery. In fact, the first Five Year Plan of the Soviet Union had given an

(100) Ibid. (No. 11, 1932) 255.


(102) Ibid., 799.

(103) Forum (n. 56) 12-22.
impetus to America's trade with the Soviet Union, and the latter provided a valuable outlet for American products at a time when markets were rapidly shrinking in the face of a world wide depression.