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Forsaken Country: The Polish Loan in U.S. Postwar Foreign Policy, 1945-1947



Herbert Hoover with Polish orphans



Polish Prime Minister Józef Cyrankiewicz with Soviet Premier Joseph Stalin

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Introduction

I think you are interested also in a matter that came up during the management of Mr. McCloy. It was the loan to Poland. This was at a time when there was a great shortage of coal in Europe, and the Poles, having enormous quantities of coal, wanted a loan from the Bank, which, if I remember well, was about 20 to 25 million dollars, for the purpose of buying first-rate mining equipment. It would have to be repaid out of exports to Polish coal and it would only have a very short run. I personally thought that this might be a very good occasion in testing out the way the Poles run their economy; the amount was too small to do any harm and it might do a lot of good to Europe by increasing the amount of coal to be put at its disposal. And I don't think that Mr. McCloy saw this differently, but the American government was evidently against the whole transaction, and so nothing came of it. I still think it might have been an experiment that might have given us, especially through end use supervision, contacts with the Poles and a better understanding. The Poles then were offended and they left the International Bank.

-Daniel Crena de Iongh, World Bank Treasurer, Interview with Professor Robert W. Oliver, Brookings Institution, August 1, 1961¹

In his interview with Professor Robert Oliver, World Bank Treasurer Daniel Crena de Iongh discusses the Polish loan as a missed opportunity in the World Bank's history. De Iongh's memories create a world of possibility, daring to imagine what would have happened if the World Bank had offered Poland a loan. Western Europe would have received the coal it so desperately needed for postwar reconstruction, rebuilding the great European cities while integrating Poland into the Western European economic sphere and undermining the Soviet Union's powerful grip on the Polish government and economy. De Iongh remarks that because Poland would have been able to repay the Bank out of its exports, the loan was a sound business decision, making it tantalizingly close to possible. In the same breath though, he tells how World Bank President John McCloy and the US government disagreed about the loan. His brief explanation, "and so nothing came of it," suggests the finality of the government's influence in a

¹ Columbia University, World Bank Project; Interview with Daniel Crena de Iongh, 47. 1961.

wistful kind of way. As interviews with other World Bank executives show, this negotiation marked the first time the US government used its veto power as the most influential member nation to end a World Bank loan negotiation. While this is an important marker in the World Bank's history, the complex debate over Poland, which politicians and diplomats called "the Polish question," was also a high-stakes decision that put the economic and political future of an entire country on the line.

This study examines the tremendous complexity of the debate over the Polish loan that occupied officials from the Truman administration, State Department, World Bank, and the Export-Import Bank of the United States from 1945 to 1947. I demonstrate that despite the absence of a uniform policy toward Poland, the American government and lending institutions ultimately decided to fund Germany instead of Poland and thereby contributed to the unification of a Western Europe without Poland. My analysis of the correspondences of American government officials and the leaders of lending institutions as well as Polish economic data enables me to explain the evolution of the Polish loan debate in the US in light of competing foreign policy objectives and Poland's dire need for a loan.

World War II and the creation of postwar lending institutions drastically altered and complicated American foreign policy making. Foreign aid did not exist before World War II. National governments had administered humanitarian relief, but no one had ever suggested a country or international organization could give resources to a country.² Toward the end of the war, national leaders created the World Bank and the International Monetary Fund to reconstruct Europe and finance development in less-developed countries. The US State Department, which previously had a monopoly on US foreign relations, now had to contend with the decisions of

² Lancaster, Carol. *Foreign Aid: Diplomacy, Development, Domestic Politics*. Chicago: University of Chicago, 2007. 1.

American-backed lending institutions to provide struggling economies with capital. The introduction of these institutions complicated foreign policymaking, introducing new actors with different goals and motivations. In particular, the World Bank's dual missions of making profitable investments and targeting underdeveloped countries for assistance established a conflict between the political and economic reasons to support or oppose a loan.

Loan negotiations between Polish and American officials began in 1945 with leaders from the Export-Import Bank of the United States (Ex-Im Bank) and the World Bank joining the debate in 1946 and 1947 respectively. American support for a loan evolved over time as State Department officials tried to assess the strength of Poland's alliance with the Soviet Union in light of Western Europe's desperate need for coal. Despite support for the loan from the Ex-Im Bank and World Bank, the State Department eventually persuaded the heads of those lending institutions to end negotiations. In a 1961 interview, fourteen years after the World Bank ended discussion of the Polish loan, World Bank executives still remembered the Polish negotiation as a unique case in the Bank's history in which the US government first used the veto power granted to it in the creation of the Bank to end a negotiation. Today, economic historians regard such control as typical of the relationship between the World Bank and the US government. In their history of the World Bank's first 25 years, *The World Bank Since Bretton Woods*, Edward Mason and Robert Asher point out that over the years World Bank management has been subjected to considerable pressure over a potential aid recipient's government. Governments and individuals oppose World Bank assistance both out of an objection to aid to socialist nations and to attack so called American imperialism in developing nations.³ The fact that World Bank executives considered the US government's intervention in the Polish loan a unique and

³ Mason, Edward, and Robert Asher. *The World Bank Since Bretton Woods*. 1st ed. 1. Washington, DC: The Brookings Institution, 1973. 4.

unfortunate case in the Bank's history signifies the complexity of the Polish loan and speaks to the power the US government had on World Bank decisions early in the Bank's history.

The secondary literature devoted to the Polish loan is limited to one text, Sheldon Anderson's *A Dollar to Poland is a Dollar to Russia: U.S. Economic Policy Toward Poland, 1945-1952*. Anderson studies the loan negotiations primarily through the recorded correspondences among officials from the State Department and Polish government, arguing that while the Soviet Union had near-complete control of Poland from the end of the war, the Truman administration gave up any influence it could exert on Poland by denying financial aid after 1946. His text examines the negotiations from both the Polish and American perspectives, frequently citing Polish government records, correspondences among Polish leaders, and Polish newspapers.

I focus on the American perspective of the Polish loan, studying correspondences among American leaders in the State Department and Roosevelt and Truman administrations as well as the Export-Import Bank and the World Bank. Anderson's text and my thesis both show the complexities of the Polish loan through the many actors from different institutions with a stake in the negotiations. The two works differ in that while Anderson argues the US government missed an opportunity to promote democracy in Poland, I make an argument for how the complexity of the loan negotiation and competing foreign interests led American policymakers to prioritize the German coal industry and other foreign policy goals. I supplement this argument with analysis of reconstruction committee meeting minutes that explain the advantages of funding the German coal industry over the Polish coal industry.

Another important study that focuses on postwar Polish-American relations but not the Polish loan specifically is Richard Lukas' *Bitter Legacy: Polish-American Relations in the Wake*

of *World War II*.⁴ Much like this thesis, Lukas' text shows the evolution of Polish-American relations from pre-loan negotiations at the Yalta Conference to the American loan to Poland in 1946 to the fraudulent Polish elections in 1947. Lukas' text however, focuses almost exclusively on the relationship between the Polish and American governments, devoting only a few pages to the role independent lending institutions played. Ultimately, Lukas blames the communization of Poland on the United States, arguing that, "... the communization of Poland in the period 1945-1947 was less the result of Communist defensive reactions to American challenges than it was the consequence of Washington's having habituated the Kremlin to deal with political issues in eastern Europe without the United States during the war years."⁵ I do not challenge Lukas' conclusion, but instead include negotiations with the Ex-Im Bank and World Bank to show how the goals of each lending organization contributed to the decision not to lend. I also analyze Polish economic data that supports the argument that Poland badly needed a loan at the time.

This thesis is organized chronologically in the order Poland applied to institutions for economic assistance. Officials from the State Department and Truman administration, including the US Ambassadors to Poland and personal aides to Presidents Roosevelt and Truman, appear throughout the thesis because their roles in the Polish loan negotiation were pervasive. Each section strives to identify the underlying motivations that influenced these men to make arguments for or against funding. While I cannot know what motivations these men felt at the time, my analysis of their own explanations of their decisions and the arguments of other scholars shows the intricacies of foreign policy as it first shaped the post-World War II world. I begin by explaining Poland's position in President Roosevelt's foreign policy agenda, explaining

⁴ Lukas, Richard. *Bitter Legacy: Polish American Relations in the Wake of World War II*. 1st ed. Lexington, KY: The University Press of Kentucky, 1982. 138.

⁵ Lukas, Richard. *Bitter Legacy: Polish American Relations in the Wake of World War II*. 1st ed. Lexington, KY: The University Press of Kentucky, 1982. 138.

that Roosevelt's treatment of Poland as a relatively low priority influenced the Truman administration's foreign policy. Then I discuss Poland's first applications to the US State Department and the Export-Import Bank in 1945 and 1946 while describing the simultaneous deterioration of Polish-American relations due in part to the Polish nationalization of property. In this section I also show how the Polish balance of payments data from this time period supports the Polish argument that Poland needed a large American loan to restart its economy. In my fourth and fifth chapters I analyze Poland's application to the World Bank in 1947 and the US government's support for the German coal industry, a decision that finalized the close of the Polish debate for the US government and American lending institutions.



Winston Churchill, Franklin D. Roosevelt, and Joseph Stalin at the Yalta Conference

Chapter 1: The US Opens the Door for a Communist Poland

To understand the American position entering the Polish loan negotiations, it is important to understand Poland was never a high priority in US foreign policy. Presidents Roosevelt and Truman maintained a firm position with Stalin that the US and Britain supported a democratic Polish government not manipulated by Stalin's chosen leaders. At the same time, neither administration ever created an incentive for Stalin to abide by this policy. By sending messages and diplomats to the Kremlin repeating the American-British position on the Polish question but not acting to enforce their position, Roosevelt and Truman showed that Poland was a relatively low foreign policy priority.⁶ In his history of diplomatic relations between the United States and Poland, *The United States and Poland*, Polish historian Piotr Stefan Wandycz summarizes Polish-American relations, writing, "The Poles could never be America's partners; they were not to ask the reason why, or to put it more crudely, not to rock the boat of great powers' cooperation...[The Poles] did not fully appreciate the extent to which the President wished to stay clear of Russian-British controversies and avoid the Polish problem..."⁷ Wandycz's reference to cooperation among the great powers points to the tradeoffs that characterize international relations. Evidence suggests that one reason Truman appeased Stalin was to secure a Soviet alliance in the war against Japan at the end of World War II. Calculating that Soviet participation in the war was more valuable politically than taking a stand against Stalin and winning a representative Polish government, neither Roosevelt nor Truman pushed the Soviet Union on Poland's future.

⁶ Truman, Harry. *Memoirs by Harry S. Truman*. 1st ed. 1. Garden City, NY: Doubleday & Company, 1955. 264.

⁷ Wandycz, Piotr. *The United States and Poland*. 1st ed. 1. Cambridge, Massachusetts: Harvard University Press, 1980. 252.

Roosevelt practiced this kind of measured diplomacy in February 1945 at the Yalta Conference, the second major wartime meeting of Roosevelt, Truman, and Stalin. Roosevelt spoke out in favor of a democratic Poland without alienating Stalin, saying, "...that in regard to the government he wished to see the creation of a representative government which could have the support of all the great powers and which could be composed of representatives of the principal parties of Poland."⁸ This statement is carefully written to support publicly a democratic Poland without taking actionable steps to create such a government. The Yalta Conference ended with Roosevelt and Churchill having made major concessions to Stalin either by giving up certain demands for the new Polish government or leaving sections of the agreement intentionally vague. While the three governments agreed to a "Government of National Unity" comprised of leaders from within Poland (Communist leaders from the Stalin-approved Lublin government) and from abroad (non-Communist leaders from the London Government-in-Exile), Roosevelt, Churchill, and Stalin never laid out specific dates for elections. Nor could they agree on the specific number of representatives from the opposing governments that would comprise the new government. The final memorandum reads, "This 'Government of National Unity' would be pledged to the holding of free and unfettered elections as soon as practicable on the basis of universal suffrage and secret ballot in which all democratic parties would have the right to participate and to put forward candidates."⁹ The phrase "as soon as practicable,"¹⁰ suggests the leaders intentionally excluded a specific date to avoid disagreement. Furthermore, Vyacheslav Molotov, Stalin's protégé, insisted that Roosevelt and Churchill exclude a requirement that

⁸ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *The Conferences at Malta and Yalta 1945*. (Washington, D.C.: U.S. Government Printing Office. 1955), p. 667.

⁹ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *The Conferences at Malta and Yalta 1945*. (Washington, D.C.: U.S. Government Printing Office. 1955), p. 804.

¹⁰ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *The Conferences at Malta and Yalta 1945*. (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 870-871.

Allied Ambassadors act as evaluators of the new Polish government, claiming the Poles would be offended by this stipulation.¹¹ While the exclusion of this term does not explicitly show that the Soviet Union created the legal framework necessary to influence the Polish government, it does show that Roosevelt and Churchill compromised the agreement by allowing less oversight over the creation of the postwar government.

From the time of the Yalta Conference in February 1945 until his death in April 1945, Roosevelt maintained an inconsistent stance on Poland. While the American delegation at the Yalta Conference had left terms ambiguous enough for the Soviet Union to enforce a Communist Polish government, Roosevelt agreed with Churchill that the US and Britain must confront Stalin on the Polish question. In a letter to Stalin dated April 1, 1945, Roosevelt told Stalin in blunt language, “I must make it quite plain to you that any such solution which would result in a thinly disguised continuance of the present Warsaw regime would be unacceptable and would cause the people of the United States to regard the Yalta agreement as having failed.”¹² Roosevelt’s obvious concern and frank tone challenges Wandycz’s argument that the United States wished to avoid the Polish problem at almost all costs.

At the same time, Roosevelt, weakened by his deteriorating health, showed little conviction in making good on his position. In his response, Stalin expressed indignation at Roosevelt’s suggestion that the Soviet Union was renegeing on the compromise reached at the Yalta Conference, but also continued to insist that the new Polish government be a majority Communist. In a memo to Churchill dated April 11, 1945, Roosevelt dismissed Stalin’s message

¹¹ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *The Conferences at Malta and Yalta 1945*. (Washington, D.C.: U.S. Government Printing Office. 1955), p. 806.

¹² U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *1945. Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 195.

and the disintegration of the deal altogether, claiming “the general Soviet problem,”¹³ as Roosevelt summarized it, would work out in the end. The message is only four lines long, leaving the meaning of this statement unexplained. Given that Roosevelt died the following day, his declining strength may have driven him to write a message to Churchill expressing indifference toward Stalin.

Documents such as the April 1 memo showing Roosevelt’s confrontation of Stalin on the Polish question undermine the argument of historians such as Piotr Stefan Wandycz who claim Roosevelt completely disregarded Poland. Nevertheless, the ambiguous terms of the Yalta Agreement and the Roosevelt administration’s inability to reach a compromise on the Polish question suggest that Roosevelt strove to appease Polish-Americans concerned about postwar Poland while preserving relations with Stalin to some degree. One should read Roosevelt’s final letter to Churchill not only for the exhaustion of someone worn down by old age and disease but also for the wisdom Roosevelt shows in maintaining his position and not insisting on an immediate resolution. This political calculus put Polish-American constituents at ease while maintaining strong enough relations with the Soviet Union at the expense of the Polish people.

The Forgotten Compromise

Upon assuming the presidency, Truman educated himself on the Polish question by reading documents from the conferences at Tehran and Yalta. An April 13, 1945 memo to Churchill shows that while he and Churchill were concerned about Stalin’s insistence on a Communist Polish government, he, like Roosevelt, sought to conciliate concerned Polish-Americans while not alienating Stalin. Truman wrote to Churchill, “I feel, however, that we

¹³ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 210.

should explore to the full every possibility before any public statement is made which could only be as matters now stand to announce the failure of our efforts due to Soviet intransigence.”¹⁴

Truman’s use of the word “intransigence” here suggests he believes Stalin to be obstinate on the Polish question, rendering US negotiations futile. This comment marks the beginning of the shift of US policy away from support for an independent Poland and toward policy goals the Truman administration considered more likely.

The sense of hopelessness fostered by the word “intransigence” develops into American foreign policy one month into the Truman administration when George Kennan, the American Charge d’affaires in Moscow resigned himself to Stalin’s vision for Poland and encouraged the Truman State Department to accept the authority of the Communist Lublin government. Frustrated over Stalin’s insistence that the Communist party comprise the majority of the new Polish government, Kennan advised Truman against future negotiations: “We are never going to have at this juncture anything like a free Poland. In the face of this situation, our position today is a clear one on which we can safely rest our case.”¹⁵ By “safely rest our case,” Kennan told State Department officials that it was better for the US to oppose the Communist Polish government in official records than to make concessions to the Soviet Union in order to negotiate a deal for a more representative Poland. He warned that further negotiations with Stalin would create the impression that the US approved of the Communist Polish government that would inevitably rise to power. By recognizing Poland as a Communist government, the State Department now associated the country with the stigma of Communism as the political ideology diametrically opposite to the American government. Going forward, all foreign policy toward Poland would

¹⁴ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 212.

¹⁵ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 295-296.

now have to help the Polish people without inadvertently supporting their Communist government or the Soviet Union, a requirement no diplomat could meet.

A series of meetings between Truman's trusted advisor, Harry Hopkins, and Stalin in late May shows the Truman administration accepted the Soviet Union's determination to maintain a Communist Polish government and used US approval to secure Soviet support against Japan at the end of World War II. In these meetings few historians have studied, Hopkins acquiesced to Stalin's desire for a Communist Poland led by the Lublin government.¹⁶ Analysis of this evidence supports my claim that a democratic Poland was a low priority for the United States and became even less important after Kennan's memo advising against future negotiations over Poland. Truman sent Hopkins to meet with Stalin and Molotov, Stalin's protégé, from May 26 to May 30. Hopkins reported back to Truman that he tried to impress upon Stalin that the American people would not support a Polish government controlled by the Soviet Union. Hopkins' memos to Truman from the rest of the mission reveal how he gradually compromised his position and acquiesced to Stalin's demands, ultimately contradicting the position of strength he held at the beginning of the meetings.

On May 28, 1945, Hopkins described to Truman his second meeting with Stalin, writing, "I tried both last night and the night before to impress on Stalin that the American people would not support a policy in Poland which was directed entirely by the Soviet Union and that it must be a genuinely cooperative understanding such as we had worked out at Yalta."¹⁷ Just two days later on May 30, 1945, Hopkins reversed his position, telling Stalin that neither the American

¹⁶ Neither Michael J. Hogan nor Richard Lukas, authors of key secondary texts about the Marshall Plan and Polish-American relations respectively, mention the meeting between Hopkins and Stalin. Hogan, Michael J. *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952*. Cambridge [Cambridgeshire: Cambridge University Press, 1987.]; Lukas, Richard C. *Bitter Legacy: Polish-American Relations in the Wake of World War II*. Lexington, KY: University of Kentucky, 1982.

¹⁷ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 300.

government nor the British government wanted the Polish Government-in-Exile in London, the prewar Polish government that fled Warsaw, to return to power in Poland. Hopkins then elaborated on this position by giving the approval of President Truman and the late President Roosevelt for the Stalin-backed Warsaw regime to comprise the majority of the new Polish government: “He said, furthermore, he knew that President Roosevelt and now President Truman had always anticipated that the members of the present Warsaw regime would constitute a majority of the new Polish Provisional Government. He said he wished to state that without equivocation.”¹⁸ On June 6, Hopkins and Stalin agreed to a final list of Poles, including three representatives of the London government and five non-Warsaw regime representatives from Poland, to invite to Moscow for a conference on the structure of the new Polish government. At Hopkins’ encouragement, Truman agreed to a preliminary version of the list on June 1, telling his advisors the progress on the negotiations excited him.¹⁹

When one contrasts the strong position against the Lublin government Roosevelt expressed in his letter to Stalin on April 1 with Hopkins’ compromise with Stalin on May 30, it appears the US made a complete about-face in its policy toward Poland. In only two months, the US accepted that the Communist government would rule and found a way to benefit from the United States’ approval. A likely explanation for this shift is Truman’s desire to secure Soviet cooperation against Japan in the summer of 1945. In his memoirs, Truman wrote, “Before Hopkins left for Moscow, I had impressed upon him the need for getting as early a date as possible on Russia’s entry into the war against Japan.”²⁰ This argument is strengthened when one considers a comment General George Marshall made during a meeting at the White House on

¹⁸ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 305.

¹⁹ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 314-315.

²⁰ Truman, Harry. *Memoirs by Harry S. Truman*. 1st ed. 1. Garden City, NY: Doubleday & Company, 1955. 264.

April 23, 1945. The record states, “[General Marshall] said from the military point of view the situation in Europe was secure but that they had hoped for Soviet participation in the war against Japan at a time when it would be useful to us. The Russians had it within their power to delay their entry into the Far Eastern war until we had done all the dirty work.”²¹ Truman’s comment connects Marshall’s hope for Soviet participation directly to Hopkins’ mission, clarifying Truman’s objective in yielding to Stalin’s goal of a Communist Poland. Truman’s comment also explains the hesitancy of the Roosevelt and Truman administrations to push Stalin to accept US policy on the Polish question. When Kennan advises that a Communist Poland is inevitable, Truman interprets Kennan’s recommendation as a signal that the time is right for the US to capitalize on its quiet approval of the Lublin government in pursuit of the more valuable Soviet cooperation in the war.

The argument that Truman and Hopkins agreed to a Communist Polish government to encourage Soviet cooperation against Japan shows the kind of political compromise that characterizes foreign policy formulation as well as explains how US officials approached Poland’s first request for a loan in 1945. Roosevelt and Truman balanced their obligation to consider the requests of Polish-American constituents with the objective of ending World War II.²² While many Polish-Americans wrote Truman asking him to support Poland or congratulating him on taking a strong position against Stalin, Truman ultimately weighed their desires against the general objective of winning World War II and found the latter to be a higher

²¹ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 255.

²² Lesinski, John. Lesinski Letter to Truman. 19 April 1945. Original letter. *Box 598*. Harry S. Truman Papers. Harry Truman Library. 1 December 2011.

The Truman Library contains records of Polish-American constituents encouraging the President to take a strong position on the Polish question against Stalin. This letter was actually addressed to President Truman and dated seven days after Roosevelt’s death. There are many similar letters to the President from Polish-Americans in Wisconsin, Illinois, and Michigan expressing concern about postwar Poland.

priority. When Polish officials first asked for an American loan in 1945, pointing to Poland's coal reserves as an undeveloped source of income, the State Department was then tasked with making the loan without funding the Communist government it had just acknowledged.

The Establishment is Divided on Poland

While State Department memoranda from 1945 show officials searching for a way to aid Poland without financing the Soviet Union, not all Americans wanted to help Poland. Prominent American leaders including former President Herbert Hoover formed a coalition of leaders in favor of withholding postwar reconstruction aid to Poland until the country's leaders agreed to democratic reform. On July 19, 1945, the *New York Times* reported that several prominent conservative leaders including Hoover had signed an appeal asking Truman to leverage the diplomatic power of the United States to convince the Provisional Government in Poland to hold free elections. The article quotes the appeal as warning that "a policy of one-sided appeasement of totalitarianism can lead only to disillusionment, frustration, and grave peril to the American people..."²³ This warning shows the ideological opposition some Americans felt toward loaning to a Communist country. For President Hoover and the members of the coalition, there were no circumstances short of the overthrow of the Communist Polish government under which the US could loan to Poland without funding the Soviet Union.

Some State Department officials, including Secretary of State James Byrnes, also opposed a loan to Poland, but on the grounds that it was too soon to determine the actions of the Lublin government and not out of total opposition to any aid to Poland. In a December 1945 message to Ambassador Lane, Byrnes wrote, "In connection with economic problems, I do not

²³ "Plea to Poland is Sent to Truman." *New York Times* 07/19/1945. 13.

expect, under present circumstances, that we shall be in a position to grant any large-scale credits to Poland at this stage. On the other hand, consideration is being given to making available principally from surplus stocks types of goods primarily trucks, bulldozers...’’²⁴ From this comment, it is difficult to distinguish between Byrnes’ personal opinion and the official line of the US State Department. Byrnes’ comment on the “ability” of the State Department to grant credits could be a euphemism disguising his denial of aid. It more likely suggests though, that the State Department would consider funding under more favorable political circumstances in Poland. His consideration of other kinds of assistance supports the idea that Byrnes would consider a formal loan to Poland while the conservative coalition led by Hoover opposed aid in an absolute way.

On the other side of the debate, Irving Brant, personal aide to President Truman, and Polish-American citizens supported aid to Poland. In an unconventional arrangement, Truman employed Brant, a journalist for the *Chicago Sun*, to report on politics, government issues, and general living conditions from the Polonia Hotel in Warsaw. Brant’s letters show that he was not only an outspoken advocate for aid, but also that the Polish people deeply resented Soviet influence in their government, implying greater American assistance to the Poles might overthrow the Lublin government.²⁵ In one letter from October 1945, he wrote to the President, “There is a widespread feeling for political democracy here, extending to all except the most extreme Right and Left. The present government will probably be defeated if an election is held

²⁴ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 419.

²⁵ Brant, Irving. Letter to Truman. 15 October 1945. Original letter. Box 699 *Official File* Harry S. Truman Papers, Harry S. Truman Presidential Library. 1 December 2011.

Brant, Irving. Letter to Truman. 14 January 1945. Original letter. Box 699 *Official File* Harry S. Truman Papers, Harry S. Truman Presidential Library. 1 December 2011.

before it becomes evident that the Russian occupation is ending...”²⁶ By implying that an impending future election will be legitimate and effective, Brant undermined the conservative opposition’s argument against aid to Poland by suggesting that fraudulent elections were not a concern. Even though as an advisor to the President Brant did not hold the same kind of influence as Secretary Byrnes or Ambassador Lane, their correspondences show that Truman seriously considered Brant’s reports, establishing him as an important actor in the Polish loan debate.²⁷

Aid Negotiations Begin and the Ambassador Goes Rogue

It was into this divided American government that, in September 1945, Dr. Ludwig Rajchman, the head of the Polish delegation to the United Nations Relief and Rehabilitation Commission (UNRRA) in Washington, requested \$190 million from the Ex-Im Bank and an additional \$500 million reconstruction loan.²⁸ Many State Department officials spoke out against the loan, citing the presence of the Red Army in Poland and Soviet attempts to create companies to exploit Polish coal resources as evidence that the government could not make a loan to Poland without empowering the Soviet Union.²⁹ A *New York Times* article that November described Soviet attempts to exploit Polish industry while the Poles themselves looked to the US for aid. The article poignantly sums up the State Department’s dilemma as a choice, “between leaving Poland distressed and a hospitable vacuum for communism or, in effect, fattening a cow that the

²⁶ Brant, Irving. Letter to Truman. 15 October, 1945. Original letter. Box 699 *Official File* Harry S. Truman Papers, Harry S. Truman Presidential Library. 1 December 2011.

²⁷ Brant, Irving. Letter to Truman. 6 November 1945. Original letter. Box 699 *Official File* Harry S. Truman Papers, Harry S. Truman Presidential Library. 1 December 2011.

²⁸ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 8, 31. Polish Minister of Industry Hilary Minc had made an earlier request for aid at the Potsdam Conference that July. The US tabled Poland’s request and sold the Polish government surplus army trucks instead.

²⁹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 31.

Russians are in a position to milk.”³⁰ At the same time, Irving Brant strongly encouraged Truman to offer some kind of aid, reporting that Poles were preparing to face the winter of 1945 in windowless homes with no heat.³¹ Stanislaw Mikolajczyk, leader of the anti-Communist Polish People’s Party, visited Truman in Washington in November 1945 to propose that a small, immediate loan would enable Poland to break away from Communist influence by generating income through coal exports.³² Persuaded by Brant and Mikolajczyk, Truman approved credits to Poland that November. These credits were more restrictive than a loan because the Poles could use them only to buy needed supplies, thus attempting to prevent Soviet corruption.³³

Angry the State Department had approved aid to Poland despite his warnings the Soviet government would usurp this aid, Ambassador Lane began conducting his own private diplomacy to promote democratic reform contrary to State Department orders. Lane suggested in a November meeting with Dr. Ludwig Rajchman, head of the Polish delegation to the United Nations Relief and Rehabilitation Commission (UNRRA), that the US would consider more substantial aid in exchange for freedom of the press in Poland and an end to the Lublin government’s harassment of opposition parties.³⁴ Lane told Rajchman the US government was contemplating an Ex-Im Bank loan, which the State Department had never considered in reality, in exchange for such political concessions.³⁵ In a telegram to Lane, Secretary Byrnes made it clear that the State Department was not prepared to offer an Ex-Im Bank loan nor to tie political

³⁰ Hill, Gladwin. "Poles Look West While Soviet Acts." *New York Times* 5 11 1945, 5.

³¹ Brant, Irving. 15 October 1945 Letter to President Truman, *Presidential Papers, Official File, 1945-53*. Harry S. Truman Library. 1 December 2011.

³² Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 33-34.

³³ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 428-430.

³⁴ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 409-411.

³⁵ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 33-34.

concessions to aid at that time. The first sentence of Byrnes' message reads, "Dept at present inclined to view that in general, economic rather than political questions should be tied to Ex-Im Bank credit negotiations with foreign Govts."³⁶ As a result of the State Department's divided front, the Polish government failed to understand what the US government expected and to what degree Lane's remarks were the official policy of the US government.

Arthur Bliss Lane's misrepresentation confused the Poles in 1945 because it, as well as the general debate over aid to Poland's Communist government, created the impression that Poland's government and economy were a foremost concern of the State Department. The fact that Truman approved credits to Poland in December 1945 does not reflect his administration's approval of Poland's Communist government. Rather, it shows how the reconstruction of Western Europe was such a high priority for the State Department in the fall of 1945 that Truman ordered the extension of credits to develop the Polish coal industry despite the benefit the Soviet Union could derive from this aid. When the European recovery did not move as swiftly as the US government had hoped by the end of 1945 and beginning of 1946,³⁷ it became clear to the State Department that specific terms were needed that would allow the Ex-Im Bank to make a larger loan to Poland without supporting the repressive politics of the Lublin Government.

The entrance of the Ex-Im Bank into the Polish loan negotiation signified the US government's serious intentions of granting more substantial aid to Poland. By bringing the Polish case to the Ex-Im Bank, the State Department was no longer just considering credits or surplus military equipment but US dollars that could have a major impact on the Polish coal

³⁶ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), pp. 411-412.

³⁷ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 29.

industry. In a meeting on January 12, 1946, Burke Elbrick from the Eastern European Division at the State Department told Janusz Zoltowski, the vice-chairman of the Polish Reconstruction and Supply Commission, the US government could not make a large loan until the Polish government committed to comply with US economic principles. Elbrick mentioned free Polish elections specifically as a condition Poland must commit to fulfill.³⁸ Similarly, the State Department issued Rajchman, the head of the Polish delegation to the UNRRA in Washington, a memorandum outlining further conditions Poland must meet including the elimination of barriers to trade and the release to the US of all bilateral trade agreements in place with other countries.³⁹ By setting stipulations on an Ex-Im Bank loan, the State Department intended both to relieve the Polish people of their Communist government's repressive practices and to ensure efficient expenditure of American aid.

³⁸ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: *1946, Eastern Europe, the Soviet Union*. Volume VI (Washington, D.C.: U.S. Government Printing Office. 1946) pp. 376-377.

³⁹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 38-39.

Chapter 2: The Export-Import Bank Considers the Polish Loan

In their history of the Export-Import Bank, William Becker and William McClenahan explain that as the war in Europe ended, American officials realized the World Bank was not yet ready to make loans to the European powers and turned instead to the Export-Import Bank (Ex-Im Bank), an institution Franklin Roosevelt established in 1934 to support American exports abroad.⁴⁰ While the lend-lease program had provided American allies with military and industrial supplies during the war, Congress had only authorized lend-lease aid until the end of World War II. With Japan having surrendered earlier than military officials expected, Secretary of State James Byrnes encouraged Truman to use the Ex-Im Bank for postwar funding, arguing it was the only government institution with experience in making large loans abroad. On June 4, Truman announced plans to use the Ex-Im Bank to provide postwar assistance and asked Congress to expand the Bank's budget from \$700 million to \$3.5 billion. He also asked for the repeal of the Johnson Act of 1934, a law banning loans to countries that had defaulted on previous loans. On July 31, 1945, Truman signed both The Export-Import Bank Act of 1945, redefining the Ex-Im Bank as a postwar aid fund,⁴¹ and the Bretton Woods Agreement Act, an act through which Truman endorsed the World Bank and the International Monetary Fund on behalf of the United States. Thus, in one day, President Truman gave authority to three postwar aid institutions, ushering in a new era of American foreign policy.⁴²

From the beginning of the Bank's new role as a direct source of foreign aid, tensions arose between the Ex-Im Bank's political obligations to US foreign policy and function as a

⁴⁰ Becker, William, and William McClenahan. *The Market, the State, and the Export-Import Bank of the United States, 1934-2000*. 1st ed. New York: Cambridge University Press, 2003. 59.

⁴¹ United States. Senate and House of Representatives. *Export-Import Bank Act of 1945*. Washington, DC: 1945.

⁴² Becker, William, and William McClenahan. *The Market, the State, and the Export-Import Bank of the United States, 1934-2000*. 1st ed. New York: Cambridge University Press, 2003. 60-63.

business seeking to maximize profits. An October 1945 *Wall Street Journal* article reported many countries applied for the bank's 2³/₈%, 30-year loan. The article also provided insight into the Ex-Im Bank board's opinion on running a business with explicit political aims, explaining board members felt they ran an orthodox banking business and sought to make a profit, but they also noticed how government policies compromised their ability to do so: "They readily agree that the 2³/₈% interest rate on the 30-year 3-(C) loan is low. But they suggest that this is a special advance designed to tide Allied government over in critical periods and enable them to get quick delivery of badly needed goods."⁴³ This explanation suggests a subtle tension between the motive to turn a profit and the responsibility to conduct US foreign policy as dictated by the State Department.

This tension manifested in July 1946 when William McChesney Martin Jr., Chairman of the Ex-Im Bank, butted heads with State Department officials over the State Department's interference in Ex-Im Bank business. Three months earlier, at its April meeting, the Ex-Im Bank agreed to offer Poland \$50 million in credits and to renew its debt on a loan outstanding since 1938. Chairman Martin himself led the support for additional aid to Poland, speaking about Poland as a promising investment for the Ex-Im Bank. Emilio Collado, the State Department Deputy on Financial Affairs to the Assistant Secretary for Economic Affairs and representative of the State Department at the April 1946 meeting, supported Martin as well, arguing government negotiations with the Polish since the Potsdam Conference indicated the Poles were ready to make a strong political and economic commitment to the West.⁴⁴

⁴³ Becker, Peter. "Lend-Lease Lingers: Export-Import Bank Helps Revive Industry of Big, Little Allies." *Wall Street Journal* [New York] 10 25 1945, 1.

⁴⁴ Regular Meeting of the Board of Directors Export-Import Bank of Washington, Minutes of the Board of Directors 1934-1984, April 24, 1946, p.215 Record Group 275.2; National Archives at College Park. 3 November 2011.

While the State Department was largely supportive of the Ex-Im Bank loan, Arthur Bliss Lane, the US Ambassador to Poland, remained a hold out, insisting the Ex-Im Bank credit would only support the Communist Polish government and the Soviet Union. In his memoirs about his time in Warsaw, Lane remembers the deal, writing, "...because of the important international implications I felt that we were making a grave error. I therefore let the Department know, under date of March 14, that I regretted this step, for the Polish government would undoubtedly use the credit to bolster itself politically."⁴⁵ Lane explained his concern that the Communist Polish government would publicize the American loan as the United States' official approval of its policies. Even worse, Lane feared lending money to Poland would surrender any influence the US had to encourage the Poles to institute democratic reform. Despite Lane's warnings, Secretary of State James Byrnes decided to support the Ex-Im Bank loan as well as a \$50 million surplus credit from the Truman administration, bringing Polish aid to a total of \$90 million. On April 24, Polish and American officials signed the loan and credit agreement.⁴⁶ The next day the *New York Times* reported the State Department had granted a \$40 million credit to Poland on the promise of free elections in Poland, but noted the agreement itself made no mention of free elections.⁴⁷ The absence of an official statement about free elections lends authority to Lane's argument that the Poles had ample opportunity to renege on the agreement.

Lane interpreted the decision to fund Poland as a symbol of the State Department's lack of confidence in his abilities as a diplomat. In a letter to Secretary Byrnes the next day, Lane showed how he felt personally offended, writing, "Dept's decision to extend credits to Polish Provisional Govt is most discouraging to me for it indicates either that the Department has little

⁴⁵ Lane, Arthur Bliss. *I Saw Poland Betrayed: An American Ambassador Reports to the American People*. 1st ed. New York: The Bobbs Merrill Company, 1948. 234.

⁴⁶ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 44.

⁴⁷ Leviero, Anthony. "U.S. Grants Credits to Poland on Promise of Free Election." *New York Times* 25 04 1946, 1.

confidence in my evaluation Poland during my nine months here...”⁴⁸ Lane’s wounded pride shows not only the conviction behind the motivations that guided these men, but also the lack of a uniform approach to the Polish loan within the State Department. These diverse and sometimes opposing opinions delayed official decisions and confused Polish negotiators trying to determine their chance of receiving an American loan.

Poland Reneges

Yet, Lane was right. Communist Polish officials framed the American loan as evidence of the legitimacy of the government. Several Polish newspapers described the loan as US approval of the Lublin government. Furthermore, the Polish government did not fulfill its obligations under the loan treaty, failing to publish a draft of its terms for the Polish public and to submit its foreign trade agreements to the US. Outraged over this breach, Lane flew to Paris and convinced Byrnes to suspend the Ex-Im Bank loan and stop shipments of war surplus equipment.⁴⁹

At an Ex-Im Bank board meeting on July 7, 1946, Ex-Im Bank Chairman William Martin showed his resentment toward the State Department for interfering in a loan the Ex-Im Bank had a sound economic basis for supporting. Martin declared at the meeting that the State Department’s interference in the Bank’s decision was an annoyance and complained the sudden cancellation of the loan made the Bank look unprofessional and divided. According to Martin, State Department officials simply phoned members of the Ex-Im Bank board, telling them to delay loaning money to Poland. “(Martin) pointed out that there was nothing in writing to cover

⁴⁸ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1946, *Eastern Europe, the Soviet Union*. Volume VI (Washington, D.C.: U.S. Government Printing Office. 1946) p. 436.

⁴⁹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 53.

this situation officially and felt that it placed the Bank in a bad position, because, having once approved a commitment and being later over-ruled by the State Department, there was nothing official in the record to show this action.”⁵⁰ It is important to notice that Martin understood the State Department had the right to overrule the Ex-Im Bank, an official branch of the US government and channel through which to execute foreign policy. The conflict between Martin and the State Department was due to the State Department’s political reasons for shutting down the negotiation as well as the way State Department officials haphazardly phoned Ex-Im Bank board members to order the delay. With no official record of this development in negotiations, Martin was concerned the Ex-Im Bank appeared disorganized and unprofessional. For many reasons, Martin wanted the Ex-Im Bank to be consistent in its decisions and steadfast in its pursuit of sound investments. In this case, Martin’s obligations to the Bank clashed with the State Department’s decision not to tolerate Polish misrepresentation of American aid.

Tension between Ex-Im Bank and State Department officials arose again when Herbert Gaston, Vice-Chairman of the Ex-Im Bank, revealed the State Department publicly blamed the Ex-Im Bank for the delay of the loan, claiming it was the Ex-Im Bank that held up the loan over doubts about Poland’s ability to repay. Although minutes of the Ex-Im Bank meetings do not include direct quotations of the officials speaking, the summary suggests a latent antagonism between Martin and George Luthringer, the State Department Chief of Financial Affairs.⁵¹ The record states, “Mr. Luthringer said that this was an unfortunate statement by the Press Relations Division (the State Department’s blame of the Ex-Im Bank). The Chairman (Martin) stated that matters of this kind should get on the agenda and that it was advisable for the State Department

⁵⁰ Regular Meeting of the Board of Directors Export-Import Bank of Washington, Minutes of the Board of Directors 1934-1984, 7 July 1946, p. 322 Record Group 275.2; National Archives at College Park. 3 November 2011.

⁵¹ Inaugural Meeting of Boards of Governors, IMF and IBRD, March 1946, Wilmington Island, GA; Fraser Economic Library and Archives, St. Louis Federal Reserve Bank. 12 April 2012. fraser.stlouisfed.org/docs/historical/martin/17_06_19460305.pdf.

to get them on.”⁵² The understated language works to hide the clash of authority between Martin and Luthringer. Martin understood the State Department had the authority to dictate policy, but told State Department officials to adhere to Ex-Im Bank protocol of including policies on the agenda. The friction between Martin and Luthringer reminds one how foreign policymaking has changed and that the Polish loan is one of the Ex-Im Bank’s first cases as an institutional lender.

The Ex-Im Bank negotiation is important for the way it introduced an element of capitalist investment into a negotiation that, up to this point, was based purely on political motivations. Even though the Ex-Im Bank is a branch of the US government and therefore subordinate to greater authorities within the government, its reorganization as a source of credit under The Export-Import Bank Act of 1945 meant it operated like a perfectly competitive firm concerned with earning profits. Ex-Im Bank Chairman William Martin identified Poland as a potentially lucrative investment that, because of its coal resources and the high demand for coal in Western Europe, would be able to repay its debt with interest. The State Department’s decision to end negotiations twice over Poland’s failure to comply with the political terms of the deal before finally giving aid in October 1946 shows the clash between political and economic motivations in the Ex-Im Bank negotiations.⁵³

⁵² Regular Meeting of the Board of Directors Export-Import Bank of Washington, Minutes of the Board of Directors 1934-1984, 7 July 1946, p.322 Record Group 275.2; National Archives at College Park. 3 November 2011. I added the words in parentheses for reference.

⁵³ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 59.

Chapter 3: Polish Nationalization of Property & Balance of Payments

One of the major dilemmas facing the diplomats was Poland's nationalization of foreign-owned property in Poland after the war. On January 6, 1946, the Polish government passed a law calling for the nationalization of businesses with more than fifty employees. As months passed, the Polish government had not repaid American citizens for their property. Opponents of aid argued Poland's hesitation to compensate Americans indicated the power of the Communist government and Poland's unreliability as an investment and a trading partner. Those in favor of aid claimed Poland needed American machinery and facilities to produce goods for export in order to restore Poland's balance of payments, the difference in value between payments in and out of a country.⁵⁴ Supporters argued that without a means to generate revenue, Poland stood little chance of compensating Americans for the seized property. Even though the nationalization of property contradicted the free market values the US hoped to instill in Poland, the Truman administration decided not to oppose the nationalization as long as Poland compensated Americans for the seized property eventually.⁵⁵ Irving Brant, Truman's personal adviser on Polish policy, confirmed nationalization was the plan of the non-Communist Polish leaders and not simply repackaged Soviet policy.⁵⁶ Given Truman's optimism about aid to Poland at this time, it is likely Truman wanted to give the Poles a chance to repay Americans. In this way, Poland's treatment of its promises surrounding nationalization was a kind of test of its reliability as a business partner.

⁵⁴ "balance, n.1". OED Online. December 2011. Oxford University Press. 23 February 2012
<<http://www.oed.com/view/Entry/14789?redirectedFrom=balance%20of%20payments>>.

⁵⁵ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 16-17.

⁵⁶ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 18.

By the end of 1946, Poland still had not repaid Americans. Instead, Polish officials argued Poland needed first to generate more US dollars by exporting goods before it could repay the US. Polish Ambassador Oscar Lange wrote to Undersecretary of State Dean Acheson, “In order to achieve the objectives sought in the note of January 17, 1946⁵⁷ ... the dollar reserves of Poland must first be substantially increased through the development of exports which in turn is contingent on the expansion of the country’s production.”⁵⁸ Critics of the Polish loan interpreted Lange’s explanation as the Polish government trying to justify its theft of American property while appealing for more dollars from the US government.

The debate over the Polish nationalization of property is useful to historians today because historical economic data provides quantitative support for Lange’s argument that Poland’s shortage of dollars prevented it from repaying the US. Economic historians agree World War II drastically weakened the balance of payments position of Eastern and Western Europe. European states had sold foreign assets to fund their armies so less income came into Europe from abroad. By 1947 the European states had depleted their dollar and gold reserves and had resorted to importing food because of a poor harvest and harsh winter. While exports brought additional income, their creation depended on the importation of materials Europeans could not afford without dollars. With no outlook of future growth, this imbalance would not correct itself without intervention.⁵⁹ Data for Poland from this period show results similar to the rest of Europe. The International Monetary Fund (IMF) Balance of Payments Yearbook for Poland in 1946 shows a net credit of USD -20.4 million for total current transactions and

⁵⁷ Ambassador Lane delivered the note of 17 January 1946 to the Polish government explaining that the US wished to be compensated for seized property in the shortest amount of time possible.

⁵⁸ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1946, *Eastern Europe, the Soviet Union*. Volume VI (Washington, D.C.: U.S. Government Printing Office. 1946) p. 438.

⁵⁹ Eichengreen, Barry. *The European Economy Since 1945*. 1st ed. Princeton, NJ: Princeton University Press, 2007. 61-62.

USD -35.4 million for total movement of capital and monetary gold. Although there is little data beyond these figures, the point is clear that massive amounts of capital were leaving Poland at this time.⁶⁰

While these data do not prove Poland could not repay the US, they provide support for Polish Ambassador Lange's argument that Poland needed to increase its production capacity to generate dollars with which to compensate Americans. Proper interpretation of the IMF Yearbook shows Poland could do little to meet American Ambassador Lane's demands that Poland compensate Americans in exchange for an Ex-Im Bank loan. A claims settlement document dated September 13, 1948 shows despite US efforts to resolve the Polish current accounts deficit, Poland had not compensated American property owners by the fall of 1948. The settlement specifically states that US efforts to assist Poland in the repayment included the return of Polish gold, the unfreezing of Polish assets, and the granting of government loans asking for no return or cooperation. Poland's failure to compensate Americans despite these efforts leads the report to conclude, "The representatives of the Polish government have shown no willingness to cooperate in the settlement of United States claims and it is apparent that as long as our Government representatives give Poland everything she requires without any return that she will not settle the claims of United States citizens."⁶¹ The settlement document does not specify what measures the US took to resolve the Polish current accounts deficit nor did the IMF publish balance of payments data for Poland in 1948 or 1949, but it is unlikely Poland resolved its current accounts deficit in just two years. Analysis of balance of payments data shows there is a strong argument that American opponents of aid overestimated Poland's ability to compensate

⁶⁰ International Monetary Fund, *Balance of Payments Yearbook: 1938, 1946, 1947*, Washington, DC, 1949

⁶¹ *Settlement of Claims of United States Citizens Against Poland. 14 September 1948*, Record Group 299, Records of the Foreign Claims Settlement Commission of the United States, State Department Correspondence Relating to the Polish Program 1922-1960 (Entry 21A), National Archives at College Park. 3 November 2011.

Americans for seized property. In doing so, they unfairly blamed Poland for failing to do the impossible.

Chapter 4: Deterioration of Polish-American Relations

In addition to Poland's failure to compensate Americans for seized property by the end of 1946, several more developments in the Polish-American relationship occurred that hurt Poland's chances of receiving further aid from the US government. It is important first to understand that the US pursued Polish aid in 1945 and 1946 because Western Europe badly needed coal for its reconstruction. Having finally passed an aid agreement in October 1946, State Department negotiators were unwilling to consider further aid to Poland without an agreement on compensation for American property the Polish government nationalized after the war. A letter from Undersecretary of State Dean Acheson sent to Gerald Keith, the charge d'affaires in Warsaw, explained the Ex-Im Bank would not consider a loan for the Polish textile industry⁶² nor would the State Department unfreeze \$27.5 million in Polish gold held in American banks until the Poles agreed to compensate Americans for property seized under the nationalization law.⁶³ When Polish Minister of Industry Hilary Minc met with Acheson in December 1946 the two sides reached a stalemate regarding future cotton and coal loans, but the US agreed to unfreeze the \$27.5 million in Polish gold as part of a tentative compensation agreement for nationalized property.⁶⁴ Even though the compensation agreement represented progress in relations between the two governments, the inflow to the Polish government actually undermined Poland's chances of receiving further aid from the US.⁶⁵

The final straw for the Truman administration was the blatantly corrupt Polish election in January 1947. According to the Polish government, the official government parties won 80% of

⁶² The Polish government requested a loan for the textile industry late in 1946.

⁶³ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1946, *Eastern Europe, the Soviet Union*. Volume VI (Washington, D.C.: U.S. Government Printing Office. 1946) pp. 519-520.

⁶⁴ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1946, *Eastern Europe, the Soviet Union*. Volume VI (Washington, D.C.: U.S. Government Printing Office. 1946) pp. 540-541.

⁶⁵ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 74.

the vote and the Polish Peasant Party, the most popular opposition party, won less than 11%.⁶⁶ President Truman was so upset by the fraudulent elections that he reprimanded Polish Ambassador Józef Winiewicz himself.⁶⁷ Recognizing the damage the elections had caused to their relationship with the US government, the Poles moved to finalize a loan agreement. Still exasperated over Poland's refusal to adhere to the terms of the Ex-Im Bank loan the previous October, the elections only confirmed for American policymakers that rejecting the Polish loan was the proper course of action. Although the Poles continued to inquire about a government loan into the spring of 1947, the State Department ceased negotiation of future loans to Poland after the January 1947 election.⁶⁸

Military and congressional records from this time period show the Joint Chiefs of Staff and House of Representatives concurred with the State Department policy of refusing aid. In April 1947, the Joint Chiefs came out against offering any aid to Communist countries. In an official ranking of countries in need of relief, they specifically stipulated "no aid of any sort to Hungary, or to Czechoslovakia and Poland."⁶⁹ Unlike the State Department though, which was hesitant to aid Poland out of fear of empowering the Soviet Union, the Joint Chiefs claimed to exclude Hungary, Czechoslovakia, and Poland because of their strategic and geographical insignificance to the United States relative to other recovering European nations. This report points out that the relatively low level of trade between Poland and the US as well as Poland's affiliation with the Soviet Union hurt Poland's chances of receiving aid.

⁶⁶ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 5.

⁶⁷ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 79.

⁶⁸ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 80.

⁶⁹ U.S. Department of State, Foreign Relations of the United States, 1947. *General; The United Nations* Volume Volume I (Washington, D.C.: U.S. Government Printing Office. 1947) p. 749.

That same month, the House of Representatives also moved to ban aid by eliminating Poland and other countries with Communist governments from a relief bill. This ban was part of a larger debate over the Colmer Amendment, a bill signed by President Roosevelt intended to legalize discriminatory employment practices targeting Communists in the United States. Surprisingly, Arthur Bliss Lane spoke out against the amendment, arguing it failed to distinguish between the Communist government the Soviets were imposing on the Poles and the Polish people themselves. While Lane did not offer suggestions about how to deliver aid to the Polish people and not their government, he argued in favor of aid as long as the Polish government followed State Department terms. The House revised the bill to list Poland and Hungary as possible recipients of aid before passing it into law.⁷⁰

Poland's chances of receiving a loan were finally destroyed when an American fact-finding team determined Poland was capable of meeting its own minimum food requirements. Colonel R.L. Harrison of the Department of Agriculture led his team through Poland on a four-day tour in July 1947. Despite attempts by high-ranking Polish officials to convince him of a Polish grain shortage, Harrison reported back to Washington that Poland could supply its own grain, leading the Truman administration to decide against sending aid. Angry and disappointed by this decision, the Polish charged that Harrison and his team spent one weekend collecting data and the rest of their time at a resort.⁷¹

There is evidence Harrison's methodology was not as systematic as one might expect. In his autobiography, *Lying in State*, Stanton Griffis, the US Ambassador to Poland who succeeded Arthur Bliss Lane, recounts asking how his team reached its conclusion. Harrison explained, "...

⁷⁰ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 102.

⁷¹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 101-103.

he simply went to four parts of Poland and looked at the ‘behinds’ of the citizenry, male and female. [He reported] confidentially they are uniformly large.”⁷² In his own book, Czeslaw Bobrowski, a Polish economist and director of the Central Planning Office, writes about trying to show Harrison’s team the most devastated parts of Poland. Bobrowski writes, “... the trip was difficult from the standpoint of the high consumption of alcohol along the way. On the other hand, discussion was minimal because our companion dozed most of the time.”⁷³ It is unclear whether the Truman administration knew of Harrison’s shoddy research at the time, but it did have conflicting accounts of the condition of the Polish public, including former Ambassador Arthur Bliss Lane’s reports of hunger and poverty.

A New American Foreign Policy

While one can attribute the US government’s decision to deny further aid to Poland after the October 1946 Ex-Im Bank loan to specific events that strained Polish-American relations, the decision against future aid was also a microcosm of a larger foreign policy shift against Communist states. There is a consensus among historians that George Kennan’s February 1946 “long memo,” which argued the US should develop a united Western European sphere of influence to oppose the Soviet Union’s Eastern European sphere, is the origin of this policy shift.⁷⁴ Kennan asserted Soviet foreign policy was a product of the Communist ideology that lay deep within the Soviet system. Rather than struggle to change the nature of the Soviet Union, the US should unify Western Europe against a Communist Eastern Europe.⁷⁵ Another manifestation

⁷² Griffis, Stanton. *Lying in State*. 1st ed. 1. Garden City, NY: Doubleday & Company, Inc., 1952. 202.

⁷³ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 102.

⁷⁴ Kennan, George. "Ideological Foundations of the Cold War." *Study Collections*. Harry S. Truman Library and Museum, n.d. Web. 8 April 2012.

⁷⁵ Kissinger, Henry. "Reflections on Containment." *Foreign Affairs*. 73.3 (1994): 113-114.

of this shift is a memo Secretary of State James Byrnes wrote reprioritizing State Department aid along the lines of Kennan's advice. Byrnes told William Clayton, an Assistant Secretary functioning as Acting Secretary during Byrnes' absence, that Turkey and Greece should be the State Department's top aid priorities because of their cooperation with the US and its allies.⁷⁶ It is important to consider Polish-American relations within the context of the larger US policy agenda to understand how the State Department's evolving Cold War strategy influenced thinking about the Polish loan.

Having violated the terms of its aid agreement several times that spring and summer, the change in foreign policy inspired by Kennan's memo only compounded the deterioration of Polish-American relations. Poland had proven itself unwilling to comply with US political ideology and foreign policy several times by the fall of 1946. When Secretary Byrnes wrote Clayton from Paris on September 24 to inform him of the decision to aid Greece and Turkey, it is not surprising he excluded Poland from his list of allies. With the Joint Chiefs of Staff and Congress disapproving of further aid to Poland, the Poles decided to follow the advice of William Clayton, the Assistant Secretary of State for Economic Affairs, and seek funds from the World Bank, a lending institution officially separate from the US government.

⁷⁶ U.S. Department of State, Foreign Relations of the United States, 1946. *The Near East and Africa* pp. 223-224.

Chapter 5: Poland and the World Bank

A founding member of the World Bank, Poland was optimistic about its chances of receiving aid from the International Bank for Reconstruction and Development (IBRD), the division of the World Bank responsible for financing European reconstruction and the only part of the World Bank open in 1947.⁷⁷ It was because the World Bank's charter expressly prohibited the politics of member nations from influencing a loan decision that the Poles believed their Communist government would not hinder their chances of receiving aid.⁷⁸ Despite the strong case Poland made for itself, the State Department ultimately persuaded World Bank officials to end negotiations, citing the Polish Communist government as a reason not to loan.⁷⁹ While the Ex-Im Bank Board had expressed irritation at the State Department's influence in the extension of credit to Poland for the disorganized light in which it cast the Bank, as part of the US government, Ex-Im Bank leaders were obligated to execute State Department policy. The State Department's influence in the World Bank's decision is more contentious because of the World Bank's status as an independent organization separate from the US government.

It is naïve to argue that because the World Bank charter forbade the politics of member nations from influencing financing decisions, it was a travesty of justice that the State Department brought about the end of the Polish loan negotiation within the World Bank. As Edward Mason and Robert Asher point out in their history of the World Bank, *The World Bank Since Bretton Woods*, the structure of the World Bank as agreed upon at the Bretton Woods Conference in July 1944 established the US as the largest subscriber of capital and therefore the

⁷⁷ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 116.

⁷⁸ "IBRD Articles of Agreement: Article 1." *The World Bank*. The World Bank, 16 February 1989. 4 April 2012.

⁷⁹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 123.

largest voting power of the member nations.⁸⁰ The Bank's location in the US further solidified American dominance in the institution to the point at which Richard Gardner, a professor of Law and International Organization at Columbia Law School, remarked on the synonymous nature of World Bank and US policy: "The political and economic circumstances of the transition period made it virtually inevitable that the American viewpoint should finally prevail."⁸¹ One should read the government's influence on the World Bank's decision in light of the memories of World Bank executives that the Polish loan was a unique case in which the government veto was necessary to settle a clash between political and economic motivations.

The World Bank Does Its Due Diligence

Aware of the dwindling support for aid in Washington, Poland requested \$600 million from the World Bank in the fall of 1946. The World Bank, which had had not yet even offered its first loan, was unable to extend that much credit. Recognizing the importance of the reconstruction of the Polish coal industry, Bank officials suggested Poland reapply for \$125 million.⁸² When Polish leaders submitted a second memorandum for \$128.5 million in the spring of 1947, Bank leaders hesitated again, concerned Soviet hostility toward the Bank would cause Poland to default on its loan.⁸³ In an interview with California Institute of Technology economist Robert Oliver, Robert L. Garner, Vice-President of the World Bank from 1947 to 1956, explains

⁸⁰ Mason, Edward, and Robert Asher. *The World Bank Since Bretton Woods*. 1st ed. 1. Washington, DC: The Brookings Institution, 1973. 31.

⁸¹ Gardner, Richard, *Sterling-Dollar Diplomacy: The Origins and the Prospects of Our International Economic Order* (McGraw-Hill, 1969), 267 Mason and Asher also cite this quotation to illustrate the wide recognition of US influence at the time of the founding of the Bank.

⁸² Mason, Edward, and Robert Asher. *The World Bank Since Bretton Woods*. 1st ed. 1. Washington, DC: The Brookings Institution, 1973. 170.

⁸³ Mason, Edward, and Robert Asher. *The World Bank Since Bretton Woods*. 1st ed. 1. Washington, DC: The Brookings Institution, 1973. 170.

While the Soviet Union participated in the July 1944 conference in Bretton Woods, New Hampshire that created the IMF and the World Bank, the Soviet Union elected not to become a member of either institution.

how the Bank began negotiations by seeking the opinion of the American and European political and financial elite who agreed a loan to Poland could supply Western Europe with the coal it so desperately needed. Garner mentions that Herbert Hoover, then working directly for President Truman assessing the postwar damage in Germany,⁸⁴ endorsed the loan as a productive investment despite his connections to the conservative coalition opposed to Polish aid. Having determined the loan was favorable among prominent Americans and Europeans, the Bank proceeded to tie any foreign aid to the sale of specific amounts of coal to Western Europe.⁸⁵

To ensure funds would be well spent, a World Bank fact-finding team flew to Poland in the summer of 1947 to determine how the Polish coal industry could benefit from a loan. World Bank President John McCloy himself visited Warsaw at the end of the summer and left impressed by the coal industry's potential and ready to extend a loan on behalf of the World Bank.⁸⁶ Upon his return to Washington, McCloy met with Polish Ambassador to the United States Josef Winiewicz to say he found Poland well governed and making a swift postwar recovery. He went on to call the Polish request for funds the "the best substantiated and justified" of the many requests received by the Bank, although he later admitted this was overstating Poland's chances of receiving a loan.⁸⁷

Despite McCloy's optimism and the approval of members of the financial and political elite whose opinion the World Bank sought, there were prominent figures outside the World Bank who opposed a loan to Poland for the repercussions it could have on the Bank's credibility. In a letter from the World Bank archives in Washington, DC, Russell C. Leffingwell, a

⁸⁴ Beschloss, Michael. *The Conquerors: Roosevelt, Truman, and the Destruction of Hitler's Germany, 1941-1945*. 1st ed. 1. New York: Simon & Schuster, 2002. 277.

⁸⁵ Columbia University, World Bank Project; Interview with Robert Garner, 100. 1961.

⁸⁶ Bird, Kai. *The Chairman: John J. McCloy and the Making of the American Establishment*. 1st ed. New York: Simon & Schuster, 1992. 295-296.

⁸⁷ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 121.

prominent New York lawyer and financier with J.P. Morgan and Company⁸⁸, offered McCloy advice to several questions he posed to the audience at a dinner, one of which was the proper course of action for the World Bank to take with Poland. Leffingwell advised that while there were many Poles who wished to be free of Russian control, the World Bank should reject Poland's application because the Bank could not responsibly conduct business in Poland under Communist rule. Leffingwell laid out the advantages and disadvantages of the deal, acknowledging the benefit of uplifting the Poles who resented Russian rule but emphasizing the drop of the World Bank's bond price that would happen when it became public knowledge the Bank was funding a Communist government.⁸⁹ His explication of the issue suggests that the risk to the World Bank of loaning to a volatile Communist government could outweigh the benefit of supporting the Poles and Western Europeans.

Another important influence on McCloy's decision, so far ignored by historians, was none other than Winston Churchill, who also attempted to dissuade McCloy from loaning to Poland. Thomas Alan Schwartz cites McCloy's personal diary, which is now lost, discussing a meeting between McCloy and Churchill in London in the fall of 1947 in which McCloy argued a loan to Poland would prevent its complete subjugation to the Soviet Union. When Churchill encouraged McCloy to look to Germany as the great European economic power, McCloy countered by describing the fear and suspicion Eastern Europeans felt toward Germany. According to Schwartz's interpretation of the diary, this argument carried no weight with the Prime Minister.⁹⁰

⁸⁸ Kaplan, Diane. *Guide to the Russell Cornell Leffingwell Papers*. Yale University Library, Manuscripts and Archives, New Haven, CT: 1980. 4-5.

⁸⁹ Leffingwell, R.C. John. Letter to John McCloy, 29 May 1947. World Bank Archive. World Bank, Washington, DC

⁹⁰ Schwartz, Thomas Alan. "From Occupation to Alliance: John J. McCloy and the Allied High Commission in the Federal Republic of Germany, 1949-1952." Diss. Harvard University, 1985. *Proquest Digital Dissertations*. 3

The State Department Steps In

From this point onward there are conflicting accounts of the Polish negotiation in World Bank histories and interviews with World Bank executives that place the blame with both the Polish and American governments. According to Eugene Black, President of the World Bank from 1949 to 1963, Poland probably would have received funding for its coal industry, but the Truman administration interpreted Poland's refusal to participate in the Marshall Plan as a sign of the country's discord with Western capitalism and trade.⁹¹ Black explains how the US government influenced the World Bank decision, saying, "And so I got instructions, as the American Director, that if that loan came up to the Board to vote against it. It never got to the Board because I conveyed this information to the President of the Bank, who was Mr. McCloy, and the loan was never put up to the Board."⁹² Black's intentional use of the passive voice and omission of names of specific State Department officials might be interpreted to reflect the illicit nature of government influence in the World Bank's decision.

Sheldon Anderson complicates this explanation of the failure of the World Bank loan by arguing it was widely understood in the summer and fall of 1947 that the Polish people wanted to participate in the Marshall Plan even though the Polish government declined officially on July 9. Anderson quotes several Polish newspapers that praised the Marshall Plan and Polish Ambassador Winiewicz, who referred to the plan as a "harbinger of new international cooperation."⁹³ Despite these subtle signals from Poland, under the new foreign policy agenda of

February 2012. Schwartz's source for this meeting is the McCloy diary, however, the Amherst College Library, which received McCloy's personal papers after his death, is missing the diary entries from 1946 to 1949. I contacted both Dr. Schwartz and John McCloy's son, John McCloy II. Neither knows the location of the diary.

⁹¹ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 110-111.

⁹² Columbia University, World Bank Project; Interview with Eugene Black, 62. 1961.

⁹³ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 110.

cutting aid to nations with questionable allegiance to the US, the government continued to reject future aid to Poland and persuaded the World Bank to do so as well. This version of the World Bank's internal decision process is the most common, appearing not only in Sheldon Anderson's text, but also in the Brookings Institute history of the World Bank and the interviews of several World Bank officials.

Robert L. Garner, Vice-President of the World Bank from 1947 to 1956, disagrees with Black's argument that Poland's failure to participate in the Marshall Plan ended World Bank negotiations. Instead, Garner claims Poland's refusal to tie the size of the loan to the amount of coal Poland would export ended negotiations. According to Garner, the Polish negotiation team objected to these terms and declared the loan a violation of Poland's sovereignty. Garner described the Bank's reaction saying, "We didn't think the Poles had any sovereignty, since they were under the control of Russia, so we insisted on these conditions. Finally the Poles broke off negotiations and resigned from the Bank."⁹⁴ Garner's account differs from Black's when Garner claims the Poles abandoned the loan before the US government opposed it over Poland's abstention from the Marshall Plan. When Oliver asks Garner what impact Poland's abstention from the Marshall Plan had on the World Bank's decision, Garner gives a vague answer blaming Russia for Poland's nonparticipation. Garner replied, "...well, my own guess was that the Russians, who had Poland under control, gave another evidence, that they didn't want to play ball with the West. And they didn't wish to accept any obligations or conditions—just that it wouldn't be consistent for one of the Russian satellites to be a member of the Bank when Russia wasn't a member."⁹⁵ This explanation excludes any reference to the US government's

⁹⁴ Columbia University, World Bank Project; Interview with Robert L. Garner, 100. 1961.

⁹⁵ Columbia University, World Bank Project; Interview with Robert L. Garner, 100. 1961.

dissatisfaction that Poland was not participating in the Marshall Plan, which Black claims was the reason the US persuaded the World Bank to end negotiations. By attributing the failed negotiations to Poland's refusal to accept export quotas and not the US government's disapproval of Poland's abstention from the Marshall Plan and Communist policies, Garner blames the failed World Bank deal entirely on Poland and Russia and not the United States.

The discrepancies between Black and Garner's accounts of the Polish loan are unusual in that each explanation blames a separate party for the failure of the negotiations. Since most other sources of World Bank history concur with Black's interview, it is possible Garner's account exaggerates Polish discontent with the terms of the loan or omits any mention of US interference to preserve the Bank's image and integrity as a sovereign entity. It is difficult to disprove Garner's claims sixty-five years after Poland first applied for the loan, but given that the World Bank charter explicitly prohibits the kind of influence the US government cast over the World Bank in this process, Garner would have been motivated to downplay the Bank's contact with the State Department and emphasize Poland's frustration over the process.

McCloy Answers to the State Department

When the State Department prepared to table the Polish decision in January 1948, McCloy pressed Undersecretary of State Robert Lovett for the government's approval. McCloy's desire to receive State Department approval shows that despite Poland's hope the World Bank decision would be divorced from State Department politics, the two were very much intertwined. McCloy argued the contract was designed to extract as much coal as possible from Poland and that to reject the application would be an embarrassment to the World Bank and the United States government given the Bank's charter prohibited bank decisions to be influenced by national politics. After attempting to persuade McCloy there was insufficient support for the loan

within the financial community, Lovett convinced McCloy the Polish coal industry was recovering without a loan and asked McCloy how he would feel about a member of the State Department on the National Advisory Council on International Monetary and Financial Problems (NAC) taking a stand against the loan.⁹⁶ McCloy agreed to this idea for the way it would shift responsibility for the failed loan from him and the World Bank to the US government.⁹⁷

This conversation between Lovett and McCloy marks a major shift in relations between the World Bank and the US government. While in the summer and fall of 1947, McCloy considered others' thoughts about the loan as advice, by January 1948, he was appealing to the State Department for permission to make the loan. This new relationship was significant not only for the way it crushed Poland's chances of receiving a loan, but also because it marked the first time the US government used its veto power to end a World Bank negotiation. In his interview with Robert Oliver, World Bank President Eugene Black acknowledges the Polish loan as the one deal in the World Bank's first fifteen years of operation in which the US government used its power of influence to terminate a negotiation.⁹⁸ The Polish loan takes on even more significance when one considers that, for reasons that are still unclear, the US government ended negotiations not by formally voting against the loan in a board meeting, but by persuading World Bank officials to end negotiations before a vote even reached the board. The State Department's strong influence in the Bank's decision and tactful maneuvering of Bank voting protocol demonstrates how the Polish loan redefined the World Bank's relationship with the State Department.

Similar to Martin and the Ex-Im Bank board, McCloy and the World Bank executives also approached the Polish loan from an economic perspective, considering the World Bank's

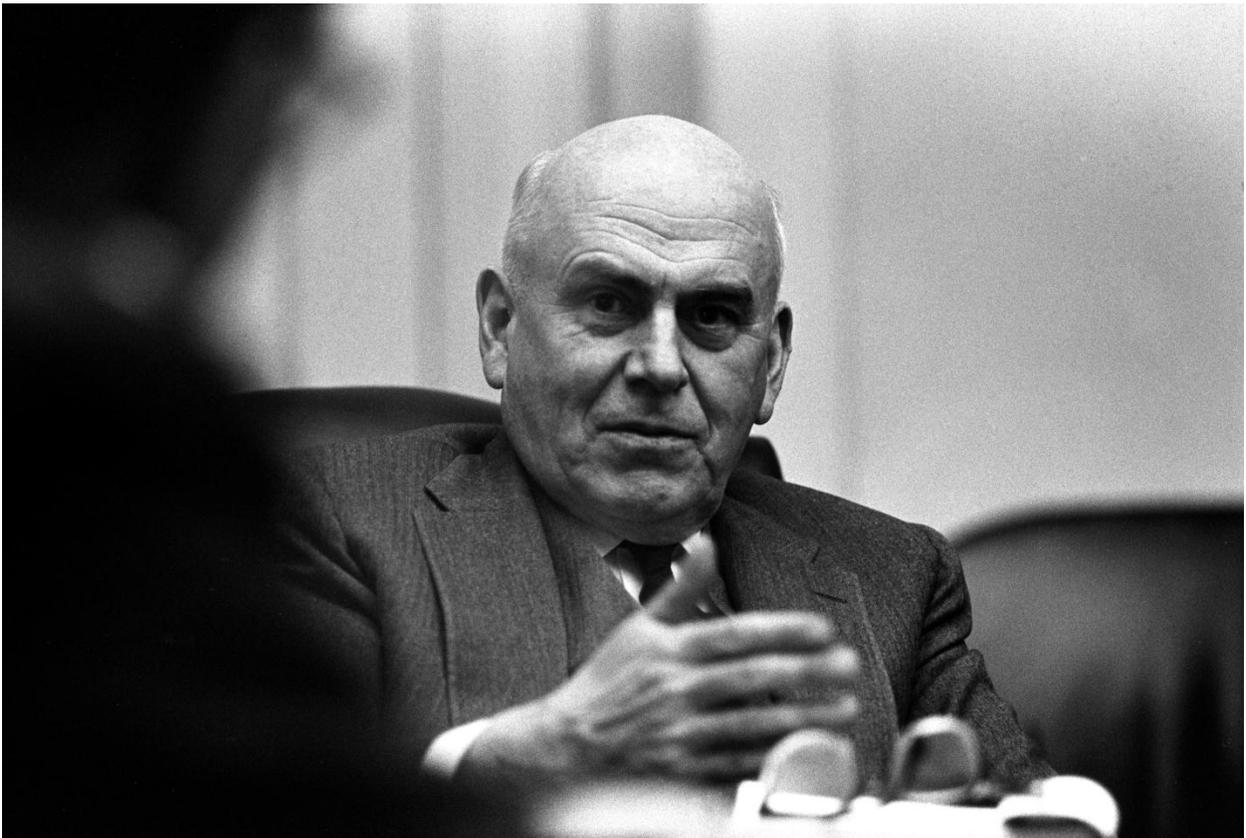
⁹⁶ The meeting minutes of the National Advisory Council on International Monetary and Financial Problems (NAC) were still classified as of October 2011.

⁹⁷ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 123.

⁹⁸ Columbia University, World Bank Project; Interview with Eugene Black, 62. 1961.

mission of both making sound investments and funding the rebuilding of nations. From this dual perspective Poland was an excellent candidate for World Bank funds, but as in the case of the Ex-Im Bank, political problems overcame any potential economic benefit of the deal. John McCloy's son, John McCloy II, recounted his father's thoughts on the loan in an e-mail to me, writing, "...I do recall that he was annoyed that 'outsiders' would influence the Bank's actions but since its sponsors are the countries themselves, he could not push back too hard or lose support."⁹⁹ Interpreted in light of Eugene Black's comments that the Polish loan was a unique conflict between the government and the World Bank in the Bank's early years, the Polish loan also shows how an international organization funded by a member nation is prone to being used as means to execute national policy. This may be a common assumption among twenty-first century scholars, but it was unknown in the late 1940s when international organizations were first opening their doors. The complex politics and economics of the Polish loan that brought so many actors to the negotiation from 1945 to 1947 foreshadowed future conflict between the US government and international organizations in the decades to come.

⁹⁹ McCloy, John. "Senior Thesis about Polish Loan and World Bank." Message to Adam Kuerbitz. 2 February 2012.



John J. McCloy, the second President of the World Bank

Chapter 6: The Reconstruction of the German Coal Industry

A discussion of the different parameters that affected the Polish loan would be incomplete without an examination of the German coal industry and the advantages it offered that the Polish coal industry did not. Coal was an essential commodity for postwar Europe, critical to the success of reconstruction. A speech Secretary of State James Byrnes gave in Stuttgart, Germany in September 1946 was one of the first signs the US was considering Germany rather than Poland as a major source of postwar coal. Byrnes listed the reparations Germany must pay to other European countries, but declared the Ruhr Valley, an industrial area rich in natural resources, would remain part of Germany. He went on to say that without a peace treaty between Poland and Germany, the US would not recognize a permanent Polish-German border, suggesting industrial lands Poland had hoped to receive as reparations would remain part of Germany.¹⁰⁰ This policy of defending German coal mines foreshadows the State Department's decision a year later to begin oversight of German coal production at the expense of the development of the Polish coal industry.

European Recovery Program records show that in the summer and fall of 1947, the same time Poland was plying the World Bank for aid, State Department officials were assessing the coal stock in Germany's Ruhr Valley as a potential solution to Western Europe's coal needs.¹⁰¹ If one accepts that Poland's ability to supply Western Europe with coal was a major asset for the Poles to leverage in negotiations with American lending institutions, then the evidence that State Department officials were advocating for an alternate source of coal reframes the argument for the Polish loan. The United States' ability to obtain the necessary coal from Germany and

¹⁰⁰ Byrnes, James. "Speech by J.F. Byrnes." *U.S. Diplomatic Mission to Germany*. U.S. Diplomatic Mission to Germany, August 2001. Web. 8 Apr 2012. <<http://usa.usembassy.de/etexts/ga4-460906.htm>>.

¹⁰¹ "Committee on European Recovery Program Meeting Minutes," 29 July 1947, Record Group 59, Historical Records Relating to the Formulation of the European Recovery Program 1948-1951, File Unit (123) Committee on European Recovery Program, National Archives at College Park. 3 November 2011.

disregard Poland as a major coal supplier meant Poland would not be a major trading partner with a legitimate resource to offer but an aid recipient appealing for funds out of humanitarian concerns.

In response to Truman's famous "Truman Doctrine," an address to Congress broadcast over radio on March 12, 1947 in which Truman declared it would be US policy to protect nations threatened by Communism,¹⁰² members of the State Department and other government officials held meetings as the Committee on European Recovery Program. On July 29, 1947 the committee released "Role of Coal in the US Aid to European Recovery Program," a report that established the importance of coal for Europe's economic security and identified Poland and Germany as potential sources of coal. This report is especially important for its emphasis on the discrepancy between the plan's high coal requirements for Poland and the improbability of Poland meeting those requirements: "Increased production of Polish coal assumes receipt of a major portion of the requested loan from the International Bank for purchase of mining machinery and transport equipment. However, the Bank is currently considering only that portion of the \$350,000,000 request which is directly applicable to the coal, approximately \$60-70,000,000."¹⁰³ According to this report, the committee first questioned Poland's ability to meet coal requirements because it believed the World Bank was planning to withhold the necessary funds, an unlikely scenario given the enthusiasm World Bank President John McCloy showed for the Polish loans in the summer of 1947. Even though Robert Garner, World Bank Vice President,

¹⁰² Kernell, Samuel. "The Truman Doctrine Speech: A Case Study of the Dynamics of Presidential Opinion Leadership." *Social Science History*. 1.1 (1976): 20-44.

¹⁰³ "Committee on European Recovery Program Meeting Minutes," 29 July 1947, Record Group 59, Historical Records Relating to the Formulation of the European Recovery Program 1948-1951, File Unit (123) Committee on European Recovery Program, National Archives at College Park. 3 November 2011.

was quoted in July 1947 expressing skepticism about Poland's chances for a loan,¹⁰⁴ there was enough support for the Polish loan in July 1947 to claim this committee report was hasty to write off Poland as an insufficient source of coal.

Advantages of the German Coal Industry

In response to the analysis that Poland would likely be unable to supply the quantities of coal needed and the decision to keep the Ruhr Valley part of Germany, British and American officials began to consider seriously major investment in the German coal industry that would be managed by the two countries. An official Report on Anglo-American Talks on Ruhr Coal Production dating from September 5, 1947 recommended the creation of a US/UK Control Group to oversee the new German Coal Management, a group of Germans already responsible for the direct management of the mines at that time.¹⁰⁵ The report also ordered the creation of the German Bizonal Economic Council, a part of the US Economic Administration intended to replace the German government department that would normally govern the coal industry.¹⁰⁶ The authority the American and British governments granted themselves in German coal production suggests the German coal industry was more appealing to the US than the Polish industry in part because of the opportunity to oversee production. While the US and Britain would have to contend with the Communist government in Poland, Germany's weakness at this time allowed the US great authority in German coal production. The report concludes by recommending the

¹⁰⁴ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 119-120.

¹⁰⁵ Willis, F. Roy. *The French in Germany, 1945-1949*. 1st. Stanford, CA: Stanford University Press, 1962. 48.

¹⁰⁶ "Report on the Anglo-American Talks on Ruhr Coal Production," 5 September 1947, Record Group 59, Historical Records Relating to the Formulation of the European Recovery Program 1948-1951, National Archives at College Park. 3 November 2011.

immediate importation of steel into Germany to prevent the further deterioration of mining equipment.

In addition to the authority to oversee coal production, the German coal industry also offered the US the opportunity to establish and defend a capitalist industry in West Germany at the border of Communist Europe. American investment in this area would send a strong message to the Soviet Union and the Communist states east of Germany that the US was marking the boundaries of the Western European sphere. A *New York Times* article describing World Bank President John McCloy's support for the German coal industry points to this advantage and attributes the idea to John Foster Dulles, at this time a Republican foreign policy adviser: "The McCloy proposal also follows the broad outlines of the thesis recently expounded by John Foster Dulles, Republican foreign policy adviser, that revival of economic potential of the Ruhr would demonstrate effectively the value of free democratic institutions in a manner that the whole world could understand."¹⁰⁷ This journalist suggests the committee may have funded the German coal industry because that aid shows American support for capitalism and creates a capitalist foothold in Central Europe. Tight American control over the German coal industry reflects Dulles' concern that once Germany began to recover it might have sought revenge on the United States by allying with the Soviet Union and rising again as a global superpower. The way Russia was already pulling East German industry into the Soviet sphere lent credibility to Dulles' claim.¹⁰⁸

The Morgenthau Plan

¹⁰⁷ Belair, Felix. "World Bank Funds for Ruhr Proposed." *New York Times* [New York] 20 06 1947, 1st ed. 10.

¹⁰⁸ Leffler, Melvyn. *A Preponderance of Power: National Security, the Truman Administration, and the Cold War*. 1st ed. Stanford, CA: Stanford University Press, 1992. 152.

American support for the German coal industry, beginning with Secretary Byrnes's speech in September 1946, can also be seen as resistance against the Morgenthau Plan, an American agenda to strip Germany of heavy industry and refocus its economy on agriculture. On August 7, 1944, Henry Morgenthau Jr., US Secretary of the Treasury, met in Britain with US General Dwight Eisenhower who reported the Western European states wanted Germany to become a peaceful nation that would serve as a bulwark against the Soviet Union. In his account of his plan, *Our Policy Toward Germany*, Morgenthau writes that as a farmer himself, he "knew that people who lived close to the land tended to be tranquil and peaceloving by nature, to be sturdily independent and hostile to outside tyranny. Why not make Germany a nation predominantly of small farmers?"¹⁰⁹ After surveying the opinions of various British ministers, Morgenthau presented his plan to President Roosevelt who discussed it with a committee before discussing it at the Second Quebec Conference, a military conference between British, Canadian, and American leaders. Roosevelt and Churchill initialed the plan on September 16, 1944.

The deindustrialization of Germany stood as the American policy for two years until September 1946 when Secretary of State James Byrnes announced he opposed the separation of the Ruhr Valley from Germany because of its value as an industrial area. Byrnes was motivated in part by beliefs that Germany would not recover unless certain economic privileges, referred to as "economic unity," were granted in the four postwar zones of Germany. American officials considered economic unity to include free trade among occupation zones, the creation of common policies, and the prioritization of essential German needs over reparations payments. At the same time, the Soviet Union continued to demand \$10 billion in reparations payments, payments Germany could not make under the policies of economic unity. As a solution, the US

¹⁰⁹ Morgenthau, "Our Policy Toward Germany," p. 2 as seen cited in Chase, John. "The Development of the Morgenthau Plan Through the Quebec Conference." *Journal of Politics*. 16.2 (1954): 324-359.

ceased to dismantle German plants in May 1946 and refused to resume until the Soviet Union agreed to the terms of economic unity for Germany. Britain and France followed suit in their zones of German occupation.¹¹⁰

While the US government's initial support for the German coal industry in 1946 did not preclude funding for the Polish coal industry, it became clear in 1947 the US was choosing the German coal industry over the Polish coal industry. The Committee on European Recovery Program's July 1947 report suggesting the Polish coal industry would be unable to produce enough coal and Secretary Byrnes' decision to keep the Ruhr valley within Germany were both early signs Poland would not receive further aid. One can read the prioritization of the German coal industry as parallel to the prioritization of Soviet participation in World War II over a democratic Poland. In neither case did the US intend to hinder Poland's development. Instead, Poland suffered a kind of collateral damage when US foreign policy pursued goals more valuable for the US and Europe than funding Poland. Just as ending World War II was more important than fighting Stalin for any one of the United States' foreign policy objectives, establishing a capitalist stronghold in a nation vulnerable to Communism was more important than attempting to free the Polish people from Communism with uncertain chances of success. The way American foreign policy decisions in this period supported other states including Germany, the country that had caused untold suffering and destruction twice already in the twentieth century, was a bitter outcome for Poland to accept and kept the Polish masses mired in poverty for decades after negotiations ended.

¹¹⁰ Gareau, Frederick. "Morgenthau's Plan for Industrial Disarmament in Germany." *Western Political Quarterly*. 14.2 (1961): 517-534.



The Ruhr Coal Museum, a former coal washing plant

Conclusion

Throughout the Polish loan negotiations, American policymakers were tormented by the possibility of including Poland in the Western European economic sphere and the seemingly insurmountable paradox of funding the satellite state of their political adversary, the Soviet Union. The question seems similar to the decision to pay a ransom, where one knows the money will help the victim in one way and the kidnapper in another. In the best possible case, an American loan would stimulate Polish industry, employing Polish workers while feeding and clothing their families. As World Bank Treasurer Daniel Crena de Iongh pointed out, Polish coal exports would electrify the reconstruction of Western Europe, filling the coffers of the National Bank of Poland and stabilizing the Polish balance of payments. In the worst case, the Stalin-backed Lublin government would use the money to tighten its grip on the country, fortifying its bonds with the Soviet Union and continuing its violent and even deadly practices against the political opposition. The contentions of those invested in the debate can be attributed to three main dilemmas: incomplete information, different conclusions based on that information, and ideological opposition to the Polish loan regardless of the specific circumstances.

Although the Polish loan debate took place only sixty-five years ago, foreign relations in the mid-1940s were inhibited by the lack of modern communications on which policymakers rely today. One example of this inhibition is the incomplete information on which policymakers based decisions. In a June 1947 conversation with Special Assistant to the Secretary of State Robert Lovett, Polish Ambassador Józef Winiewicz reported Polish food supplies were at critical levels as a result of the harsh winter of 1947. Lovett noted the United Nations had recently placed Poland on a list of countries to receive further food aid, providing further support

for this claim.¹¹¹ At the same time, Colonel R.L. Harrison of the US Department of Agriculture undertook a tour of Poland and concluded the Poles were healthy and well fed.¹¹² These reports contributed to the State Department's decision not to extend further aid to Poland in the summer of 1947 as well as general skepticism for the Polish argument that nationalization was necessary to generate income. Poland's balance of payment data shows Poland in fact desperately needed American aid to climb out of its deficit, but officials at the time had to rely on sources in Poland for information. Conflicting reports regarding basic conditions on the ground in Poland confused American officials, making it extremely difficult to create effective, fair policy.

Even when reliable information existed, sources often framed their reports in such a way as to recommend different or opposing courses of action. In a November 1945 letter to Secretary of State James Byrnes, Ambassador Lane summarized that the Polish security police and Soviet secret police were committing acts of terrorism in the country and advised the State Department against a loan.¹¹³ One month earlier, Irving Brant, Truman's personal advisor in Poland, reported similar acts of violence in a letter to Truman but emphasized much more heavily the need for food, clothes, and medical supplies, giving the impression that supplying aid was the best policy to resolve problems in Poland.¹¹⁴ These different conclusions not only prevented officials from agreeing on one uniform foreign policy toward Poland, but they also suggested sources were supplying biased reports to support their own policy inclinations.

¹¹¹ U.S. Department of State, Foreign Relations of the United States, 1947. *Eastern Europe, the Soviet Union* Volume IV (Washington, D.C.: U.S. Government Printing Office. 1947) p. 433.

¹¹² Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. 101-103.

¹¹³ U.S. Department of State, Foreign Relations of the United States, Diplomatic Papers: 1945. *Europe*. Volume V (Washington, D.C.: U.S. Government Printing Office. 1955), p. 413.

¹¹⁴ Brant, Irving. Letter to Truman. 15 October 1945. Original letter. Box 699 *Official File* Harry S. Truman Papers, Harry S. Truman Presidential Library. 1 December 2011.

In addition to the multiple interpretations of reports, there existed a vocal conservative contingent that opposed aid out of ideological principle. This coalition, which included President Hoover, declared no good could come of loaning to a totalitarian regime, ignoring the needs of the Polish masses without food and medicine. As I illustrate in my discussion of the early loan negotiations, not all policymakers who opposed the loan did so out of unwavering resistance. Secretary of State James Byrnes wrote in several documents that while he opposed a formal loan to Poland in late 1945, his opinion was subject to change and he approved alternate forms of aid for the Polish people. The ideological opposition of the coalition made the negotiation especially contentious because it invoked politicians' core beliefs about government and democracy as well as their analysis of the Polish loan as an individual case.

The introduction of lending institutions separate from the US State Department further complicated the Polish loan debate by introducing negotiators who thought of Poland as an investment as well as a political entity. While Brant and Lane considered Poland's economy in their recommendations, their role as diplomats guided them to consider governance and rule of law as indicators in the Polish question. World Bank President John McCloy and Ex-Im Bank Chairman William Martin, on the other hand, studied Poland primarily as an investment. With great demand for coal in Europe, abundant natural resources in Poland, and a government ready to develop the industry, the Polish loan struck McCloy and Martin as a sound investment as well as a worthwhile development project. Once again, incomplete information compounded the difference in opinion between these lending organizations and the State Department. Had McCloy seen the violence described by Lane and Brant on his trip to Poland in 1947, perhaps he would have opposed a loan from the start.

The question of Europe's postwar coal supply was very much at the center of the Polish debate. Even though American policymakers disapproved of Poland's Communist government, they continued negotiations because they needed to maintain the flow of coal from Polish mines into Western Europe. When the Truman State Department scrapped its policy of deindustrializing Germany in 1946, the German coal industry became a viable alternative to funding Poland. In the end, the decision came to a showdown between funding for German or Polish coal. The German coal industry offered American officials more complete control over production and the opportunity to develop a capitalist system close to the Soviet border, important benefits Poland could not offer. In addition, by meeting Western Europe's coal demands with German coal, Poland became a less attractive investment, giving American officials more reasons to end consideration of a future loan. The American decision to fund Germany before Poland was especially bitter for the Poles to accept. As one of the most victimized countries in World War II, Poland expected to receive generous aid from the US after the war.¹¹⁵ It must have seemed a painful injustice to the Poles when the US not only decided to end funding to Poland after October 1946, but to fund Germany, Poland's aggressor, instead. It is likely that Poland redoubled its bond with the Soviet Union and Communism in part to spite the United States and the Western economic sphere it had struggled so hard to join.

Poland eventually rejected Communism and joined the community of developed European nations more than forty years after its neighbors. On August 15, 1989, Poland rejected the Soviet Communist model when Prime Minister Czeslaw Kiszczak announced he would resign to allow the leader of the United Peasant Alliance, the same opposition party that won just 11% of the vote in the election of January 1947, to form a cabinet inclusive of all parties in the

¹¹⁵ Anderson, Sheldon. *A Dollar to Poland is a Dollar to Russia*. 1st ed. 1. New York: Garland Publishing, Inc, 1993. xviii.

Polish Parliament.¹¹⁶ In November 1996, Poland joined the Organisation for Economic Cooperation and Development (OECD), an international organization comprised of the world's most developed economies.¹¹⁷ OECD membership signified that Poland was a stable democracy and adhered to governmental policies agreed upon by the developed nations of the world. The fact that some of Poland's neighbors, including Germany, Austria, and Turkey were all ratifying members of the OECD in 1961 points back to the importance of American foreign policy decisions immediately after the war.¹¹⁸ The decision to empower Germany rather than Poland led to Poland's disillusionment with the US and the World Bank and contributed to its embrace of Communism for another forty-two years. US support for Germany also enabled Germany to develop into the leader that today serves as a model of European fiscal policy amidst the unfolding debt crisis.¹¹⁹

By studying the American decision to support Germany in 1947 and 1948 in light of its current leadership in modern Europe, one sees the postwar period as a liminal space in which the rebuilders of Europe decided which countries to include in postwar economic growth. Future studies of this topic could include analysis of Poland's relationship with the Soviet Union after the World Bank rejection. Understanding how Poland became embedded in the Council of Mutual Economic Assistance, the Soviet economic organization, might explain why Poland

¹¹⁶ Tagliabue, John. "Poland's Premier Offering to Yield to Non-Communist." *New York Times* [New York] 15 8 1989, A1.

¹¹⁷ Gurria, Angel. "A Vision for Poland: Joining the World's Most Advanced." Conference Celebrating 10 Years of Polish Membership of the OECD. OECD. Warsaw, Poland. 23 November 2006.

¹¹⁸ "Organisation for European Economic Co-operation." *History*. N.p., Organisation for Economic Cooperation and Development. Web. 9 Apr 2012. <http://www.oecd.org/document/48/0,3746,en_2649_201185_1876912_1_1_1_1,00.html>.

¹¹⁹ Traynor, Ian. "As the dust settles, a cold new Europe with Germany in charge will emerge." *Guardian*. 9 12 2011: n. page. 9 Apr. 2012. <<http://www.guardian.co.uk/business/2011/dec/09/dust-settles-cold-europe-germany>>.

remained a Communist nation for so many years.¹²⁰ As it stands now, the legacy of the failed Polish loan lies in the way the US prioritized other foreign policy objectives in the late 1940s, thus excluding Poland from the great prosperity postwar Western Europe enjoyed.

¹²⁰ Grzybowski, Kazimierz. "The Council for Mutual Economic Assistance and the European Community." *American Journal of International Law*. 84.1 (1990): 284.

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