

## THE LEND-LEASE SYSTEM

*One of the outstanding political issues between the first and second World Wars was represented by the ten billion dollars which the USA had loaned to her allies during the Great War. In the present war, America has loaned two and a half times that amount in goods and services to her allies; but the problems arising from the debts of the present war are likely to be far greater than two and a half times those of the first World War. America has learned from her experiences with the Great War debts and has evolved the ingenious and, for herself and her allies, extremely important Lend-Lease system.—K.M.*

ONE summer day in 1940, an official of the Treasury in Washington was turning over the pages of a somewhat dusty tome, one of a series containing a complete chronological record of US laws. Under a date of the year 1892, he came upon one authorizing the Secretary of War to lend out Army property if this be in the public interest. From this find sprang an idea which eventually took shape in the "Lend-Lease Act."

At the press conference of December 16, 1940, almost immediately after his reelection for a third term, President Roosevelt broke the news of his scheme. On January 10, 1941, Bill No. 1776 was put before Congress. After passage in the House of Representatives—with a number of amendments—on a 260:165 vote, the Senate debated it at length, added some more amendments, and passed it 60:31. On March 11, 1941, the House of Representatives accepted the Act with the Senate's modifications (317:71). Half an hour later, at 3.50 p.m., it was signed by the President and had become law.

Prime Minister Jan Smuts voiced what most Britons, many Americans felt, when he opined that, with the passage of the Bill, the United States had at last been brought into the war.

### BACKGROUND OF THE ACT

In the middle thirties, the overwhelmingly isolationist USA had tried to fortify herself against involvement in foreign wars. To prevent the recurrence of a situation like that of 1917, the Johnson Act, passed by Congress on April 13, 1934, prohibited loans to defaulting governments; and the Neutrality Law, enacted in August 1935, imposed an arms embargo on shipments to nations pronounced belligerent by the President.

A clause, added in 1936, forbade the granting of loans to belligerents. But from 1937 on, President Roosevelt gradually turned the trend of America's foreign policy from isolation to intervention. It was in 1937 that he held his famous "quarantine" speech in Chicago. From then on a flood of invective against Germany, Japan, and Italy poured forth from Washington, while the war parties in London, Paris, and elsewhere were openly encouraged.

On May 1, 1937, an amendment of the Neutrality Law introduced the cash-and-carry clause for the sale of nonmilitary American goods to belligerents, a measure that favored the Western powers in view of their control of the Atlantic sea lanes. Then the lifting of the arms embargo against Britain and France on November 3, 1939, paved the way for a lucrative American war business. But the Allies still had to carry the material in their own bottoms and to pay cash: the Johnson Act was still in force, upon which the cash-and-carry clause of American neutrality legislation was founded. England and France, being among the defaulting nations, were still unable to get any credits from the United States.

America felt as yet quite certain of Germany's defeat. In spite of her blitz victory against Poland, Germany was thought to be no match for France and England. How nonchalant the US leaders were may be gauged from the fact that up to May 1940 Britain received no more than 104 American planes, which she had ordered in 1938. Germany's rapid Western campaign, however, shattered all American calculations. Britain was in immediate peril.

During the crisis brought about by the battle of France, and upon urgent appeals by Churchill, the President ordered a list of arms and munitions to be made which the

US Army could spare. These comprised, among other material, 500,000 20-year-old rifles, 900 guns, 80,000 machine guns, 130 million cartridges, and one million artillery shells. To circumvent what was left of the neutrality legislation, the Administration sold this material to an American steel export company, which turned it over to Britain. Twenty-four ships carried the goods to England between June 23 and the end of July, as we are told in *Lend and Lease—Road to Victory*, a book Edward Stettinius, former Lend-Lease Administrator, published in America in January 1944. French orders, valued at 600 million dollars, were transferred to British account without the French being asked. The deal which turned over 50 old American destroyers to Britain on September 2, 1940, was another measure to strengthen the British war party by holding out US aid; in exchange, however, the USA extracted a 99-year lease on British territories for a chain of bases running from Newfoundland via Bermuda, the Bahamas, Jamaica, Antigua, St. Lucia, and Trinidad, to British Guiana.

As the year 1940 drew to a close, it became apparent that England needed far more.

#### THE BILL

If England was to stay in the war, she had to obtain war materials without having to pay cash. By the end of 1940, Britain had spent 4.5 billion dollars on purchases from the USA, and another 1.5 billion dollars were earmarked for orders already placed, which left Britain with dollar holdings amounting to only half a billion. The Johnson Act did not permit the granting of credits, and an outright repeal of this law was unlikely to find favor with Congress in view of prevailing public opinion. To loan money to Britain and other belligerents was not a very attractive idea to the Americans, who had been repaid only about a quarter of the ten billion dollars loaned to their allies during the Great War. Some other scheme had to be found which would assure Britain of supplies of war materials, would further the aims of American imperialism, but would not arouse the suspicion of the American taxpayer who, after all, would have to foot the bill. The Lend-Lease Act was the ingenious answer.

This Act, some of the details of which are given in the Appendix to this issue, authorizes the President to turn over virtually any

article to any country he chooses "notwithstanding the provisions of any other law," (meaning also the Johnson Act), on any terms and conditions he approves. The same applies to services rendered by the USA, and to defense information and plans. To cover expenses, the President is given appropriations from Congress which he may use at his discretion. Congress only reserved itself the right of holding the purse strings—appropriations being subject to Congressional approval—and of rescinding the Lend-Lease authority with simple majority. This did not mean much in view of the large majority which the President commanded in both Houses. Moreover, there is another loophole for the President in the form of funds appropriated for Army and Navy purposes, which he may also use for Lend-Lease.

#### FROM ENGLAND TO ICELAND

While the Lend-Lease scheme started with aid to Great Britain, it soon became world-wide by being applied also to Australia, New Zealand, India, the USSR, Poland, Greece, Yugoslavia (until recently both to Mihailovich and Tito), Norway, Belgium, the Netherlands, Czechoslovakia, Iceland, De Gaulle, Chungking, the Netherlands East Indies, Egypt, Saudi Arabia, Turkey, Brazil, Uruguay, Colombia, Venezuela, Ecuador, Mexico, the Dominican Republic, Costa Rica, and San Salvador. An amendment to the effect that Lend-Lease deliveries be barred to those of the Allied nations not actually fighting in the war was rejected 254:14 by the House of Representatives early in June 1944

Similar agreements were later also concluded between countries outside of the USA. There are the shipments of British aid to the USSR, Chungking, Turkey, etc., of various raw and manufactured materials by British Dominions—especially Canada—to England and allied countries, etc. Furthermore, "reverse Lend-Lease" supplies have been sent and services rendered to the USA by parts of the British Empire and other countries. These latter two groups, however, amount only to a fraction of US Lend-Lease aid.

The goods and services furnished under the Lend-Lease Act comprise a vast range of articles. Among the chief supplies are foodstuffs, ships, planes, tanks, guns, machine guns, hand arms and other weapons, ammunition, equipment of all sorts, clothing,

trucks and other vehicles, railway material, machinery, airplane engines, aircraft fuselages, medicaments, tools, oil, and raw materials such as copper, zinc, nickel, and aluminum. Services include the training of flying personnel; the docking of men-of-war and merchantmen; the employment of American technicians and workmen; and the construction of military, naval, and air bases, factories, warehouses, roads, docks, railway sidings.

The monthly figure of US Lend-Lease deliveries increased from about 25 or 30 million dollars immediately after the passage of the Bill to 643 million dollars during September 1942 and 915 million dollars during October 1942. Since the beginning of 1943, monthly expenditure has averaged one billion dollars and by the end of that year had reached an aggregate of 20 billions. By July 31, 1943, the proportion of the different groups in the total expenditure of US Lend-Lease aid were:

Military Items	50 per cent
Industrial Materials	21 " "
Agricultural Products	14 " "
Services Rendered	15 " "

In this connection the costs of war material in the USA—as quoted by *Life* on March 24, 1941—are of interest:

\$1	— 16 cartridges
\$2	— 3 cotton shirts
\$3	— 1 bayonet
\$6	— 1 antitank shell
\$10	— 1 tent
\$11	— 1 shell for 75-mm. gun
\$15	— 1 25-lb. fragmentation bomb
\$27	— 1 .45 automatic pistol
\$50	— 1 Springfield rifle
\$80	— 1 Garand rifle
\$100	— 1 shell for 240-mm. howitzer
\$160	— 1 8-in. armor-piercing shell
\$450	— 1 Browning machine gun
\$500	— 1 motor trailer
\$1,000	— 1 reconnaissance car
\$1,300	— 1 searchlight with tower mount
\$5,000	— 1 tractor truck
\$10,000	— 1 primary trainer plane
\$20,000	— 1 light tank
\$70,000	— 1 pursuit plane

By the end of 1942, when US Lend-Lease aid amounted to about 8.5 billion dollars, the four leading beneficiaries were:

	UK	Brit. Territ.	USSR	Chung-king
	(in millions of dollars)			
Military Items	1,172	1,421	912	105
Industrial Materials	916	369	247	21
Agricultural Products	1,093	71	102	—
Services Rendered	780	532	271	30
<b>Total:</b>	<b>3,961</b>	<b>2,393</b>	<b>1,532</b>	<b>156</b>

The vicissitudes of war, with its shifting political and military outlook, are mirrored by Lend-Lease aid in two respects. (1) The ratio of aid going to various countries has been considerably modified during the past three years. (2) The terms of Lend-Lease agreements, especially in regard to payment, not only vary in the case of different beneficiaries but have also undergone changes in successive agreements with the same recipient. In both respects, Lend-Lease aid has been used as a political and economic weapon. This can be seen from the following facts.

#### DIFFERENT COUNTRIES, DIFFERENT TERMS

The case of Turkey, who found her Lend-Lease supplies suspended when she obstinately upheld her neutrality and refused to cede bases to the Allies, is significant. On the other hand, the importance attached to aid for the Soviets is reflected by the fact that, since the first Lend-Lease agreement with the USSR in October 1941, her share in these supplies grew from 6 per cent during the first year to 24 per cent during the second and 35 per cent during the third. In the Appendix the reader will find a Tass statement from Moscow of June 10, 1944, with details on shipments of war materials from the Anglo-Saxon powers to the USSR. Among many other items these include 12,256 planes, 10,056 tanks and armored cars, and 237,642 motor vehicles.

As regards the terms of repayment, the text of the Act itself is grandiosely vague, leaving it entirely to the President to obtain compensation on conditions considered satisfactory or advantageous to the interests of the USA, either in cash or in any other direct or indirect way he may think fit.

The three Lend-Lease agreements with the USSR show that Moscow enjoys special favors. The first agreement with the USSR provided for Lend-Lease credits free of interest, the repayment to begin five years after the end of the war and to be completed within a ten-year period. Soviet raw-material shipments will be accepted in part payment. The second agreement included a clause stipulating co-operation toward the establishment of "liberal economic conditions after the war." A rider to the third Lend-Lease agreement, in which Britain and Canada participated with the USA, stated that the Soviets were to adjust their reverse Lend-Lease to the needs of their three partners as soon as possible. Thus

Moscow has not only been given increased aid: it has also been left free to determine when and how to effect repayment. So far, the USSR's return aid has been limited to supplying and servicing American vessels in Soviet waters and, more recently, of US planes on Soviet territory. The American request for bases in the Soviet Far East has hitherto been declined by Stalin.

Lend-Lease agreements with other countries are less liberal. They may provide for repayment in cash as, for example, that concluded with the Netherlands East Indies prior to the Japanese occupation. Thanks to rubber, tin, and other exports, the N.E.I. enjoyed an active trade balance with the USA and therefore, according to Washington's calculations, could well afford to pay hard dollars.

In Central and South America, concessions of military, naval, and air bases have usually been sought in connection with Lend-Lease assistance, together with the economic exploitation of the natural resources of the countries concerned. The example of Brazil may be cited as typical. Early in February 1942 it became known that the Brazilian Government had permitted Washington to convert the port of Natal into a naval base and occupy it with US forces. About four weeks later the signing of three agreements was announced, whereby credits were to be extended to Brazil under the Lend-Lease Act in order to enable her to increase her output of war materials, to develop rubber plantations in the basin of the Amazon, and to extend the country's railroad system. Meanwhile, the Naval Committee of the House of Representatives has suggested that the Government should seek to obtain the perpetual transfer of the leased bases in Brazil to the USA.

Besides Brazil, other countries have had to yield bases, Ecuador, for example, being made to give up the Galapagos Islands. At a recent White House press conference it became known that revolutionary movements directed against legitimate governments in disfavor in Washington in at least two South American republics had been supported by the United States with tanks and other war material supplied on a Lend-Lease basis. This is one more of the almost unlimited uses to which Roosevelt can put his ingenious scheme.

#### STARS AND STRIPES IN THE BRITISH EMPIRE

The tendency to exploit the favors granted under the Lend-Lease Act was bound to

reach its climax in relation to Britain and her Empire, who topped the list of recipients. For here the USA is face to face with both a rival and an empire on the decline, a potential legacy vaster than anything the world has ever known, which the younger but stronger cousin on the other side of the Atlantic expects to inherit.

The bases which the USA has constructed and manned throughout the British Empire and in territories formerly under exclusive British influence, as well as those occupied following upon common military operations, are increasing in number. The Stars and Stripes can be seen waving over the British Isles and parts of the European Continent, in North and West Africa, in the Near and Middle East, and in India, in British territory in the Americas and in the Pacific. Although there is not necessarily any immediate link between the occupation of such bases and the Anglo-American Lend-Lease agreements, these American outposts represent a natural security for the huge sums already piled up by Britain on the debit side of the Lend-Lease ledger. In April 1944 the Naval Committee of the House of Representatives proposed that steps be taken to make the lease of bases ceded against the 50 old destroyers a permanent one, in view of the fact that well over 130 million dollars of American money had been invested in these bases. Two months earlier the chairman of that committee, Congressman Vinson, declared before the House that, at a secret meeting of his committee, Colonel Frank Knox had stressed the necessity of pursuing the policy of acquiring bases to the limit when US claims come up for settlement. At about the same time the *Wall Street Journal* demanded payment of Lend-Lease deliveries by the cession of Pacific Islands irrespective of their present or former ownership, the same to apply to bases obtained from Britain on a 99-year lease. But it is not only of military bases that Americans are thinking when they consider the forms of repayment of British Lend-Lease debts.

The report of the Senate's Truman Committee, published in November 1943, which deals with an investigation of US Lend-Lease deliveries, asked whether oil supplied to Britain by the USA on Lend-Lease account might not be paid for by British titles on foreign oil reserves or by the transfer of shares of British companies having a claim to such reserves. The Truman Committee also urged that possibilities of acquiring

British titles to nickel, copper, tin, and iron deposits in countries outside of the United Kingdom be explored. British monopolies have come in for strong American censure. The *New York Telegram*, to cite but one example, accused the British of delivering only so many diamonds to the US war industry as were immediately needed, thus scheming to prevent the accumulation of a surplus which might endanger the British monopoly.

#### IMMEDIATE EFFECTS

But the influence of the Lend-Lease system on the economic position of the USA and Great Britain respectively is not confined to the future: it is already perceptible in many fields. By the end of 1943, 2 billion dollars, or about 10 per cent of US Lend-Lease expenditure, had been repaid by reverse Lend-Lease, of which more than 1.5 billions were contributed by the United Kingdom, more than 360 millions by Australia, some 115 millions by British India, and almost 92 millions by New Zealand. In the case of England, the reverse Lend-Lease consisted mainly of services, such as maritime transportation, the use of airfields, hospitals, troop barracks, etc. Australia, India, and New Zealand have shipped large quantities of foodstuffs and other material on reverse Lend-Lease account.

To take Australia as an example: we find that, owing to Britain's inability to supply manufactured goods, US Lend-Lease supplies have made up for the deficiency, against which reverse Lend-Lease deliveries have progressively increased. At the end of June 1942 their value had amounted to 6.5 million pounds, but one year later they aggregated no less than 59 million pounds, another 13.2 million pounds being added during July/August 1943 alone. The trend in India and New Zealand is probably a similar one. Lend-Lease and reverse Lend-Lease do not only mean larger trade between the USA and parts of the British Empire: what is more important, they mean direct trade, while before the war the Empire's trade routes ran via London.

This is the Lend-Lease counterpart to the economic absorption which Canada has undergone at the hands of the USA without accepting any Lend-Lease. Both have resulted in undermining the Empire economic system established at Ottawa in 1932.

#### US TRADE PLANS

We have seen that Britain spent almost all her US dollar holdings during the first

year and a half of the war in paying for American war materials. A major portion of these holdings consisted of British investments in the USA, which consequently passed into US ownership. While Lend-Lease was to help Britain over her shortage in means of payment, it was stipulated from the beginning that deliveries would be made on credit only in so far as Britain had no dollars or gold at her disposal for transfer. Such dollar amounts as accrue to her—for example, from money spent by American soldiers on British soil—must therefore be used for the payment of Lend-Lease supplies. This tends to curtail the possibilities of new British investments abroad.

The active balance of payments formerly derived from investments abroad is vital for England in order to equalize the passive balance of trade caused by her need for imported foodstuffs and raw material. The losses already sustained by Britain in the field of foreign investments—apart from those in the USA, especially in Japanese-occupied former British colonies in East Asia—have been aggravated by more recent modifications of Lend-Lease terms. An increasing number of commodities are being shipped across the Atlantic against cash payment only. Among them are such food items as sugar from the Caribbean Islands. Tobacco, which up to the end of 1942 was included in Lend-Lease accounts, must now be paid for in cash unless intended for the British armed forces. This imposes a further strain on British foreign investments.

In March 1944, Lee T. Crowley, US Economic Administrator, declared that the US Government is endeavoring to maintain and expand the position in foreign trade it has occupied in the course of the current war. In case of need the Administration would subsidize exports, which was interpreted in Britain as an indication that America is ready to subsidize exports to markets secured during the war at Britain's expense. The 10-billion-dollar trade agreement which President Roosevelt and Stalin concluded during the Teheran Conference provides for the supply of manufactured goods, machinery, and entire factories from America within a period of three years after the termination of the war, while in return the USA is to receive raw material supplies from the USSR. This agreement virtually excludes Britain from the Russian market.

Great Britain has lost a huge part of her merchant marine, the second pillar of her active balance of payments. Only a fraction of the losses has been replaced, as her yards are busy with repairs and with the construction of warships. To be sure, she has been obtaining ships from the USA on Lend-Lease account. But Harry Hopkins, President Roosevelt's closest collaborator, recently declared that the USA was prepared to let Britain hire but not buy ships. He added that the USA did not intend to relinquish her hold on the world markets after the war. This hold is secured to a large extent through the Lend-Lease system.

#### LEND-LEASE AND THE US CITIZEN

What does Lend-Lease mean for the American people? Among other things, more taxation. Lend-Lease expenditure will not be terminated with the expiry of the Act. The territorial pawns such as military, naval, and air bases which the USA is striving to retain as indemnity for Lend-Lease supplies will continue to cost vast amounts for the pay and supplying of the armed forces stationed there, as well as for the upkeep of installations. According to a recent statement by Secretary of the Army Stimson, the USA now possesses 925 naval and air bases outside US territory. This world-wide system of bases and interests acquired with the aid of the Lend-Lease system will also tend to involve the United States in any war, revolution, or other upheaval that may break out anywhere in the world. But, in addition to costing the Americans both money and lives, Lend-Lease is threatening their economic system. Lend-Lease means state-controlled exports, and reverse Lend-Lease state-controlled imports.

Since March 1942, Lend-Lease deliveries have exceeded all other US exports. In spring 1943 they amounted to no less than three quarters of the total exports. Actually the proportion was even larger, inasmuch as the statistics consulted do not include the large number of Lend-Lease airplanes and vessels leaving for their destination under their own power. In October 1941 the *New York Times* already complained of the disorganization of foreign trade by government control as the result of Lend-Lease. Even if government control should be removed after the war, as US Economic Administrator Crowley averred, the people would derive little advantage. Big business would probably swallow that trade, just as

it grabbed the bulk of all war orders, thanks to its overwhelming influence in the Administration.

#### HOW ARE THE ALLIES TO PAY?

The present huge excess of American exports over imports brought about mainly through Lend-Lease raises another problem, namely, that of the method of transferring payments to America from abroad. Before the war, in addition to being a creditor nation, the United States enjoyed an active balance of foreign trade, thanks to high customs barriers which protected her domestic markets from foreign competition. This position was made manifest by the amassing of mountains of gold in the vaults at Fort Knox. The American demand for payment in cash or gold rather than in kind was one of the main obstacles to a flourishing world trade.

How the United States tackles this problem in the future remains to be seen. Harry Hopkins, speaking of reconstruction work throughout the world after the war and the tremendous demand for American goods, opined that the recipients would have to pay as much as they could manage in cash, while the rest would have to be paid for in installments with interest added. By this method, the economic situation that developed in the twenty years between the two world wars would be driven to grotesque extremes. Yet a large part of the American public seems to be in favor of this attitude; for two of the chief points of the Republican Party's platform for the coming presidential election specify protective duties and the rejection of reciprocal commercial treaties. But even if the USA should facilitate the importation of foreign goods in payment of American Lend-Lease supplies—as was, for example, recently advocated in a series of articles appearing in the trade magazine *American Metal Market*—it remains doubtful whether this would solve the problem. Apart from the huge Lend-Lease debt, there is also the increase in American investments abroad, now likely to exceed in extent British investments at their peak. Ways and means will have to be found for transferring the interest payable on these investments to the USA.

On the other hand, the ravages of war have affected most of America's debtors. This fact, and the necessity of reorganizing national economies from a state of total

mobilization to normal, is bound to restrict commerce more or less to a one-way traffic from America to the rest of the world for several years after the termination of the war. The control of merchant shipping aimed at by the USA would add to her active balance of payments. All in all, what will emerge will be a huge, growing indebtedness of a large part of the world to the United States.

Can this vast aggregate be squared up on a commercial basis within any reasonable period of time? Payments in cash or gold could cover only an insignificant fraction of this debt. As for the rest, the United States would have to be prepared to allow foreign imports to exceed her own exports by a very large margin. This is not likely to appeal to her, as it would entail serious domestic conflicts, especially with regard to the labor situation. If, however, a progressive rise in foreign obligations to the USA should be maintained, it would yield her no greater benefit. It would reduce the standard of living everywhere and ruin the markets which are supposed to absorb American goods. New loans, the pet panacea of American bankers, would shift the burden onto the American public, as there would be

little chance of such loans ever being repaid.

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In 1932, Roosevelt took over the reins of a country with a huge production badly distributed. When his attempt to tackle this situation directly with the New Deal failed signally, the President turned to the field of foreign affairs to find an outlet for the rising social and economic pressure in the USA. Lend-Lease was his first step toward active participation in World War II. Temporarily, Lend-Lease has done away with unemployment, and the war has for the time being overshadowed all domestic problems in America. But fundamentally nothing has been changed. We have seen that neither territorial gains nor the acquisition of economic advantages abroad will, once peace has returned, improve the lot of the vast majority of US citizens, indeed, that they will tend to render America's domestic problems even more acute. At a huge cost in American lives and money, Lend-Lease and America's war entry have postponed but by no means averted the great social and economic reform which is the only solution to the most burning problems of the United States.

### *A New Competitor to Aluminum*

One of the effects of this war has been the rise of magnesium as a competitor to aluminum. It is highly valued for its low specific weight, two thirds of that of aluminum. Pure magnesium is soft and flexible, but these disadvantages can be overcome by alloying it with other metals such as aluminum, manganese, or zinc, without appreciably increasing its specific weight.

There are no figures available about the present total world production of magnesium (in 1938 it was 31,039 tons). According to a report made by Donald Nelson, the head of the US Office of War Production, the magnesium production of the USA, which was 3,019 tons in 1938, rose to about 200,000 tons in 1943. A tremendous rise in the production of magnesium is to be assumed in other parts of the world too, all the more so as large quantities of magnesium are now obtained, for instance in the USA and Norway, from the magnesium content of sea water which, after all, is available in unlimited quantities.

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The "Taho To," as this tower is called, is situated in the precincts of the "Kongo San Mai In," one of the temples on Mount Koya near Osaka, Japan. The tower, which is now protected as a national monument, was built in 1223 by Masako, the widow of Shogun Yoritomo, as a place of prayer for the eternal rest of the spirits of the deceased Shogun and her two sons, who had preceded her in death.