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Economic Relations with the U. S. S. R.

By

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The immediate aim of the Committee on International Economic Policy is to further the serious and competent consideration of the issues which confront all the free peoples of the world and which imply their useful cooperation in reconstructing their economy after the victory of the United Nations.

To that end the Committee will welcome the cooperation of all organizations and individuals who are interested, and will be happy to receive the comments and suggestions which it hopes that the publication of a series of papers from its Advisory Committee on Economics may call forth.

The Committee looks forward to an exchange of views and data with all other committees engaged in postwar studies.

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THE ADVISORY COMMITTEE ON ECONOMICS
to
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The following study by Dr. Alexander Gerschenkron, at present Economic Specialist with the Board of Governors of the Federal Reserve System, is one of a series prepared for the Advisory Committee on Economics to the Committee on International Economic Policy. The views expressed in each of these studies are those of the author.

SUMMARY

Russia's re-incorporation into the world economy is eminently desirable and necessary for the re-integration and reconstruction of world trade after the war. Russia may be prepared to abandon, or rather to reduce the degree of, autarky and seek intensive economic collaboration with the outside world. It is assumed that Russia will remain a planned economy country. Consequently she will preserve her all-embracing government monopoly of foreign trade. This will raise a number of difficult questions.

Perhaps the chief question is how to find an international framework which would make it possible for Russian trade to proceed along multilateral lines with a minimum of discrimination, in line with the guiding principles of American foreign economic policy.

The existence of a foreign-trade monopoly deprives most-favored-nation treatment, when granted by the monopoly country of, value and significance. During the interwar period, a solution was often found in the form of quantitative stipulations in bilateral trade agreements between Russia and her trading partners. Russia undertook to purchase, within a stated period, a specified minimum amount of the other country's goods. Despite the fact that such stipulations may have involved discrimination, at least against third countries, they were on the whole regarded as a satisfactory solution under the prevailing conditions.

If after this war (1) bilateralism in world trade is to be reduced and (2) the volume of Russia's trade increases greatly, methods that were used in the interwar period will no longer suffice. Bilateral quantitative commitments by Russia may then inject bilateralism into the international body economic. If a number of countries should still insist on such commitments, the difficulty could perhaps be met by the temporary device of a multilateral rather than bilateral allocation of Russian imports among exporting nations. In this way a closer approach to a multilateral pattern of trade could be achieved and the amount of possible discrimination considerably reduced.

Such arrangements will protect foreign traders against discrimination and preserve Russia's pattern of multilateral trade. Russia's interest in multilateralism in the past and the probability that the multilateral character of Russia's trade will even increase in the future seem to justify the expectation that the suggested method of allocating Russian imports will create a satisfactory basis for mutually beneficial economic relations. Russia's participation in the Bretton Woods Conference augurs well in this respect. After some time this arrangement could be abandoned and trade with Russia regulated by the simple undertaking on the part of the latter to be guided in her trade by commercial rather than political considerations.

It is difficult to apply the concept of dumping in its strict sense to the Russian economy. Besides, given an over-valuation of the ruble, all Russian exports appear to assume the form of dumping; but the danger of a vigorous underselling by Russia on foreign markets, although possible, is not likely.

An analysis of the structure of Russian exports shows a pronounced trend away from exports of unprocessed agricultural goods and a tendency to increase industrial exports. This tendency is likely to persist and to be enhanced as the volume of Russian trade grows, and the industrialization continues; on the other hand, with respect to imports, a relaxation of autarky and an increase in the volume of trade may lead to some changes in the structure of imports and to greater emphasis on imports of raw materials for the consumers'-goods industries as well as semi-manufactured and finished consumers' goods.

A discussion of the prospective trading relations between the United States and Russia stresses once more the importance of a free multilateral circuit of trade for both countries and also serves to emphasize the fact that an extensive and healthy trade with Russia can develop only in the climate of normal capital movements, that is, at normal rates of interest and with a normal proportion of long-term loans in the aggregate financing. A thorough change of the techniques of the credit policy used in the interwar period will be necessary.

While the problem of trading relations with Russia is fraught with some

ECONOMIC RELATIONS WITH THE U.S.S.R.

I. Why Economic Collaboration with Russia?

As these lines are being written the Russian armies are knocking at the gates of Germany. Their great offensive has brought them from the Caucasian Mountains on the Asiatic continent across the immensity of the South Russian steppes, through the treacherous marshes of White Russia to the lakes of East Prussia. This amazing military feat bears eloquent witness to the valor of the Russian soldier and the strategic skill of the Russian generals. It testifies to the value of our lend-lease aid to Russia and to the efficiency of American jeeps, amphibious tanks, and planes. But the Russian victory is also the result of an industrial revolution which is an historical fact of the first importance.

In 1916, in the snows of the Carpathian forests, the Russian soldier fought and died no less gallantly than in 1944. He was defeated by the lack of arms, ammunition, warm clothing, shoes, and blankets. It was the Russian economy—the economy of a backward agricultural country with factories too few and too inefficient, and an economy burdened with the remnants of feudalism and an inefficient and corrupt administration—that was defeated by the superior economic organization of Germany.

Present-day Russia has reached a degree of industrialization which has made it possible for her to resist the onslaught and then overwhelm the strongest economic power on the European continent. Russia's newly won economic strength has been one of the decisive factors shaping the course of the present war. It will, whatever the policies chosen and pursued, go far to shape the character of the international body-economic after the war.

According to the recent estimates of the League of Nations, Russia will have a population of 270 millions in 1970. This population will, according to the same source, exceed by 26 millions the combined populations of central, northern, and north-western Europe. Even though these estimates disregard war losses and assume unchanged rates of mortality and fertility, they are very significant. A huge and growing population will inhabit the territory stretching from the Baltic Sea to the Pacific Ocean, and from the Black Sea and the subtropical regions of Asia to the Arctic ice. In this enormous territory, which has a uniform economic system and is rich in fertile soil and mineral wealth, the majority of its people will be occupied in non-agricultural pursuits. Only those reluctant to see the facts can afford to ignore Russia's position in the postwar world.

The German retreat from the Russian plains has imparted increased reality to our discussions of the shape of things to come after the war. The day when postwar discussion will be replaced by postwar action has been brought closer to us. Yet at the same time it has rendered our plans far more complicated. For it has forced upon us the recognition that unless account is taken of Russia's changed position, none of these plans is realistic, none of them deserves the name of a plan for the post-war world.

Some writers and speakers on postwar problems still persist in shaping their plans as if Russia were not a part of our planet. Others envisage a world, or at least a Europe, organized and managed by Russia. Depending on the general philosophy of the author this state of affairs is depicted, alternatively, in terms of the first or the last part of Dante's *Divine Comedy*. Yet both fear and adoration are poor builders, except of fortresses and Spanish castles. To build the comfortable house of durable peace and rising standards of living we need a constructive and realistic attitude, toward the world in general and toward Russia in particular. A plan, or at least certain governing principles, for political and economic collaboration between Russia and the rest of the world must be part and parcel of any postwar architecture.

Realistic treatment of the Russian question also implies that we must take certain fundamentals of the Russian social and economic structure as it is. From the angle of practical trade policies after the war, the most ardent adherent of *laissez-faire* principles should not deplore the fact that the Russian economy is not based on the principle of free enterprise or recall the methods by which the free-enterprise system was abolished. Russia today has a planned economy and there is no reason to assume that this basic character of economic organization in Russia will be changed in the foreseeable future.

In this paper we are concerned not with the political but with the economic side of the question. To be sure, these are interrelated. No peaceful economic relations with Russia will be possible in the presence of serious political controversies. If we fail to reach a comprehensive political agreement with Russia our attempts at economic reconstruction in other parts of the world will be gravely jeopardized. It is, for instance, unlikely that the necessary economic reforms in Germany, most notably the elimination of Junkerdom, can or will be carried out in the absence of such an agreement. On the other hand Russia's incorporation in the world economy may go a long way toward eliminating political disagreement and political frictions. It is mutually beneficial economic relations that create the best foundations for the development of a peace-

ful political attitude, that make for an atmosphere of mutual trust and friendship. For this reason alone we must work for economic collaboration with Russia. It is one of the prerequisites for the lasting peace that the world needs. But we should also desire economic collaboration because we want to maximize the world's wealth and income, and this is incompatible with the exclusion of one sixth of the world, with all its actual and potential riches, from the international economic structure.

It is well to recall how great was the damage inflicted upon the world and especially the European economy by Russia's withdrawal from the world market after the First World War. It was not solely, and not even primarily, the disappearance of Russian grain exports. The maintenance of these exports on the prewar level was hardly possible in any case. Yet their stoppage caused, temporarily, a serious deficiency in the supply of cereals and necessitated a considerable readjustment of production. Similarly, the discontinuation of exports of Russian aspen created, for a few years, considerable difficulties in the English match industry. In some cases the damage proved almost irreparable. The hog-raising regions in northwestern Germany were largely based on supplies of Russian barley. This was a true case of international specialization. When Russian exports ceased, other sources had to be used but a really satisfactory substitute was never found. More important was the fact that central Europe found herself deprived of an important market for her merchandise exports, and western Europe lost a large and traditional market for her capital exports. Most economic problems of the 'twenties would have been capable of an easier solution if Russia's elimination had not torn a great gap in the network of world trade and capital movements. Both the raising and the transfer of German reparations would have been much easier if Germany had preserved the Russian market. The surplus of loanable funds in the later 'twenties would have been distributed in a more rational way both because central Europe would have needed less and because considerable amounts would have been invested in Russia rather than in Germany.

Bygones are bygones, but past mistakes teach the lessons of today. And one of the most impressive of these lessons is the necessity of Russia's incorporation in the world economy.

The goal is clear. But how can it be achieved? What are the main difficulties in the way of success? What instruments could be used and what policies pursued, to overcome these difficulties? What would be the probable pattern of Russian trade within the network of world trade? What would be the probable character of Russian exports and imports to and from individual countries? All these questions will be

discussed in the remainder of this paper. But before we seek really to deal with them a prior question must be answered. We may all be in favor of economic collaboration with Russia. But two wills are needed to make collaboration work. The question therefore is:

II. Does Russia want Economic Collaboration with the Outside World?

At the end of the war Russia will face a great task of reconstruction. In this she will have the great advantage of the higher educational level of her people, and of their superior industrial skills and organization. She will have the advantage of new and powerful industrial centers in the East. She will not face the economic difficulties attendant upon social shifts of enormous magnitude, as was true a quarter of a century ago. Yet in some respects the situation will be more difficult and more arduous than it was in 1920, after the years of war, revolution and civil war. The ravages of the First World War were largely confined to regions that were subsequently lost to Poland and the Baltic states. It is true that the German occupation of the Ukraine and the Russo-Polish War cut deep into the country and the civil-war armies rolled back and forth over vast parts of Russia; but the Germans could not loot the Ukraine thoroughly in eight months. The civil and Polish wars, fought, as they were, by poorly equipped armies, caused an amount of devastation which was rather small if compared with the disastrous effects of the present gigantic struggle in which the most modern and destructive implements of war are being used.

Moreover, it was a different economy that suffered the impact of 1914-1920. An economy in which land and labor are the predominant factors of production is less sensitive to interruptions of its ordinary activity than the economy of an industrialized country where even the normal work of its farming area is premised upon a regular supply of fuel, fertilizers, complicated machinery and spare parts from large-scale industrial enterprises. But even so, the disaster of the great famine of 1921 followed the termination of the civil war. To restore, after the present war, the level of economic activities and the standard of living of 1941 will again be a task of almost appalling magnitude.

How is Russia going to cope with it? And, beyond that, how is Russia going to continue her economic development when the process of reconstruction has been completed? The choice is between two courses, between a national and an international solution.

Let us first consider the former. Russia could again launch a program of reconstruction and industrialization chiefly with the help of her domestic resources, plus a modicum of "indispensable" foreign trade,

plus the goods and services she may receive from Germany by way of reparations. In doing so she would try to render her economy as independent of the rest of the world as possible. In other words, Russia could adopt a policy of self-sufficiency and this in a double sense: the policy would be autarkic as regards the type of economy Russia would endeavor to attain; and it would also be autarkic in the sense of a maximum of self-sufficiency, that is, a minimum of recourse to foreign markets, that would be sought in the process of reconstruction. In essence, German reparations apart, this would be a repetition of Russia's economic policy in the interwar period.

Clearly it would leave little room for international collaboration with Russia. The relatively small amount of foreign trade which in this case would cross Russia's boundary would present few new problems. Techniques worked out during the 'twenties and the 'thirties to cover commercial treaties with Russia, the most-favored-nation clause, the treatment of Russian agencies abroad and so forth could again be put to use; and this solution would be as easy from the technical point of view as it would be unsatisfactory from the point of view of those who believe in the benefits of the international division of labor and the economic unity of the globe.

But is this line of policy likely to be adopted? Is Russia likely to refuse to become part of a peacefully trading world? No one can scrutinize the inscrutable; predictions with respect to Russia are notoriously precarious. Yet a few words about the reasons for this and about certain implications of autarkic or semi-autarkic Russian policy in the past may throw light on the question.

The First World War left in its wake a profound rift between Russia and the Western World. This rift was created in the days of foreign intervention, and the blockade of Russia during the civil war; and it was kept open by the policies of the Communist International. An atmosphere of deep distrust on both sides was the inevitable result.

In the West it led to a refusal, first to trade with Russia and then, after trade had begun, to grant long-term credits, a refusal which in itself was bound to keep down the volume of Russia's foreign trade. As the Russians see it, after this blockade came the gold blockade, when banks refused to accept Russian gold, and after the gold blockade the financial blockade. In Russia it led to the theory of capitalist encirclement of the Soviet Union. War between the country of socialism and the capitalistic world, it was held, was only a matter of time.

To be sure, the German attack upon Russia would seem today to provide the supreme justification for Russia's economic policy, particu-

larly for the speed with which the country's industrialization was carried out. The whole comity of peace- and freedom-loving nations must feel grateful today that German aggression found Russia economically strong enough to redirect the course of the German armies from Moscow to Berlin. But two things should not be forgotten. First, if the policies of Russia and the Western World had been guided by the spirit of friendship and mutual confidence and by the principles of extensive economic collaboration, one major obstacle to nipping German aggression in the bud would not have existed. Secondly, it was not the "capitalistic world" that threw itself upon Soviet Russia, but a country, Germany, whose economy can hardly be considered as a capitalistic economy without doing violence to the term. In Russia's life-and-death struggle it has been the two most "capitalistic" countries in the world, America and Great Britain, which she has found on her side, and that have rendered her invaluable assistance.

These realities of today should prove stronger than the theories of yesterday. The lesson is too impressive not to have been learned—in both Russia and in the West. If this is true then perhaps the strongest reason for autarkic policy, the economic counterpart of the political policy of isolation, has been removed.

Then consider the implication of autarkic policies: to make Russia a strong industrial country within a very short period, and in doing so, to rely in the main on domestic resources, meant that the price had to be paid in terms of the standard of living of the Russian people. Throughout the interwar period it had to be kept below the level that could otherwise have been attained. For both labor and capital were given over to heavy industries at the expense of industries producing consumers' goods.

This is not to say that the Russian standard of living failed to improve at all. Difficult as generalizations in this field are, particularly in view of the absence of adequate and reliable information, this much can still be ventured. War, revolution, and civil war almost halved the 1913 standard of living of Russia's people and brought them down to "Chinese" levels. The famine of 1921 marked the bottom of this disastrous development. Thereafter the curve began to rise again. How far had it risen in comparison with 1913? There seems to be little doubt that the standard of living of the peasantry was, at the end of the 'thirties, higher than before the war. The inhabitants of the Russian village, still about 50 per cent of the population, ate better and were better provided with industrial consumers' goods than they had been a quarter of a century before. There was greater equality of incomes; the "poor peas-

ants" of pre-1914 Russia, landless, horseless, implementless, no longer existed. The same is roughly true in the case of the industrial workers, although the improvement is perhaps somewhat less tangible. A great deal of progress must be expressed in terms of greater security because of a long period of continued employment, in terms of social legislation, in terms of improved spending habits as a result of improved educational standards, and in greater real income per family rather than per head of the working population because of the employment of women.¹

The improvement is undeniable, but it is just as undeniably small for the long period of almost two decades. The Russian worker's level of consumption still cannot be compared with the standard of living of a worker in central Europe, not to speak of countries farther west. Bicycles, cameras and private telephones are still objects of luxury, to say nothing of automobiles and refrigerators. There is no doubt that a high price in terms of standards of consumption had to be paid by the Russian people for the industrialization of the country and the method by which it was accomplished.

Will they be prepared to pay this price again after the end of the present war, and to forego for long years to come a rapid betterment in their living conditions? They will if convinced of the necessity of continued sacrifices. But at the same time we may assume that they are now more keenly aware of the great drop in their standard of living necessitated by the war, and that they will be much more anxious than they were a quarter of a century ago to see not only the restoration of their level of consumption but, more than that, its rapid and steady improvement.

Twenty-five years ago the standard of living was desperately low, but the widespread illiteracy of the people and their inertia made them tolerate the perpetuation of misery and starvation. The mental level, the educational standards of Russia today are certainly far superior to those before and after the First World War. A new spirit has been created which, in conjunction even with the moderate actual improvements in the standard of living, has made people conscious of the deficiencies in their living conditions and earnestly desirous of betterment. In other words, it will be more difficult for them to accept and approve any policy which would delay the enjoyment of a better and richer life. The prospect of a repetition of the long years of sacrifice will be dreaded by the Russian people.

¹ A. Yugow, *Russia's Economic Front for War and Peace: An Appraisal of the Three Five-Year-Plans* (New York and London, 1942), pp. 198 ff.

But Russia, it may be replied, is not a democracy. Why should a dictatorship feel influenced in its decisions by the wishes of the dictatorially governed people? Why should the Russian government value a rising standard of living more highly than, for instance, an increase in its power? Again the answer can be but tentative. To be sure, Russia is a dictatorship, and most of the roots of the governmental system in Russia are to be found in the country itself, in its economic backwardness, in its badly delayed political reforms, in its poverty and illiteracy, in the historical tradition of a country where it was always the absolutist State, rather than the free activity of the individual, that shaped and determined development. All this is undeniable. But it must not be overlooked that there are also important ties connecting Russia with the intellectual and moral development of the Western World. Most of the men who were responsible for the establishment of the present regime in Russia belonged to that peculiar and unique group called the Russian intelligentsia. Ever since the eighteenth century the best representatives of this group had looked to the West for their social and political ideals. These ideals varied as decades went by, but through all these changes there remained a vital connection—even if disowned—with the liberalizing trend of the nineteenth century. While German Nazism and Italian Fascism bitterly opposed the legacy of that century, freedom and a rising level of welfare, the Bolsheviki never represented their dictatorship as anything but a transitory stage on the road to democracy. They never sang the praise of poverty, and never extolled irrational values of power and race. For this reason some outstanding foreign observers believed they were even able to discern elements of democracy in the shadow of an omnipotent dictatorship.

This is not to suggest that the Russian dictatorship will transform itself into a democracy on the day after the end of the war. Many of the men who originally placed themselves at the helm of the Russian State are gone. But the general philosophy of the Russian regime that has remained, a philosophy hammered into millions of brains with all the effectiveness of a monopolistic government education, will be a very strong factor in determining the choice of policies by the Russian Government. It is quite possible therefore that it will not again choose the path of autarky and shun international collaboration, unless it feels bound to make a convincing case to its people along the lines of the old dictum of Adam Smith that defense is more important than opulence.

If in the course of this supreme struggle against the common enemy the atmosphere of past distrust and even hatred should give way to mutual confidence and understanding; if, when this struggle is over, a

comprehensive political agreement between Russia, Great Britain and the United States should make secure the basis of, or rather the point of departure for, a peaceful development of the world, then it is not unreasonable to expect Russia to abandon autarkic policies and to reconstruct the Russian economy and direct its further expansion in close economic cooperation with the rest of the world. In other words, we may expect Russia to adopt the international rather than the national solution.

The advantages of this policy cannot be overestimated. Access to commercial and financial markets of the West will enable Russia to deflect less of domestic resources from consumption to capital investment; it may enable her to dispense to a certain extent with the rule she tried so hard to enforce in the past, namely, the greatest possible exclusion of consumers' goods from her imports.

This does not mean that Russia's industrialization will be slowed down. But it will become possible to carry out the reconstruction and continue the industrialization under conditions of a rapidly improving standard of living. It will no longer be necessary for Russia to sell from time to time considerable amounts of foodstuffs that are sorely needed at home, and to sell them at ruinous prices, ruinous for herself, for her competitors, and of little benefit to the foreign consumers. She will be able to repay the loans from abroad at a steadily increasing rate by exporting industrial products. The efficiency of her industry will be increased rather than diminished because she could pay greater attention to the principle of international specialization.

Nobody can expect Russia to diminish her war potential and there is no necessity for her to do so. Russia will continue to expand and improve her heavy industry. But a large war potential need not mean an autarkic economy; nor does it mean an "economy of preparedness." This has been most impressively shown in the case of the United States.

On the contrary, if Russia dispenses with the rule that she should produce everything at home she will be able to utilize her resources better, to use her labor and capital more rationally, and to develop higher skills in certain branches of production. The Russians will continue as before to build up new industries that will need time before they can attain the efficiency level of old-established industries elsewhere. But, with a large and growing foreign trade, they will obtain better results in a shorter time. The infant industries will reach maturity sooner, while the Russian people will be better fed and better clad.

Politics is an art of proportion. It is not necessary for the Russians to go from one extreme to the other. They cannot be expected to aban-

don the principle of autarky altogether. Some autarkic elements will surely remain in the Russian body economic as they will remain in the economies of other countries. But this is perfectly compatible with a large foreign trade which will grow with the growth of the Russian economy and with the improvement in the level of welfare of the Russian people.

Let us repeat, there is no intention here of making forecasts. But it is not unreasonable to assume that Russia may be willing to pursue the road of extensive international collaboration. This, however, is not the end, it is the very beginning of the problem; for what remains is the question: How could, and how should, economic collaboration on a large scale be organized between Russia and countries some of which have a completely different economic system, and others an economic system with kindred elements but considerably different from the Russian? In other words how can the export and import of goods, services and capital proceed between an economy whose foreign trade is completely regulated and a number of free and "mixed" economies?

III. *The Organization of Russian Foreign Trade*

It must be assumed that the peculiar organization of Russian trade will not change in any essential way, although minor modifications may be made. A very brief survey of the historical development of the Russian foreign-trade organization and of the functions which it performs, will show that this is the only reasonable assumption on which to work.

The Russian system of foreign trade is an all-inclusive government monopoly. The foreign-trade monopoly is one of the oldest Soviet institutions, having been established as early as April 22, 1918. Article I of the decree of that date reads as follows: "The entire foreign trade is nationalized. Commercial transactions in all goods whatsoever—extractive and manufacturing industries, agricultural products, etc.—to and from foreign states and individual trade enterprises abroad are to be effected on behalf of the Russian Republic by organizations authorized for this purpose. Any imports and exports through channels other than these enterprises are prohibited."

What was the purpose of this organization of foreign trade? At the time of its initiation and for a few subsequent years the foreign-trade monopoly did not fulfill any purpose, for the simple reason that to all practical intents and purposes, Russian foreign trade did not exist. Civil war and inflation, the general disruption of the whole economy, the maintenance of the allied blockade of Russia till 1920, unwillingness to trade with Russia, the uncertainty of the Russian international status, the

vexed question of Russian public debts and alien property in Russia—all these reduced trade relations with Russia to zero. Toward the end of this period, in 1920, some imports began to trickle into Russia. The government thereupon took special measures to intensify the centralization of foreign-trade operations. But this policy could not be maintained. In 1921 what came to be called the period of "war communism" came to an end and was replaced by the NEP, the New Economic Policy. This was an officially admitted retreat from the policy of complete socialization and a partial return to the system of free enterprise. The Russian economy became a "mixed economy," consisting of two sectors, the socialized sector and the sector of free enterprise. Key industries, banks and foreign trade were reserved for the socialized sector; but this did not mean that the change in policy was without influence upon the organization of foreign trade in Russia.

From 1921 on, although at first very slowly, foreign trade began to develop. Thus the system of government control began to assume practical significance. On the other hand the system of monopoly in its strictly centralized form could not be maintained. A certain decentralization had to be allowed. This was a natural development. The Government and government organizations had no experience in the field of foreign trade. Government trading in conditions of acute political antagonism between Russia and foreign countries was extremely precarious. Commercial treaties were still few, and some of them were of temporary and uncertain character. It seemed imperative, if there should be trade, to introduce at least some measure of freedom in foreign commercial relations. The Russian consumers' cooperatives as well as agricultural cooperatives therefore began to play an important role in foreign trade. These organizations preserved from the prewar period international contacts with complementary organizations in foreign countries. Their leaders, moreover, had practical business experience. This experience and these contacts were most welcome to the government. Various Russian socialized industrial organizations obtained the right to make direct sales and purchases abroad. "Mixed companies" were also founded in which the Russian Government participated to the extent of one half of the capital while the other half was owned by foreign banks or groups of commercial houses. Here foreign private capital was admitted directly to foreign trade. A considerable amount of freedom was granted to all these organizations. This was the only way to rebuild at least some trade between Russia and other countries.

Why then was the system of monopoly preserved when it seemed to have become superfluous? At the time, opinion in Russian government

circles was divided. A strong group pressed for the abolition of the foreign-trade monopoly and its replacement by a system of protective tariffs, but the endeavors of this group failed. The foreign-trade monopoly was maintained because it was felt that no tariffs, whatever their level, would be sufficient to protect domestic industries. It was feared that foreign subsidies and foreign dumping might render useless all attempts at industrialization, while at the same time the pent-up consumer demand would make for large import surpluses and influence the structure of imports in an undesirable way. Only quantitative controls as provided by the supervisory and licensing rights of the monopoly, it was thought, would prove effective. The foreign-trade monopoly was also regarded as essential for extending the socialized sector and preventing an undue expansion of the free-enterprise sector in what appeared to the Russians its most undesirable form, namely, foreign economic penetration.

Such were the reasons for maintaining the monopoly at the beginning of the 'twenties. But since then developments have taken place which have greatly enhanced the role of the foreign-trade monopoly. The Russians have succeeded in building up a planned economy. The period of the NEP came to a close in 1928 and since then the elements of private enterprise have been reduced to complete insignificance in Russia. With the development of a planned economy the foreign-trade monopoly has acquired a new character, inasmuch as it has become an integral part of the planned economy.

This was reflected in the reorganization which took place in 1930. Foreign trade again became centralized. If throughout the period of the NEP the government often merely *regulated* foreign trade, and did so infrequently in a rather loose and liberal fashion, throughout the 'thirties it was the government that *conducted* foreign trade. Centralization of foreign trade was accompanied by specialization. Government corporations were instituted, each specializing in a certain branch of export or import trade. These corporations provided the groundwork for the foreign-trade plan. Each prepared a plan for the exports or imports in its branch including in general both quantities and prices. On the basis of this plan and taking into consideration past transactions, the corporation set up its foreign-exchange plan, that is, a prospective balance for the annual income and outgo of foreign exchange.

These plans of the individual corporations were then integrated by the Commissariat of Foreign Trade into global quantitative plans for foreign trade and foreign exchange. Then plans were added for non-commercial revenue and expenditure of foreign-exchange, including

transport institutions, the expenses of diplomatic representatives, etc., which plans were prepared by the Commissariat of Finances. Thus an aggregate foreign-exchange plan was drafted for confirmation by the government, and represented in fact the country's projected balance of payments for the next year. The annual plan was broken down into quarterly and monthly plans. The general disintegration of trade in the 'thirties, attendant upon the employment by other countries of exchange control and bilateral devices, increased the importance of a foreign-exchange plan divided according to countries, thus encompassing Russia's balances of payment with individual countries in the period to come.

This plan was implemented by the system of exchange control developed in the 'twenties when exports and imports of Russian currencies were prohibited. All foreign commercial transactions took place in foreign exchange and not in rubles. Accordingly no rubles were traded on foreign markets. From 1931 on, all these transactions were channeled through accounts with the State Bank. This created the possibility of current supervision of the transactions of individual corporations in accordance with the foreign-exchange plan.

By this mechanism the internal and external values of the Russian currency were divorced. The rate of exchange of the ruble has been therefore purely nominal, except perhaps in the case of foreigners traveling in Russia or maintaining offices there.

In general, therefore, the external value—the rate of exchange—of the Russian ruble did not affect the volume of the country's international transactions. This was recognized at the recent monetary conference at Bretton Woods. One of the stipulations of the agreement on the International Monetary Fund reads: "A member may change the par value of its currency without the concurrence of the Fund, if the change does not affect the international transactions of the members of the Fund." This obviously referred to Russia and implied an acceptance of the nominal character of the ruble rate of exchange.

On the other hand all imports required the special permission of the Commissariat of Foreign Trade, which checked their conformity with the general import plan. Besides, each import and export corporation was connected by special arrangements—which had to be approved by the State Planning Authority, the Gosplan—with the general economic plan, and thus with the Russian domestic economy.

Actual trade is then conducted, with insignificant exceptions, by the specialized government export-and-import corporations under the supervision of the Commissariat of Foreign Trade and the State Bank. These corporations buy and sell abroad either directly, which is a more recent

development, since 1935, or through the medium of trade missions or special corporations established abroad like the Amtorg Trading Corporation of New York.

These were the essential features of the Russian monopoly in foreign trade, as it developed after the abandonment of the NEP policy. To repeat, it was the government that conducted foreign trade through its organizations. This trade was part and parcel of the general economic plan, and at the same time the foreign-trade monopoly, in conjunction with the system of exchange control, became a necessary complement of the Russian planned economy as a whole.

Clearly the planning authority must be anxious not to allow temporary fluctuations on foreign markets to jeopardize the execution of its economic plan. It must refuse to be placed under the necessity of adjusting the plan to any and every, perhaps fleeting, change abroad, or, in other words, to have its price system based on a complete and direct interdependence with the price system on the world market. The monopoly, then, acts as a shock absorber. Sudden changes in prices which are expected to reverse themselves after a short time can be taken up by the monopoly and are reflected in gains or losses to the monopoly rather than in changes of the domestic price level.

It is sometimes said that a planned national economy like the Russian is not compatible with foreign trade. This is not so unless the planned economy is deliberately built along autarkic lines. But it is true that economic planning of the type practised in Russia is not feasible without the use of a foreign-trade monopoly. To expect the Russians to abandon their foreign-trade monopoly is therefore tantamount to expecting them to abandon their planned economy. Since this cannot be assumed we must conclude that in their trade with Russia exporters and importers will be dealing with a number of rather strictly centralized organs of the Russian government. It is with these government organs that they will have to arrange their sales to and purchases from Russia.

IV. *Equality of Trading Opportunity*

1. *The Interwar Problems*

What then are the difficulties in the path of trade between the Russian trading monopoly and the rest of the world? It may be argued that the preservation of her monopoly of foreign trade by Russia will not create any new situation. A host of questions had indeed to be solved when the monopoly made its first appearance abroad. The novel phenomenon

of a trading state had in some way to be assimilated in the practice of foreign trading.

Could the organs of the monopoly, representatives of a sovereign state, be sued in foreign courts? Could claims be made against the property of a sovereign state? Were the Russian trade missions to enjoy all privileges usually accorded to representatives of a foreign government? What about the legal position of foreign merchants in Russia? How could the principle of national treatment be applied in relations with a country the legal system of which differed so profoundly from that in the homeland of the foreign merchants? How could even a modicum of indispensable commercial credits be arranged with a country that had just repudiated her foreign debts, and into the bargain had expropriated the property of foreign owners of factories, mines, oil wells, and land in Russia? How could a planned economy where the cost-price structure was arbitrarily determined be prevented from dumping her goods on the foreign markets at any price? How could discrimination be avoided? Would the traditional, well-tried instrument of the most-favored-nation clause prove effective in securing equality of trading opportunity?

All these questions had to be settled in some way or other. The available body of doctrines and rules in the field of international law proved of little value. They had been created for the needs of a trading system between economies based on and applying the principle of free enterprise. Yet, gradually, solutions were found which in most respects proved reasonably workable. To be sure, time and again, trade with Russia was interrupted as a result of political controversies and political antagonisms. Charges and countercharges were exchanged, very often in connection with the alleged use of the Russian trade apparatus for purposes of political propaganda. Still, on the whole, a framework for trade was created. The legal questions were settled in special agreements that gave mutual satisfaction. Government guarantees to private firms rendered possible the financing of Russian imports. The question of dumping was disturbing, it is true, but only sporadically in the Great Depression. Equality of trading opportunity was guaranteed, in some measure, by the use of the most-favored-nation clause, supplemented by additional quantitative safeguards.

Some of those solutions, particularly those pertaining to the legal status of trade, may well have permanent value and be used in the future. The fact that the Russian Government has discharged to the last cent its commercial debts, contracted in the interwar period, when defaulting on international debts in various forms was so widely practised

as to become almost conventional, certainly is a very important moral asset for postwar trade. A general climate of confidence has been created.

But one thing must not be overlooked. Many of the solutions worked out in the past were adequate for the small volume of foreign trade conducted by Russia. They will not necessarily be adequate and satisfactory if the Russian trade, as we have assumed in the first sections of this pamphlet, considerably exceeds its prewar volume. This volume was exceedingly small. The value of the trade of the huge country was on the whole on the level of the trade of small European countries like Switzerland and Sweden, countries whose population is, respectively, about 2.5 and 3.5 per cent of that of Russia. In no single year did Russian foreign trade in the interwar period reach Russia's share in world trade before 1913. In 1913 Russian imports were 3.6 per cent of world imports while Russian exports were 4.2 per cent of world exports. The highest share of world imports in the interwar period was attained in 1931 with 2.7 per cent. The highest figure for exports was 2.3 per cent, in 1932; that is, when a great shrinkage of world trade in the worst depression year happened to coincide with Russian exports, which had been increased to meet the foreign-exchange demands of the First Five Year Plan. In the depression years the Russian imports of certain specific commodities amounted to a very great proportion of the total exports of these commodities from important countries. Thus in 1931 Russia took 55 per cent of all machine tools exported from the United States. In 1932 she took 81 per cent and 74 per cent of all machine tools exported from England and Germany respectively, and 68.2 per cent of the world export of lathes. In 1931 Russia imported 90 per cent of the aggregate world export of tractors. And yet despite these huge percentage shares of some imports Russia's total share in world trade remained pitifully low. After the First Five Year Plan both total trade and trade in specific commodities began to fall off rapidly. In 1937 Russian imports were computed by Russian sources to be about 27 per cent of the imports of 1931.²

Computed over the period 1925-1937, both Russian exports and imports amounted roughly to 1.5 per cent of world trade. It is not necessary to compare these figures with the share in world trade of the United States (1929: exports, 15 per cent; imports, 12 per cent), in

² *Vneshniaia torgovlia S.S.S.R. za 20 let, 1918-1937, statisticheskii spravochnik (Twenty Years of Foreign Trade of the U.S.S.R., a Statistical Reference Book)*, compiled by S. N. Bakulin and D. D. Mishustin (Moscow, 1939), p. 20; I. S. Ginzburg, *Vneshniaia torgovlia S.S.S.R. (Foreign Trade of the U.S.S.R.)*, (Moscow, 1937), p. 39.

order to understand how profoundly anomalous the situation in Russia was, particularly for a country undergoing, as Russia was, a process of industrialization at a speed unprecedented in history.

Let us consider the implications of a great, perhaps manifold increase of Russia's share in world trade, particularly in an expanding world trade. Russia's trade would not be distributed evenly amongst all countries and this implies that the Russian share would become very substantial in the foreign trade of a number of countries. That old methods of trade will become insufficient under these circumstances may be most clearly perceived when the question of how to ensure equality of trading opportunity is raised.

2. *The Interwar Solutions*

How was this question handled in the interwar period? At the beginning the specific difficulties involved were not clearly seen and trade agreements concluded with Russia simply carried the traditional form of the most-favored-nation clause. This clause, as is well known, is capable of ensuring equality of trading opportunity as long as trade is not regulated by devices other than tariffs. To be sure, certain evasions of the most-favored-nation clause were always possible. Yet on the whole in the developed system of nineteenth-century trading they were negligible. The situation, however, becomes very different when trade is conducted by a government authority as it is in the case of the Soviet Union.

From the Russian point of view the most-favored-nation clause still was of very great value. For it guaranteed that Russia would be accorded the lowest tariffs granted to any third country. But what was the situation from the point of view of Russia's trade partner? Russia also has a system of tariffs. To a certain extent the Russian tariffs are a fiscal device. At the same time they aid in simplifying the cost accounting of the state enterprises. To a certain limited extent they were also designed in the period of trade decentralization to exert certain protective effects. But the point is, of course, that if Russia lowers her tariffs or even abolishes them altogether, no guarantee is given that the government monopoly will increase its purchases from the country concerned. As one of those negotiating a trade agreement with Russia once exclaimed: "If we grant you a low tariff on caviar, you will swamp the country with it; but if you grant us a low tariff on our jewelry, there is not the slightest chance for us to increase our exports unless you should want to import jewelry." After all, tariffs under Russian conditions are paid by the government to the government. Losses incurred

by the purchasing offices of the Russian Government on account of tariff payments are merely bookkeeping losses.

Therefore the most-favored-nation clause is not in itself able to guarantee equality of trading opportunity. Moreover, to the extent that quantitative regulations of trade were in use outside of Russia the Russians also felt that the clause did not necessarily secure for them equality of trading opportunity.

For these reasons, in the course of the interwar period, various additional stipulations were settled upon in order to remedy the deficiencies of the clause. For example, one of the devices used for some time in Russo-English trade was to agree upon a certain ratio of imports and exports. The peculiar position of a foreign-trade monopoly was also fully recognized in the commercial agreements concluded between the United States and Russia, in the 'thirties. In the Agreement of 1935 the United States granted Russia tariff reductions made under the terms of the Reciprocal Trade Agreements Act of 1934, whereas Russia undertook "to take steps to increase substantially the amount of purchases in the United States of America for export to the Union of Soviet Socialist Republics." Simultaneously with conclusion of this Agreement a further exchange of notes took place in which the Russians indicated their intention to purchase American goods to the value of \$30 millions during the period of one year for which the Agreement was concluded. After this Agreement was once renewed, in 1936, it was replaced by the more extensive Agreement of 1937. In that Agreement most-favored-nation treatment in its unconditional form was, with the customary United States exceptions, accorded to Russian goods in matters of customs duties and to American exports to Russia as regarded any export restrictions in the United States. But it is significant that the United States did not insist on obtaining the same privileges from Russia. Thus the most-favored-nation clause in American-Soviet relations was unilateral. In the 'thirties, the nature of the Russian foreign-trade monopoly had been sufficiently understood. The American Government simply refused to bother about a concession which would have been to all practical intents and purposes worthless. Instead, the practice introduced in 1935 was continued, and, by an exchange of notes the Russians again informed the United States Government of their intention to purchase during the coming year American goods worth at least \$40 millions. As a *quid pro quo* for this \$10 millions increase in minimum purchases the special duty on Russian anthracite coal was removed whereas the Russians declared that exports of such coal were not intended to exceed the total of 400,000 tons. The wartime Agree-

ment of 1941 naturally did not carry quantitative stipulations but it may be added that in general such stipulations had worked reasonably well in practice. They illustrate and confirm what actually should have been obvious from the outset, namely, that other devices must be sought for, to provide a substitute for the services performed between free-enterprise economies by the most-favored-nation clause.

How shall we appraise this innovation? No doubt, it may have real merits. It is of considerable value for a country to know in advance that its industries will be able to sell in the course of a period to come a definite amount of goods. This is indeed an advantage which only a foreign-trade monopoly is able to accord its partner in a trade agreement. No government of a country where free enterprise prevails can make such commitments. A planned economy may go even further, and besides giving the aggregate amount may even provide its partner with a specification of the goods which it is going to purchase in accordance with the plan. At the same time it can assure the trading partner as to the maximum amount of exports of a certain commodity, as in the case just mentioned. There is no doubt that thereby the prospective results of a concluded trade agreement can be rendered more tangible, and that elements of security are introduced into trading relationships. This may be of some value at all times. It will of course be particularly appreciated in times when trade is bad and the pressure of foreign competition great.

But this is only one side of the question. First of all, such quantitative obligations, while providing security, also create rigidity. The country with a foreign-trade monopoly, after having undertaken to buy a definite amount in the other country, may find itself making purchases not in the cheapest place if price shifts occur in the interval. It may find itself unable to sell in the other country as much of a commodity as it would want to sell at the prices prevailing there. The consumers in the other country may find themselves prevented from obtaining the commodity in question from the cheapest and best source. These disadvantages are inherent in the idea of such quantitative provisions. To what extent they are offset by the advantages previously mentioned is a question which must be decided on the merits of each individual case.

3. *The Postwar Problem*

Such experience gathered in the past provides only inadequate guidance for policies of the future. The question of how to prevent discrimination and conduct trade on a footing of equality will have to be solved anew. Two new factors of major importance must be mentioned

here. One is the changed attitudes in relations between Russia and the Western democracies; the other is the probable increase in the volume of Russia's foreign trade. Let us first speak of the latter.

As said before, even in the interwar period, in certain exceptional years, Russian purchases of some commodities were considerable. But as long as Russian total imports from the United States amounted to little more than one per cent of total United States exports the whole question was not of vital importance and could be satisfactorily settled by rather loose arrangements such as those used in the Agreement of 1937. Will they be adequate to ensure smooth trading relations in a period of greatly increased Russian trade?

It is, of course, advisable to reduce the prospects for such an increase to a somewhat more realistic level. In the recent past, figures have been allowed to reach the public which must be considered as fantastic. In one of such estimates Russian purchases were envisaged to amount to ten billion dollars for the first three postwar years. This would mean continuation of exports to Russia on the level of recent lend-lease exports and, if the recent forecast of the Bureau of Foreign and Domestic Commerce for American exports in 1948 is correct, that something like one-third of our exports would go to Russia.³

There have been recent reports on negotiations with Russia concerning the conversion of lend-lease into long-term credits. Details are not known but there is little doubt that service of loans exceeding three billion dollars per year, and continuing for a number of years, would amount to such a large proportion of Russian exports for long years to come that the Russians can hardly be expected to accept such credits. Besides, there has been a certain tendency to blur the difference between "reconstruction exports" to take place in the first years after the termination of the war and the normal level of our exports to Russia thereafter.

Yet, while it is advisable to sound this warning and reduce these estimates to more realistic proportions, a very considerable increase of Russia's foreign trade—and this as a long-run phenomenon—may still be expected. It is not necessary to accept more than a fraction—say one-fourth or even one-fifth of the current estimates—to be justified in repeating: If, other things remaining equal, Russia becomes a trading country of such vast magnitude the old methods of trading will not suffice.

But some "other things" should not remain equal. The atmosphere

³ August Maffry and Hal B. Lary, "Foreign Trade After the War," United States Bureau of Foreign and Domestic Commerce (October, 1943).

of suspicion which, in the past, characterized the economic and political relations between Russia and the West is in the process of giving way to mutual respect and confidence. In the interwar period Russian purchases were often directed for political reasons. This was freely admitted in the Russian literature on the subject and was, in fact, quite natural considering the conditions of latent or patent political antagonism between Russia and many foreign countries. The threats of Nazi aggression, before 1939, made Russia deflect many of her purchases from Germany. But in her trade with other countries also, as, for example, England in 1927 and 1933, there were sudden stoppages or great reductions of trade as a result of political controversies. Thus, very often in the past, Russian trade has proceeded in a jerky, spasmodic fashion. There is little doubt that this trade by fits and starts inflicted a considerable amount of economic damage on Russia as well as on her trade partners.

In the climate of a general political understanding after the war, which certainly is a prerequisite for economic collaboration, political determination of trade may be expected to diminish steadily. The diversion of trade for political reasons may indeed be used against countries showing signs of aggression, but this would be done on the assumption of a broad political agreement between Russia and the Western democracies, that is, by international rather than unilateral action.

It is important in building up postwar trade mechanisms to take account of improvements which already have taken place and to proceed in such a fashion that in due course the last remnants of the old spirit of distrust will disappear.

Under these circumstances it may be suggested that perhaps the simplest way of solving the question would be to make a general agreement with Russia in which the latter shall undertake to be guided in the conduct of her foreign trade exclusively by commercial and not political considerations. A comprehensive formula embodying this principle has been worked out in the course of our Reciprocal Trade Agreement policy. According to that formula the government that maintains an "exclusive agency for the importation, exportation, sale, distribution or production of any article" shall accord the commerce of the other country "fair and equitable treatment in respect of the foreign purchases or sales of such agency. To this end such agency shall, in making its foreign purchases or sales of any article, be influenced solely by considerations, such as price, quality, marketability, transportation, and terms of purchase or sale which would ordinarily be taken into account

by a private commercial enterprise interested solely in purchasing or selling such article on the most favorable terms.”⁴

No one can doubt that the inclusion of such a formula in a trade agreement with Russia is beneficial and, in fact, indispensable under any circumstances. It appears now entirely realistic to assume that at least after a certain preparatory period trade with Russia could very satisfactorily proceed on the basis of the commercial-principles clause so that no other regulations would be needed. However, certain problems remain and certain objections have been made which must be discussed.

One of the objections is the following: If a country practising an all-comprehensive government monopoly of foreign trade undertakes to base its trade on nothing else but commercial considerations, and if this means proceeding in such a fashion as to maximize her benefit from foreign trade, then it is altogether compatible with this principle that the foreign-trade monopoly should discriminate as between various sources of supplies. As a matter of fact it is not only compatible with that principle but directly required by it. A foreign-trade monopoly of such importance as the Russian would naturally take into account the effect of its own purchases and act accordingly. It would not simply accept the prices on the world market as given. It would be mindful of the fact that by its buying it can influence conditions of production and prices on foreign markets. Therefore it would pay low prices for a commodity on markets where an increase in price would not substantially increase the available supply. It would, on the contrary, pay higher prices where the supply is easily expandable, as prices rise.⁵

It should be noted that this argument presupposes that communications between foreign markets are impeded by various factors—for instance, Russia may insist on certificates of origin for the goods she buys—and that there is only a limited internal market for such goods in the exporting country. The possibility of this type of discrimination, therefore, should not be exaggerated. Besides, it would be unrealistic to assume that the market in foreign countries is completely free, and the Russians would be quick to reply that in many cases they had to suffer from discrimination committed by great monopolistic concerns outside of Russia.

Perhaps more weight should be placed on the fact that a country

⁴ *Executive Agreement, Series 311*, “Reciprocal Trade Agreement between the United States and Mexico” (Washington, 1943).

⁵ League of Nations, Jacob Viner, *Trade Relations between Free-Market and Controlled Economies* (Geneva, 1943), pp. 77 ff.

whose buying power is concentrated in the hands of a foreign-trade monopoly could at any time threaten to divert her trade and to inflict on the firms of another country the cost of an adjustment. It is clear that such a threat may enhance the first country's bargaining position and may result in an improvement of her "terms of trade." This improvement could not last indefinitely. Sooner or later the adjustment will be made. But for some time undue profits may be reaped from such a policy. Yet it would be dictated by commercial rather than political considerations and would be compatible with the commercial-principles clause. Again, such possibilities should not be overestimated. If such policy were to be pursued on a large scale foreign firms would become reluctant to adjust their production to the Russian requirements to any considerable extent. We shall return to this point presently.

Finally some countries may feel that the observance of the commercial-principles clause will be very difficult to supervise. A few examples may illustrate the point.

The rule of commercial considerations implies that—other considerations remaining equal—Russia undertakes to purchase in the cheapest market, and this must be considered as an integral part of any agreement to be concluded. The question then would arise as to how it is possible to watch over prices paid by Russia. It must be remembered that Russian imports for the most part do not consist of staple products. They consist of differentiated industrial products where price comparisons are extremely difficult. An infringement of the agreement would therefore be almost impossible to prove. Besides, the lowest price is established in the process of bargaining. Assume that the Russians obtain an offer from an American firm where a certain price is quoted. They then show this quotation to another firm—for instance, British—which after some hesitation makes an offer quoting the same or an almost similar price. Possibly the American firm would be inclined to reduce prices even further, but it is not to get the chance. From the Russian point of view prices are equal and it is left to their discretion where they will place the order.

Price comparisons become even more tenuous when differences in payment conditions are included. To be sure, some of them should be easily reducible to price differentials. But some of them are not. The Russians may have a real interest in a certain technique of financing their trade.

To give an example: In the past Russian imports from some European countries were frequently financed by acceptance credits. The Russian trade mission would accept a bill of exchange drawn on it for the pur-

chased goods whereupon the exporter would deposit this bill as collateral with a credit institution and the latter would draw on the exporter bills which after acceptance could be discounted with a central bank of the country concerned. In other and more recent cases, it was the Russian paper that could be discounted directly and not used as collateral. The Russians evinced great interest in introducing their acceptances in foreign markets. They justly believed that this would, in the long run, reduce the cost of credits to them. They therefore considered the second method a definite advantage to them, and would be prepared to secure credits even if the commodity prices quoted were higher than elsewhere. Finally, the foreign-trade monopoly naturally would often be extremely reluctant to divulge the prices of one competitor to the other. In doing so they would claim for themselves the right to commercial secrecy enjoyed by every individual business firm.

The aggregate weight of these considerations may vary from country to country. Some countries may be willing to discard them altogether. In other countries the feeling may prevail that the rule of commercial considerations would be open to arbitrary interpretations, would lead to accusations and counter-accusations, and could be applied only with considerable difficulty. They may feel that the rule would be useful mainly as a declaration of intent, and as a general guide for commercial policy. They may argue that they went beyond the commercial-principles clause in the past when trade with Russia was small, and they may prefer to have the clause supplemented by other devices, at least as a temporary expedient until such time as experience has been gathered as to the mode of operation of a greatly increased volume of Russian trade. Otherwise, they may regard the clause as having very limited practical value.

These supplementary techniques would then be readily found by such countries in the form of quantitative purchasing stipulations as developed during the interwar period. In doing so they may also strive to assure long-term trade agreements. The 1935 and 1937 Agreements between United States and Russia were concluded for the duration of one year and then renewed annually. If the agreement should not be extended after it has resulted in huge exports during one year, the exporting economy would be put under the pressure of a sudden and perhaps painful adjustment. Just how difficult the adjustment would be would of course vary in the case of specific industries. It would be also more or less difficult according to whether business in general was expanding or contracting. But it would in any circumstances produce a period of strain and stress.

An obvious remedy in such a case would be to have trade agreements concluded for a longer period than just one year, coupled with the obligation to give advance notice if the agreement is not to be renewed. This was, in fact, done when the 1937 Agreement between United States and Russia was renewed in 1942. However, this Agreement, like its immediate predecessor of 1941, carried no quantitative provisions.

Agreements along the lines sketched in the preceding paragraphs may give some countries the feeling that the margin of possible discrimination has been narrowed down and an additional amount of protection secured. They may conceive of such agreements as interim devices and this temporary return to the practices of the interwar period may indeed be judged satisfactory from the point of view of one trading country. But this is precisely the heart of the trouble.

4. *The Risks of Bilateralism*

For *one* trading country! For let us not be mistaken. When we recognize that the most-favored-nation clause does not serve its purpose in trade relations with a foreign-trade monopoly, and have introduced quantitative stipulations into trade agreements, we have still not established equality of trading opportunity. We have merely provided for a certain volume of trade. Whether exports will then be higher or lower than would have been the case under a free market and tariffs equalized by the most-favored-nation clause is a question which simply cannot be decided. The minimum quantity of exports will no doubt depend on export prices in relation to prices in other countries, but it will also depend upon our bargaining position in relation to the bargaining position of other countries. In other words, there is no reason to assume that quantitative regulations embodied in agreements concluded between pairs of countries would provide for equality of trading opportunity. This raises the problem of bilateralism vs. multilateralism in trade with Russia. This is, in part, a question of greater approximation to the ideal of equality of trading opportunity, and in part a problem of the Russian balance of payments and of the way in which the Russians will pay for their imports. The two aspects are of course intimately interrelated.

International trade after this war will be at the crossroads. It may be built up again either along essentially bilateral or essentially multilateral lines. Only the latter system would allow of a greatly expanded and steadily growing world trade and a full utilization of the principle of international division of labor. Only with multilaterally organized trade is a country able to buy where the cost of production is lowest and sell where it can get the highest price. The proceeds from exports

to one country can be used to pay for imports from all over the globe. The balance of payments between pairs of countries can be active or passive. The need of adjusting imports and exports, or, more generally, debits and credits, exists only between each country and the rest of the world.

If, instead of the truly international system of multilateral or multi-angular trade, the trading countries return to bilateral trade, whatever may be the particular devices used—such as clearings or the various forms of compensation which were rife in the 'thirties—the principle of purchases at lowest cost will always have to give way to the specific requirement, to the peculiar law of bilateralism, namely, to adjust the trade balance in such a fashion that exports and imports between each pair of countries are equal.

There is hardly any need to emphasize the damage resulting from this system. It involves deflection of trade from the most profitable channels, structural adaptations of production involving the misapplication and malinvestment of capital, and continual government intervention, because in fact the exports and imports will not balance and special measures are necessary to make them balance. It is indeed incompatible with the principle of non-discrimination, because discrimination must be used perpetually to maintain the desired artificial ratio between exports and imports. Discriminating exchange rates, discriminatory prices, discriminatory credit policy, discriminatory subsidies, discriminatory stoppages of exports or imports—these are the indispensable tools of bilateral trade. It is, in fact, a system of trammled trade, of discriminatory trade, of economic warfare rather than of peaceful trade. Why then is there a danger that such a profoundly unsatisfactory system may be adopted?

Unfortunately there are several reasons for fearing such a development after the war, one of them being directly pertinent to our subject. Postwar trade may be pushed into bilateral channels for various reasons. Plans for an international monetary organization may not succeed and neither an orderly adjustment of exchange rates nor a supply of short-term credits for international transactions may be provided. An important trading country like England may decide that bilateral arrangements will aid her both in securing imports and recovering export markets lost during the war. In dealing with a foreign-trade monopoly of an important trading country, the trade partners of the latter may feel that by imposing bilateral methods of trade, they can secure a certain ratio of imports and exports, and as such, some substitute for the lack of guarantee of equality of trading opportunity.

To illustrate: If Russia exports a considerable amount of goods to England, but does not import much from England, the latter may threaten to cut off imports from Russia unless Russia agrees to use all or most of the sterling she receives in England for purchases there. It is easy to estimate the consequences. If Russia has to increase her purchases in England, she must decrease her purchases in another country, say Belgium. Thereupon Belgium must restrict her purchases in England or perhaps in a third country which ultimately would buy from England, unless indeed Belgium tries to force England or the third country to take more Belgian goods. This is a process in which the volume and the utility of trade are bound to be greatly reduced. The worst feature of bilateralism is its inherent tendency to spread and to perpetuate itself.

Once a ratio between imports and exports has been fixed the exporting interests in the country with an import surplus may be relied upon to drive the ratio down to 1:1. Thus the Russo-English agreement of 1934 envisaged from the outset a gradual change in the ratio of English exports to imports of from 1:1.7 to 1:1.1. Once a considerable amount of bilateralism has been injected in one spot it will naturally tend to spread till it has pervaded large parts, if not the whole, of the world economy. Trade will be reduced to barter over a widening area. It is perilous even to enter the road of bilateralism because at the end of this road lies not the reconstruction of world trade, but the disintegration of the world economy into a multiplicity of bilateral islands. It is impossible to have trade with one country, such as Russia, organized on bilateral principles, and avoid repercussions in the same direction in the rest of the world.

5. *Russia's Interest in Multilateral Trade*

Thus the difficulties which must be overcome begin to become clear. On the one hand there is the great goal of equality of trading opportunity. This is the traditional principle of foreign commercial policy in the United States. This is the basis for peaceful international trade relations. Discrimination must be avoided. However, once the whole trade of an important country is conducted by a government monopoly, quantitative regulations frequently are difficult to avoid as a protection against discrimination. But quantitative regulations agreed upon between pairs of countries create the great temptation to have trade based on bilateral rather than multilateral principles.

Given a certain aggregate amount of purchases which Russia is prepared to make abroad, a foreign country is anxious lest Russia should

buy less in her market than would have been the case if a free competitive market existed in Russia. But if the country in question has a considerable import surplus in her trade with Russia she may force the latter to buy *more* than would have been bought in the absence of a monopoly. It is, then, not only the government-monopoly country that jeopardizes an equality of trading opportunity; it is, to the same extent, the trade partner of the trade-monopoly country that may practise the discrimination against Russia and by the same token against third countries. In doing so it destroys the pattern of multilateral trade.

The pattern of multilateral trade! Perhaps the most valuable service performed by the League of Nations economists in recent years has been to call attention to the significance of this pattern to which they have devoted years of painstaking research. Russia, however, has a strong interest in the maintenance of the multilateral trade. To understand this it is advisable to glance at the way in which Russia's trade was formerly interwoven in the pattern of world trade. We shall then return to our dilemma.

Russia's foreign trade before the First World War may be seen in its global structure in Tables I & II below.

TABLE I⁶
THE GEOGRAPHICAL DISTRIBUTION OF RUSSIAN FOREIGN TRADE,
1903 AND 1913

Region	Exports		Imports		Balance**	
	1903	1913	1903	1913	1903	1913
Central Europe	1625	3048	1226	3105	+399	-57
Western Europe	1726	2225	696	1121	+1030	+1104
Northern Europe	416	477	180	399	+236	+78
Balkan Countries	193	285	44	92	+149	+193
Near East	237	429	402	587	-165	-158
Middle East						
Far East						
American Continent and British Dominions	22	61	285	350	-263	-289
Baltic Countries	—	—	—	—	—	—
Japan	4	4	13	22	-9	-18
All Others	161	127	141	342	+20	-215
TOTAL	4384	6656	2987	6018	+1397	+638

*Rubles used in this table are the equivalent of 1936 rubles.

**+ = export surplus; — = import surplus.

⁶ Leo Pasvolksy and Harold G. Moulton, *Russian Debts and Russian Reconstruction* (New York, 1924), p. 74. The original figures in pre-1914 rubles, as given by these authors, were multiplied by 4.38, so as to express them in 1936 rubles and make them comparable with the following table.

The corresponding figures for two years of the interwar period, namely 1931 and 1937, are given in the following table:

TABLE II⁷
THE GEOGRAPHICAL DISTRIBUTION OF RUSSIA'S FOREIGN TRADE
IN 1931 AND 1937
(In Millions of Rubles)*

Region	Exports		Imports		Balance**	
	1931	1937	1931	1937	1931	1937
Central Europe	599.1	136.6	2,039.2	229.5	-1,440.1	-92.9
Western Europe	1,692.7	1,012.9	553.8	425.2	+1,138.9	+587.7
Northern Europe	126.7	63.2	194.7	24.5	-68.0	+38.7
Balkan Countries	50.2	14.6	4.6	5.6	+45.6	+9.0
Near East	592.9	271.4	616.9	207.9	-24.0	+63.5
Middle East						
Far East						
American continent and British Dominions	113.4	139.2	1,062.8	346.7	-949.4	-207.5
Baltic Countries	212.2	42.7	215.5	27.7	-3.3	+15.0
Japan	86.8	11.7	55.5	54.4	+31.3	-42.7
All Others	79.1	36.3	96.9	19.8	-17.8	+16.5
TOTAL	3,553.1	1,728.6	4,839.9	1,341.3	-1,286.8	+387.3

*Rubles used in this table are the equivalent of 1936 rubles.

**+ = export surplus; - = import surplus.

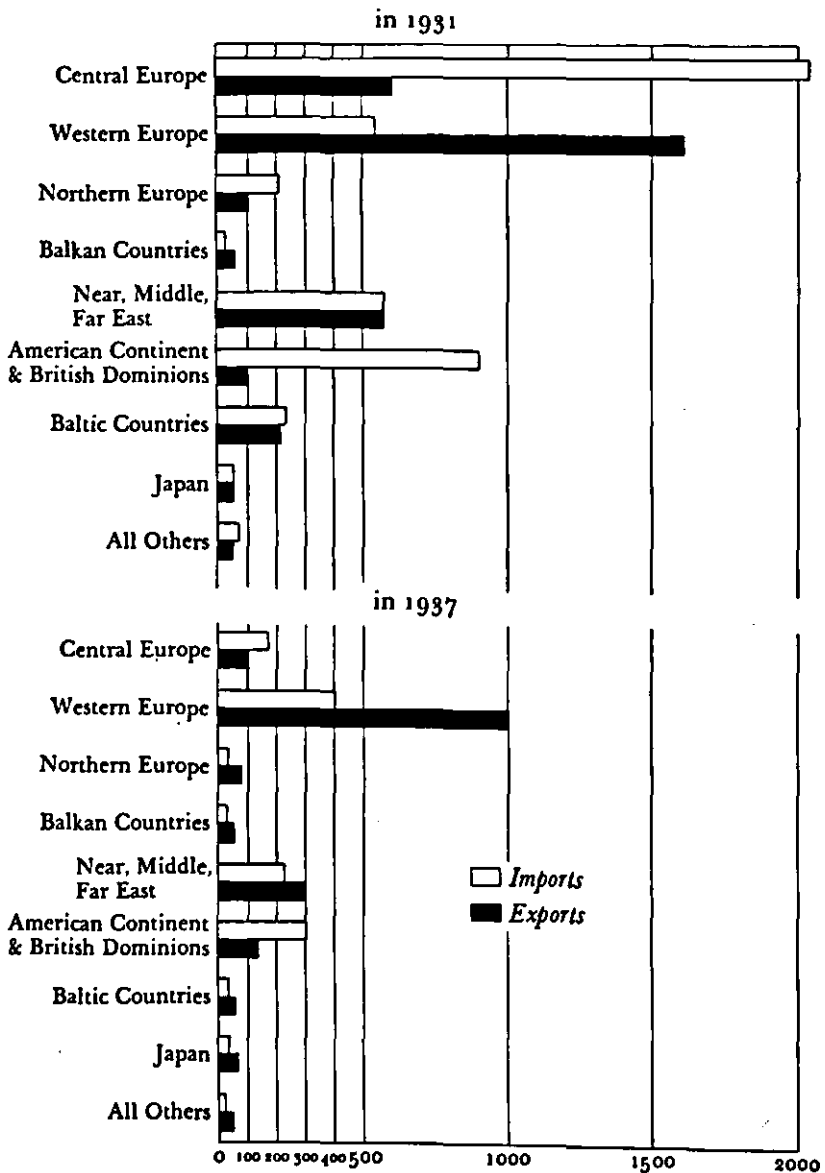
These tables and charts are not strictly comparable by reason of the territorial changes that took place after the First World War. Austria-Hungary disappeared from the map. Independent Baltic countries came into being. Turkey ceased to be a Balkan country. Holland, before the war, was primarily the transit recipient for Russian trade with Germany. In the 'thirties, however, most of the Russian exports to the Netherlands remained in the country. Therefore Holland before 1914 should properly be considered as a central European country while the Holland of the interwar period must be considered as a west-European country for the purposes of an analysis of the structure of Russian foreign trade. Still the tables afford useful indications of tendencies in the geographical distribution of Russia's foreign trade.

Already in 1913, that is, before the First World War the basic elements of Russia's foreign-trade pattern became quite evident, and they were greatly accentuated in the interwar period. What are these elements? The first obvious factor is the strong tendency for Russia to have

⁷ Computed from *Vneshniaia torgovlia S.S.S.R. za 20 let*, pp. 22-31.

The Geographical Distribution of Russia's Foreign Trade

(in millions of 1936 rubles)



an export surplus with western Europe. On the other hand, central Europe while importing Russian goods in great quantities, begins to show the opposite tendency. In 1903, it is true, Russia had an export surplus with central Europe, but, ten years later an import surplus appears. This is one of the circuits in Russian foreign trade that became greatly accentuated in the interwar period: with the proceeds of exports to western Europe, Russia paid for imports from central Europe, primarily from Germany. The third outstanding factor is the large import surplus in Russian trade with the American continents and the British Dominions. This import surplus is composed of two rather different elements: first, and quantitatively unimportant, raw-material import from British Dominions and South American countries; and second, of paramount importance, Russian imports from the United States. The trade balance with northern Europe showed an export surplus in 1937 which is likely to re-appear, once the period of reconstruction approaches completion.

Finally there is the series of countries spread over the enormous distance from the Turkish Straits to the Pacific shores of China: the Near, Middle and Far East. In the past, development of Russia's trade with that vast region varied. In the 'thirties the element of barter was strong in the Russian trade with the East and therefore even a special foreign-exchange plan for the East was in use. But it would seem that, under certain circumstances, a solid Russian export surplus may become a steady feature of trade relations between Russia and the East.

The share of Asiatic countries in Russia's exports increased between 1913 and 1937 from 9 to 16 per cent. In all or almost all countries of the East—from Turkey to China—industrialization is considered the great goal of national policies. The future of Russian relations with China is difficult to envisage. But in the interwar years, countries such as Turkey or Iran attempted to carry out programs of industrialization largely upon the Russian pattern—that is to say, by means of their own resources. Starting, as they did, from an economic level much inferior even to that of pre-1914 Russia, industrialization by these methods placed an almost intolerable burden on most of their peoples. No doubt they felt induced to persevere in this policy because of unhappy memories of their credit relations with foreign countries, and the resulting encroachments on their political independence. In the Near and Middle East foreign loans and direct investments alike were viewed with fear and suspicion. If, after this war, an international-development corporation or bank were to take charge of the allocation of international investment, the situation might be materially changed. Then industrialization could proceed not at the expense of the standard of living but

accompanied by a rise in the standard of living. Then, too, there would be a considerable likelihood that Russia would participate to a very considerable extent in the export of real capital to these countries. After the first years of reconstruction of her industrial machinery, Russia may be expected to resume the export of semi-manufactured products and equipment, and at the same time provide technical assistance for the young industries in the Near East. Having recently passed through the stage of rapid industrialization, Russia has accumulated much experience in dealing with problems arising in an agricultural country which desires to change its economic structure in a relatively short period of time. In the past whole textile plants were delivered by Russia to Turkey and installed by Russian technicians. From the point of view of Turkey or Iran, Russia's participation in their imports will be welcomed, because they prefer not to receive foreign financial assistance, that is, loans, and foreign goods from the same source.

Thus even this short, and of necessity superficial, survey of the distribution of Russia's foreign trade makes evident her great interest in a multilateral pattern of trade. Russia needs the foreign exchange she can obtain from her exports to western and northern Europe, plus exports to the countries of the Near and Middle East, in order to pay for her imports from the United States and perhaps from central Europe, the latter depending on what course and shape the economic development of Germany will be allowed to take. Russia's trade organized on a bilateral basis cannot have any result other than to reduce long-run trade between Russia and the United States to the level of Russian merchandise exports to the United States plus Russian shipments of gold.

6. *Payments in Gold*

The exact amount of Russia's gold production and gold stock is unknown. It is estimated that her gold production is larger than that of the United States or of Canada and that it occupies accordingly the second place in the world, following only South Africa. It is believed that between 1931 and 1936 the yearly gold production in Russia increased from something between 1.50 and 1.85 million ounces to from 4.85 to 6.00 millions, and was in 1937 somewhere between 4.35 and 5.40 million ounces.⁸

This, of course, is a very considerable amount. Besides it may be that it still understates the present gold output of Russia, which is said to amount to something between 6 and 7 million ounces per year. As long as official information is not available it is wise to discard certain esti-

⁸ League of Nations, *Statistical Yearbook, 1940-41* (Geneva, 1941), p. 157.

mates which tend to exceed considerably even the figure of 7 million ounces. The latter figure, computed at \$35 an ounce places the value of Russia's annual gold production at \$245 millions. The value of the gold holdings accumulated in Russia before the outbreak of the war may have exceeded the annual production by about eight or ten times and been somewhere in the vicinity of \$2,000 millions. This amount is truly stupendous, if related to the value of Russian imports in the 'thirties. The annual gold production alone, for instance, would almost exactly equal the total value of Russian imports in 1938. But this figure appears in greatly reduced perspective if these imports are to be regarded as subnormal in terms of what to expect after the war. And, as far as the gold holdings are concerned, the requirements of the reconstruction period may indeed diminish them, but it is unlikely that they will be used thereafter for the payment of current imports.

Besides, another important point should not be overlooked. There are indications that gold production in Russia is, except under special conditions, a high-cost production. It was necessary from the Russian point of view to increase it greatly as a part of the general policy of preparing her economy for war. Large stocks of gold guaranteed her ability to purchase supplies from abroad at a time when, as in a war, such supplies would be of the greatest urgency. Moreover, gold production was profitable in the abnormal conditions of the 'thirties when devaluations of foreign currencies were the order of the day. While the prices of other Russian export commodities plummeted in the Depression, the price of gold was rising in terms of commodity prices in general. But if after this war the menace of warlike developments is diminished, as we must hope it will be, and reasonable stability of exchange rates is established in an expanding world economy, the situation may change materially. Then the Russians may well find it worth while to restrict the high-cost production of gold and shift the labor and capital employed in gold production to the production of commodities where those resources can be more profitably used and, if exported, would fetch more foreign exchange per unit of labor and capital employed. Therefore the importance of Russian gold production, while considerable, should not be exaggerated. It will not change the basic fact that in order to buy goods they want to buy, and to buy them where they want to buy them, the Russians must endeavor to organize their trade on a multilateral basis.

7. A Multilateral Solution?

Now we may return to the question raised earlier: how can we ensure both the absence of discrimination and a multilateral pattern of

trade? This cannot be achieved by quantitative agreements between Russia and individual countries. For the very attempt to avoid discrimination may very easily degenerate into attempts to discriminate against other countries, including Russia. Given the greatly increased volume of Russia's foreign trade and the desire on the part of some countries to introduce quantitative safeguards in their trade agreements with Russia, the dangers of bilateral discrimination would loom very large indeed. As stated before, those quantitative stipulations may quite likely be regarded by individual countries as a temporary expedient. Yet, once adopted, they may lead to permanent distortions of international trade.

It would seem therefore that this danger may be avoided by attempting—as a transitory device—to coordinate the quantitative stipulations in agreements between Russia and individual countries. This could be done in a variety of ways. The approach could be more or less formal. The institutional machinery employed could range from informal conversations to a developed international organization. It is not intended to make specific recommendations in this respect. It is only in order to clarify the problems involved that we may consider how the whole question could be lifted into the sphere of an international agreement in which Russia and as many as possible of Russia's trade partners should participate.

What could be the contents of such an agreement? First, all parties concerned would assert their will to abstain from bilateral trade practices, and any arrangements that are in their effect destructive of multilateral trade. The Russians would undertake to conduct their purchases according to the "lowest-price principle," or, more broadly, to the commercial-principles clause and refrain from discrimination. To create what may be called a framework guarantee for this undertaking the Russians would submit their tentative plan for imports for a period of, say, one year and a tentative distribution of Russian minimum purchases between the individual countries would then be agreed upon. Prices would not be fixed. But a general stipulation should be inserted to make it clear that the prices Russia is expected to pay must be "in the vicinity of the world market prices"—a formula used in the Russo-French provisional agreement of 1934.

In other words, the protective quantitative stipulations which otherwise would have been agreed upon between Russia and one other country would be adjusted and agreed upon internationally. The agreement should at the same time be sufficiently flexible and provide for correctives and adjustments as trade proceeds. In exchange, all Russia's trade

partners would grant Russia the most-favored-nation clause with respect to customs duties and other charges and formalities, reduce their tariffs, and undertake to abstain from the use of export and import prohibitions and quotas. Those countries that practice exchange control to protect their balance of payments would also undertake to follow methods which avoid discrimination among domestic firms and among foreign countries.

This international agreement would not involve direct governmental intervention in business. Trade would proceed through ordinary business channels. Neither prices nor quantities of individual bargains would be fixed. But the business community in every country would feel that while permitting Russian goods to enjoy the benefit of trading equality in their own country they also have erected a reasonably effective bar against discrimination without evoking the danger of bilateralism. Clearly some discrimination could still be practised, but its field would be considerably narrowed. In the case of countries that have received very large export quotas thus leaving a larger margin for discrimination, the total quota may be broken down into three or four categories such as staple products, machinery and equipment and the like according to the nature of the prospective trade. This would increase the efficiency of the quota as an instrument for preventing discrimination. And this is the most we can and should hope for unless we desire to see the government determine prices and quantities in individual bargains, that is, establish a virtual counter-monopoly in foreign trade. This would meet with neither the approval of Russia nor the approval of public opinion in the United States.

The arrangement suggested above would not only be a basis for trade relationships that would be peaceful, because reasonably non-discriminating, but would also mean a most salutary injection of multilateralism into the whole body of world economy. It would help materially to loosen and abolish bilateral trade practices that may creep in following the end of the war. If, for example, Belgium found difficulty in exporting to England and was therefore induced to initiate bilateral clearings in its trade with South America, the possibility of exports to Russia for which it would receive sterling would make it possible to cease enforcing clearings on South America and to pay for imports from South America with sterling earned by exporting to Russia against sterling payments.

It may and should also give an additional impetus to the preoccupation with the problem of cartels, and particularly of international cartels. The Russians may be relied upon to emphasize the fact that

in many cases Russian purchasing organizations suffered from discriminatory policies of powerful international combines. It is true that in several cases the Russians, too, participated, in various ways, in international cartels in commodities in which they had an exporting interest. Nevertheless it is probable that, on balance, the damage inflicted on the Russians as buyers from international cartels far exceeded the benefits the Russians as sellers *may* have derived from their participation in such organizations. At any rate the Russians will be in a strong position to urge that not only discrimination in trade resulting from government interference be curbed by international action, but also such discrimination as stems from non-governmental interference with markets. This is a field where a combined Russo-American effort may lead to very beneficial results.

Apart from the question of cartels, an international agreement of the type indicated in the preceding pages would most clearly demonstrate the necessity for a multilateral solution. A country like England, which imports a good deal from Russia, and also has an import surplus in her trade with Russia, can justly be expected to ask such a conference that those countries with which she likewise has a traditional export surplus should lower their tariffs on British goods. This request will be particularly to the point if countries which are the normal or prospective destination for English exports at the same time regularly export substantial amounts to Russia and have an export surplus with the latter country. If the Russians would submit to the international convention a tentative forecast of their exports, this would help materially in laying bare at an early moment the probable directions of multilateral trade. In this way the international agreement on Russian trade might well become an additional force working for freer trade.

Such, or a similar, arrangement, could then be continued for a number of years until the general feeling prevails that quantitative undertakings have become superfluous because trade with Russia has proceeded in a smooth fashion within a broad multilateral framework. Then trade could be left safely to the rule of commercial principles. To some extent this relaxation and normalization of trade mechanisms will be attributable to the very operation of the international agreement or a kindred arrangement. In the interval all parties concerned would stand to gain. While the arrangement would give those of Russia's trade partners who insist on quantitative safeguards a feeling of greater security, it would at the same time protect Russia against attempts of individual countries to destroy its multilateral pattern of trade. This indeed is the basis for a mutually advantageous trade relationship. To

be sure, such a multilateral agreement, concluded as it must be on a broad basis, would inevitably involve a good deal of bargaining and negotiation. But the amount of bargaining would not be larger, but probably smaller, than the aggregate amount of bargaining involved in bilateral negotiations, and the result would be an important and beneficial step in the direction of a general reconstruction of world trade.

V. *Dumping, a Danger?*

Another question must now be considered. It is one that invariably, although unfortunately, is associated with Russian trade. It is the so-called Russian dumping. This immediately recalls the gloomy days of the Great Depression. Then, in 1930 and 1931, Russia suddenly appeared on the markets of the world with large quantities of grain, lumber and a few other commodities, and sold them at prices which often were lower than the low prices which prevailed at the time.

First of all, however, one must ask, what is dumping? The man in the street is sometimes inclined to speak of dumping every time that goods produced in a foreign country are sold at what he considers outrageously low prices. This concept of dumping is actually not easily distinguishable from healthy and vigorous competition. Resentment against it is often that of the privileged producer who is unwilling or unable to compete. Sometimes it is said that selling below the cost of production constitutes dumping. But this requires a careful analysis of the concept, cost of production. In a situation of markets overstocked in relation to demand, selling below cost and cutting the losses, objectionable as it may appear from the point of view of foreign countries, is a sound and irreproachable policy. Dumping, strictly speaking, involves discrimination between the domestic and the foreign consumer. Sometimes it is said that this involves selling at a loss. This may, but need not be so. A typical pattern would be the following. The domestic producer is charged a price which makes it possible to cover the general overhead cost of the whole output from domestic sales; while the output of the remaining surplus capacity is sold abroad at lower prices which, however, are not lower than the additional cost incurred in producing this output. This presupposes some form of monopolistic domination of the domestic market: in a free market competition would drive the home price down.⁹ In the absence of domestic protection, the price differential between two countries cannot be higher than the cost of transportation. For otherwise the goods sold abroad will be re-imported.

⁹ Gottfried von Haberler, *The Theory of International Trade* (London, 1936), pp. 297 ff.

The existence of protection greatly increases the possibility of dumping because the price at home and abroad can differ by the cost of transportation plus the tariff. Two cases of dumping are possible. In the first case dumping is meant to continue for a long time. Then it is actually only the domestic consumer who has cause for complaint. For the foreign consumer gets his goods at a lower price and the foreign producer can adjust his production to this situation. Or, in the second case, dumping continues only for a short time, or is done intermittently by fits and starts. Then, indeed, the foreign producer has just reasons for protest because this policy ruins him without giving satisfaction to the consumer. For the purpose of this sort of dumping as often as not is to enforce entry to a new market, to knock out the competition and then raise prices. Dumping then is an act of economic war, rather than economic competition. How does the foregoing analysis apply to Russia?

In fairness to Russia it must be said that dumping is neither a Russian invention nor a Russian specialty. For there was dumping long before the Great Depression. Germany and Japan had made a great reputation for themselves as offenders. But there is hardly any industrial country in the world whose industry has not at one time or another indulged in dumping policies. It stands to reason that a country which has a foreign trade monopoly at its disposal, and is organized as a planned economy, is equipped with a powerful instrument for underselling abroad, if, for no other reason, because the price differential between the domestic and foreign market may be infinitely great without causing the dumped goods to return to the country of origin, and also because of the monopoly country's ability to spread its losses over the whole range of its foreign trade, nay, over the whole national economy. But the question is not whether Russia can practise underselling, but whether she is likely to have recourse to it in the future. To answer this we must first review briefly the reasons for Russian trade policies in the Great Depression which were often regarded as dumping and then consider whether the concept of dumping if applied to Russia should not be used with particular caution.

The Great Depression caught Russia in the midst of carrying out her First Five Year Plan—the first great step in her program of industrialization. According to this plan Russia expected to import machinery and equipment as well as large amounts of iron and steel, and non-ferrous metals, raw and in semi-manufactured form. Short-term commercial credits which at the time Russia was able to obtain from private sources and under various devices of foreign government export financing, covered only a relatively small part of Russian imports. The import

surplus was relatively small in comparison with the total value of the imports.¹⁰

	Imports into Russia	Exports from Russia	Balance
	<i>In millions of "old" gold dollars</i>		
1930	545	533	-12
1931	569	417	-152
1932	362	296	-66

In 1931 the import surplus amounted to a little less than 27 per cent of the total imports; in the following year this proportion fell to about 18 per cent. Actual indebtedness incurred by Russia was larger than the import surplus would indicate, because some proportion of Russian exports remained in storage abroad for a long time before buyers could be found. Still, the amount of credits Russia received between 1929 and 1931 (both years inclusive) was only about 30 per cent of Russian imports in the same period. This meant, first, that some and not an inconsiderable part of the foreign exchange which was derived from foreign credits had to be used to cover the cost of foreign storage and, second, that most of the imports had still to be paid for by foreign exchange *earned* from current exports. And this was undoubtedly very difficult.

It is sometimes said by Russian writers that the country has become independent of the business cycle in the rest of the world. It is perfectly true that the level of employment in Russia is in no way determined by the level of employment in foreign countries. But this of course does not mean that Russia did not suffer from the Great Depression. Russia was substantially affected by price and income developments in the outside world precisely because she was under the necessity of importing given quantities of foreign machines and metals and had to pay for them by foreign exchange from her exports. To do this became more and more difficult as the Depression went on.

For one of its outstanding features was that the prices of agricultural products and raw materials fell much more than those of industrial goods and in the Russian exports it was precisely such products that bulked large. In the years 1929-1932 oil, grain, and lumber occupied a prominent place in Russian exports. If prices in 1929 are equated to 100, when imports reached their peak in 1931, the price of wheat on the world market was 45.4, of rye 41.8, of flax 43.4, and of oil 51.5. The price of lumber products was slower to fall but by 1932, it dropped

¹⁰ League of Nations, *Review of World Trade, 1934* (Geneva, 1935), p. 89.

to 49.6. All this meant that ever-increasing quantities of foodstuffs and raw materials had to be thrown on the markets.

If the volume and value of Russian exports in 1929 are again equated to 100, then two years later, in 1931, the volume had risen to 146 while the value had fallen to 87.8. In other words, an increase in the volume of exports by almost 50 per cent could not prevent a fall in total value of more than 12 per cent.¹¹ Yet to increase the quantity of exports at that time was not an easy thing. Surpluses were mounting everywhere. In no other field were there such excesses of protectionism as in the field of agriculture. As the protection grew, prices in exporting countries were forced further down. And, naturally, Russian goods had to be priced particularly low. This was so for several reasons.

The first we have mentioned. It was the pressure to provide a given amount of foreign exchange to pay for the imports. In other words, in this unfavorable situation Russia could not, without jeopardizing if not abandoning her Five Year Plan, restrict her imports. On the contrary, she increased them. The second reason was that Russia, for a number of years since the revolution, had been not a regular but a rather sporadic exporter of commodities which had now come to dominate her exports. She was not well established on foreign markets. Therefore to find an entry she had hardly any method other than to lower her prices; all the more so because the quality of her goods at the time was poor and ill-adapted to the requirements of foreign markets. To this must be added the fact that inefficient and inadequate organization tended to push prices still further down, so that often indeed the proceeds hardly more than covered the expense in foreign exchange incurred in the process of shipping and marketing the goods.

It was sometimes said at the time of the "Russian dumping debates" of more than a decade ago that political considerations played some part in Russia's price policies of the period. To disorganize the capitalistic economy, by intensifying and deepening the Depression was said to have been one of the aims of the Russian dumping. At that time when the activities of the Communist International were in full swing and heading the first pages in the Moscow newspapers were comparisons of the shrinkages in production and employment abroad and the increases in production in Russia, such allegations sounded plausible. But it is very doubtful whether they ever were well-founded. The industrialization and mechanization of agriculture were aims so paramount in Rus-

¹¹ D. D. Mishustin, *Vneshniaia torgovlia i industrializatsiia S.S.S.R (Foreign Trade and Industrialization of the U.S.S.R.)*, (Moscow, 1938), p. 131; *Vneshniaia torgovlia S.S.S.R. za 20 let*, pp. 10-11.

sia, the sacrifices imposed on the population were so great, and exports of wheat and fuel were producing such serious shortages in the country, that it is extremely unlikely that any political purpose was sought by "dumping" goods on foreign markets.

But was this policy of Russia in the early 'thirties a dumping policy? It undoubtedly was one in the popular sense of vigorous under-selling. But was there discrimination involved of the type described above? To ask this question is to make it immediately clear how difficult it is to apply to Russia the concept of discrimination between the domestic and foreign market. This is so for different reasons. To speak of discrimination, let alone to measure its extent, presupposes that the general price levels at home and abroad are in mutual communication. But this obviously has not been the case in Russia. The price level there has been kept independent of world prices and to do this has been precisely one of the functions of the foreign-trade monopoly.

There is little doubt that the price level in Russia, if computed by the official rate of exchange, was much higher than the price level abroad. This was particularly true in the early 'thirties. In other words the official rate of exchange was over-valued. The devaluation of the ruble in 1936 diminished the degree of over-valuation, but by no means ended it. As long as this is the case then, *any and every transaction* between Russia and foreign countries may on a superficial examination be considered as dumping. Let us assume that the rate of exchange between the ruble and the dollar as maintained, artificially we may say, by the foreign-trade monopoly is 5 rubles for \$1.00. Relative prices in both countries have nothing to do with this rate of exchange. A bushel of wheat costs, say, \$1.00 in the United States, and 50 rubles in Russia. According to the rate of exchange the price of wheat in Russia should be \$10.00, or ten times as much as in the United States. If the foreign trade monopoly buys in the domestic market 1000 bushels of wheat for 50,000 rubles and sells them in the United States, cost of transportation apart, for \$1000 it seemingly has been engaged in a dumping operation. For the official equivalent of the \$1000 is just 5000 rubles which means a loss of 45,000 rubles for the monopoly. But if the monopoly uses the \$1000 received for the purchase of a piece of machinery, to produce which domestically it would have had to shift from the production of wheat to the production of machinery *more* labor and capital than was needed to produce the 1000 bushels of wheat, the situation is different. If prices express correctly the cost relationships the monopoly would be able to sell foreign machinery at home for more than 50,000, say for 55,000 rubles.

If the transaction's two phases are considered together, as they properly should be, then it did not involve any differential cost calculus, nor any price discrimination against the domestic consumer; nor, finally was there any financial loss involved. Quite on the contrary, the monopoly ended its operation with a gain of 5000 rubles. This gain is nothing else but the gain basic to all international exchanges of goods. What on the face of it looked like a case of dumping reveals itself on closer scrutiny as a normal application of the principles of international specialization.

We must conclude therefore that the overvaluation of the Russian currency in itself makes it impossible to apply the concept of dumping to the sales of the Russian foreign-trade monopoly without making due allowance for the difference in internal and external purchasing power of the ruble. Computation of such a difference in practice is always hazardous. It is all the more so in the case of Russia. Thus the difficulties are great even if we assumed that the cost and price structure in Russia were determined by consumers' demand. But to say this would be of course quite unwarranted. It is on the whole the Russian government, through its plan, that determines what and how much should be produced. A considerable block of prices is purely of an accounting nature. Many factories worked for years at a loss and were subsidized by the government. Some long-term loans to enterprises were not to be repaid. In many cases there is no interest charge on long-term lending. Most prices of consumers' goods are determined by the consumers' demand only in the sense that, to avoid shortages, the government fixes the prices, or manipulates sales taxes, so as to equate the quantities demanded with the quantities supplied. But it is the government that determines the latter. It is only in a limited market in which the *Kolkhoz* members sell what remains as a surplus after deliveries to the government have been made plus the products of their small individual lots, that free prices are in existence.

The foregoing also means that from the legal point of view it is idle to ask—in accordance with the United States Antidumping Act—whether or not the Russian exporter's sales price is less or likely to be less than the foreign value (price for consumption in Russia or in countries other than the United States), or, in the absence of such value, less than the cost of production. It is equally impracticable to attempt to ascertain the differences in the cost of production under the terms of Section 336 of the Tariff Act of 1930.

The truth is that when Russia conducts normal profitable trade it looks as if she were dumping, as long as the ruble is over-valued; that

it is extremely difficult to apply our economic and legal concepts of dumping to Russia; and that to prove or disprove dumping in the individual case is next to impossible. Under these conditions, we repeat, there is little sense, if any, in speaking of Russian dumping. The only question that can reasonably be asked is this: Is it likely that Russia will again unload large quantities of her goods at disastrous prices?

The reasons given above seem to warrant the conclusion that such a contingency is rather unlikely. This is not only because the Great Depression was in itself one of the reasons for what was called "Russian dumping." A general atmosphere of peaceful economic collaboration will render unnecessary the desperate race for industrialization at any cost. If the postwar period should witness, as we must hope it will, a general movement away from excessive protectionism, another reason for "dumping" will be removed. If Russia becomes a part of the international credit structure, which she was in the 'thirties only in very insufficient measure, then still another reason for forced sales on world markets would disappear.

No less important finally, is a reason which follows from the way in which the Russian economy works. As said before, a private firm may reap long-run gains by dumping its goods abroad to the benefit of foreign consumers. But for an economy of the Russian type, if it proceeds rationally, such a gift to foreign countries, conceived as a long-run operation, would involve a maldistribution of resources. Besides this, too, must be considered: As long as the Russian economy remains an economy of full employment Russia will not experience an internal pressure to export in order to increase the utilization of resources. Preoccupation with an active balance of trade for this reason is not an element of foreign-trade policy in Russia. The government may indeed aim at an export surplus because it has to discharge obligations resulting from foreign loans or to the extent that at certain times it may be intent on building up a certain reserve of foreign exchange. In general, however, Russia exports solely in order to obtain the wherewithal for payments for imports. In this sense she is likely to live up to the classical doctrine of foreign trade and to reject the tenets of mercantilism. This, no doubt, sounds paradoxical, but it is undeniable. From the Russian point of view exports are a loss and not a gain.

What remains therefore is the danger that Russia may threaten sales at ruinous prices for the sake of specific advantages. It may do so particularly in order to force an international cartel to allocate to her a certain export quota in a certain market or to grant her some other benefits. Where a market is exploited by restrictive policies of a cartel,

price wars on the part of outsiders are always possible. Measures against international cartels would tend to reduce this type of "dumping." Apart from that underselling for ulterior purposes may still threaten. But then the opposite policy may also be pursued: By threatening to stop the sales to a market that has become adjusted to purchases from Russia, the latter may, under certain circumstances, be able to impose the cost of a readjustment and by doing so press for economic and perhaps political concessions. All this is feasible, but is it probable? Russian exports will have to sustain vigorous competition on the world market. And there is a second consideration: it is possible, and it may even pay, although it seldom has done so in the past, to use methods of economic high pressure in a world which is economically disintegrated, where according to the old adage everybody is a wolf to everybody else. In such a world economy as we saw in the dismal 'thirties one man's gain was indeed the other man's loss. But in a world which has been economically re-integrated, where this re-integration has been expressed in institutional frameworks, such as an international stabilization fund or an international investment bank, both of which work for the benefit of all parties concerned, in a world where in general equality of trading opportunity has been established, the likelihood that a country like Russia may hope to gain more by economic conflict than by economic collaboration is small indeed. If discrimination has been effectively removed in the case of Russian purchases on the world market, its use in the field of Russian sales is hardly probable.

VI. *The Main Trends in Russian Trade*

1. *The Structure of Russian Exports*

More than three decades separate us from the period preceding the First World War. The great changes that have since taken place in the economy of Russia were bound to change the character of her foreign trade. This is true of both exports and imports. Let us consider the former first. The structure of Russian exports before the First World War may be seen from the following table:

	EXPORTS IN 1913 ¹²	
	In Millions of Rubles	Percentage of Total
Total	1520.1	100.0
Agricultural Products	1121.9	73.8
Industrial Products	398.2	26.2

¹² I. S. Ginzburg, *op. cit.*, p. 61.

Thus agricultural products comprised almost three-quarters of the aggregate amount of exports. No less than 39.1 per cent of the total exports and 53 per cent of the agricultural exports consisted of grains. Exports of eggs amounted to 6 per cent and those of butter to 4.7 per cent of the total exports. This means that within the field of agricultural exports the percentage of converted products was very small. The export of grains dominated the situation. Yet the paradox is that Russia did not produce more grain per head of population than the large grain-importing countries such as Germany. Exports of grains from Russia were possible only at the cost of an under-consumption of bread, an under-consumption which was all the more serious by reason of the low incomes of the majority of the population. The exports of grain from Russia were made possible by imposing heavy taxation on the peasants. This served a double purpose. It provided the government with revenue and at the same time, by forcing the peasants to sell grain for foreign markets, it provided foreign exchange for purposes of industrialization and the service of the foreign debt. "Let us starve, but export," was the pronouncement of a Russian minister of Finance that became famous. It is well known that special means of pressure, such as an intensified activity of tax collectors immediately after the harvest, were used to enforce this aim. Lack of storage facilities tended to accentuate the seasonal character of Russian exports, thus depressing prices. The considerable amounts paid for tourist traffic abroad before the Revolution can be presumed to have increased the pressure to export grains thus further depressing the price of Russian grain on the world markets. This, of course, was not a healthy situation.

The so-called industrial exports in 1913 would be better described as "non-agricultural" or "simply transformed" exports because about 40 per cent of them (10.8 per cent of the total exports) consisted of lumber and about 12 per cent (3.3 per cent of the total exports) was oil.¹³ The only considerable exports deserving the name of industrial were cotton tissues—mostly to the countries of the East—constituting the so-called Russian "calico-imperialism."

Such an export structure, based as it was on exports of grains, was bound to change as soon as the system of land tenure was changed and the system of prewar taxation relaxed. This was the immediate result of the revolutionary upheaval. The export structure was also bound to change in the long run as a result of the industrialization of the country. However, in the interval, particularly during the First Five Year Plan, the old pattern again emerged: In those years again agricultural

¹³ *Ibid.*

exports were increased in order to provide the wherewithal for imports of machinery and equipment.

All this is clearly reflected in the following table showing the quantities of grains exported in the interwar period.

GRAIN EXPORTS FROM RUSSIA IN THOUSANDS OF METRIC TONS¹⁴

Year	Quantity	Year	Quantity
1913	9185	1930	4765
1923-24	2576	1931	5057
1924-25	569	1932	1728
1925-26	2017	1933	1686
1926-27	2099	1934	771
1927-28	289	1935	1519
1929	178	1936	322
		1937	1278

It was the initiation of a program of rapid industrialization in the First Five Year Plan which led to the great increase of grain exports in 1930 and 1931 which, however, was still only slightly more than half of pre-1914 exports. Indeed one of the reasons for the collectivization of agriculture was to obtain for export increased amounts of grain, which the individual peasant economy was loath to part with.

The ravages of war and civil war naturally reduced the exporting capacity of Russian agriculture. When exports re-appeared after the First World War they were only about 25 per cent of their prewar level. As the rehabilitation of the economy proceeded, they declined to an almost negligible level. Those were the years preceding the collectivization of agriculture, when the individual peasant economy was in a very favorable position. After the peak of 1931 the quantities exported were rapidly reduced. This was despite an increase of about 10 per cent in the average yield of grain crops during the 'thirties. It may reasonably be expected that in the future grains will become a very minor item in the exports of the Soviet Union. The next generation then may well see Russia a grain-importing country, a picture totally inconceivable to their grandfathers.

This development is clearly perceptible in the total structure of exports. In 1913, the relative weight of agriculture in the whole economy, i.e. in the value of total gross output, was computed to be 58 per cent, while its share in exports was as high as 71 per cent. By 1929 the share of agriculture in the economy had fallen to 45.5, while its share in exports had fallen even more—to 38.8. But in 1930 and 1931, while

¹⁴ *Vneshniaia torgovlia S.S.S.R. za 20 let*, p. 59.

the share of agriculture in the total economy was further reduced to 37.4 and 33.3 respectively, its share in exports *increased* to 41.8 and 42.1 in these years. From then on the role of agriculture diminished rapidly. By 1934 agriculture constituted 26.9 of the Russian economy and was represented in the country's exports only to the extent of 26.3. After the present war there may again be periods when the share of agriculture in Russian exports may be enhanced. But it is important to understand that this can be but an episode. The long-term trend clearly points towards a steady reduction of agricultural exports in Russia. This is a natural result of the industrialization of the country, and the whole process is in many respects a repetition of the development through which the United States had passed several decades earlier.

This process is reinforced in Russia by a conscious and deliberate policy. The Russians desire to reduce the proportion of agricultural products in their exports. Their experience in the Great Depression when agricultural prices fell heavily while industrial prices lagged far behind has left them with a horror lest this situation should recur.

RUSSIAN EXPORT PRICES RELATED TO RUSSIAN IMPORT PRICES¹⁵

(*"Terms of Trade"*)

1929	100
1930	92.5
1931	77.3
1932	70.6
1933	71.5
1934	78.4
1935	83.3
1936	83.3
1937	93.0

In 1932, as the table shows, the Russians obtained for a given physical unit of export a quantity of imports which was 30 per cent smaller than in 1929. They feel furthermore that, independently of cyclical fluctuations, the prices of agricultural products will show a long-run tendency to fall by comparison with industrial prices so that countries which export mainly agricultural products will have to give more and more of their products in exchange for a given quantity of industrial products. To industrialize its exports, that is, to increase the share of

¹⁵ Computed from: S. N. Prokopovicz, *Russlands Volkswirtschaft unter den Sowjets* (Zurich and New York, 1944), p. 342.

manufactured goods in the total exports, is therefore a primary aim of foreign-trade policy in Russia.

This aim broadly stated implies not only an increase in exports of finished industrial goods, but also an attempt to change from the lower to the higher degree of processing through all stages of production. Thus, for instance, great care has been taken to reduce the exports of scutched, or beaten, flax in favor of the combed product. While in 1913 only the former was exported, by 1935 the two groups were about equal. Before 1914 the furs exported were almost exclusively undressed. By the middle of the 'thirties only about half of the total fur exports went out in raw form; the remainder were dressed or dressed and dyed. The decreasing share of crude oil in favor of refined products is another example. In 1909-13, of the total lumber exports 37.2 per cent was raw lumber while sawn timber amounted to 47.9 per cent and plywood only to 4.5 per cent. By 1935 raw lumber had fallen to 28 per cent while the other categories increased to 58.9 per cent and 8.6 per cent respectively.¹⁶

It is with considerable pride that the Russians cite a list of products which were imported in appreciable quantities before the First World War and which became items of Russian export in the second half of the 'thirties.

EXPORTS OF COMMODITIES, WHICH BEFORE 1914 WERE IMPORTED¹⁷
(In Millions of Rubles)

Commodity	Imports		Exports		
	1909-13 (Annual Average)	1929	1935	1936	1937
Agricultural Machinery	177	254	2.1	2.9	3.8
Automobiles and Spare Parts	43	54	8.2	12	24
Tractors	—	121	.2	.3	1.1
Textile Machinery	9.7	46	8.4	.9	4.3
Sewing Machines	38	4.0	1.4	-1.4	1.9
Electric Bulbs	14	.6	.8	.6	.4
Pig Iron	3.8	.7	16	24	16
Coal and Coke	218	2.6	44	44	32
Asbestos	1.2	1.0	9.7	9.1	9.1
Cement	9.1	.2	6.4	5.8	4.9
Fertilizers	31	50	19	24	29
Salt	5.5	—	2.5	2.6	2.8
Dressed Furs	26	—	63	52	47

¹⁶ M. Zhirmunski, *Soviet Export* (Moscow, 1936), pp. 22-24.

¹⁷ *Vneshniaia torgovlia S.S.S.R. za 20 let*, p. 19.

It is true that some of these exports are still negligible. But such a dynamic change undoubtedly reflects the general trend as well as the aims of policy in regard to the structure of exports. Of course, only few of these exports, such as coal, fertilizers, or matches, can be exported by Russia to industrialized countries. Most of them went to the Baltic countries and to the countries of the East. This is one reason why exports to the East may be expected to increase as soon as the rehabilitation of the Russian economy is accomplished.

The share of agricultural products, according to Russian computations, was reduced from 73.8 per cent in 1913 to 26.7 per cent in 1935 and 20.3 per cent in 1936. In 1937 it rose again, but only to 31.7 per cent. Comparing the annual average of exports of 1933-1937 with those of 1913 we still find grain and lumber products, among the leading articles; but the share of grains had been reduced from 39.1 to less than 8 while the share of lumber products increased from 10.8 to 13. The share of petroleum products increased greatly from 3.3 to 12; the share of furs from 1.1 to a full 8. Thus, in 1933-1937, grains which once had the undisputed first place in exports were reduced to the last place among the four larger items. The item "metals, machinery and equipment" was still less than four per cent of the total exports, although between 1929 and 1937 exports of ferrous metals were doubled and exports of machinery and equipment increased five-fold.¹⁸

At the outbreak of the present war, the structure of Russian exports was still that of a primary-producing country. Expressed in the terms of the Brussels classification the Russian exports of 1933-1937 showed, on an annual average, the following composition:

EXPORTS 1933-1937¹⁹
(In Percentages of Total Exports)

	Total	Livestock	Foodstuffs and Beverages	Raw Materials and Semi-manufactured Goods	Manufactured Goods
1933-37	100	—	18	61	21

The corresponding percentages for Germany in 1928 (to take this year as an example) were:²⁰

100	.2	5.9	24.9	69.0
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¹⁸ *Ibid.*, p. 13; I. S. Ginzburg, *op. cit.* p. 61; D. D. Mishustin, *Vneshniaia torgovlia i industrializatsiia S.S.S.R.*, pp. 108-109.

¹⁹ *Vneshniaia torgovlia S.S.S.R. za 20 let*, p. 14.

²⁰ Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich, 1933* (Berlin, 1934), p. 184.

The difference, of course, is tremendous. Yet it may be more pertinent and fairer to compare the structure of Russian exports with that of the United States rather than that of Germany or England. There is a basic similarity between the United States and Russia in geographical area, density of population, endowment with natural resources, and the rapidity of industrial development. While the share of agriculture in total production has been reduced in Russia and will be further reduced, agriculture will for a long time not only supply the basis for domestic consumption but have considerable surpluses for export. Neither the case of England where agricultural production has been reduced, in normal times, to a very low level, nor the case of Germany or France where it should be at least adjusted, and probably also reduced, is yet pertinent to Russia. But it is only comparatively of late that such problems began to assume significance in the United States, a country that still is and will remain for some time an exporter of certain crude foodstuffs, even though it is now a *net* importer of crude foodstuffs; in America exports of manufactured foodstuffs, of course, greatly increase the total of agricultural imports. For these reasons a comparison of Russian exports with the exports of the United States is illuminating, and it is significant that one has to go back in the statistics of the United States to the last years of the nineteenth century in order to find a percentage of finished goods in the total exports similar to that of Russia in the 'thirties. Although the American classification is not identical with the Brussels, a comparison is still significant. In 1896-1900 American exports were divided as follows: Foodstuffs—43 per cent; Raw Materials and Semi-manufactured goods—36; Finished Products—21. In 1937 the respective figures were: 9; 42; and 49. Even if we refrain from all comparisons of quality and the degree of industrial refinement of the finished goods exported from Russia, we must nevertheless conclude that Russia is still a considerable distance away from the stage where the degree of its industrialization would find clear expression in the structure of the country's exports. But the trend undoubtedly points in the direction of a growing share of industrial exports in the total exports of the country.

How shall we view this development? The opinion may be voiced that it will militate against an increase in Russia's foreign trade, and that the volume of this trade in the long run will be relatively small. But there is little ground to expect this.

As industrialization proceeded the proportion of exports to the value of the total gross production in the U. S. S. R. declined. This is shown by the following figures:

VALUE OF EXPORTS AS A PERCENTAGE OF THE VALUE OF
GROSS PRODUCTION OF THE U. S. S. R.²¹

1929	3.2		1933	2.2
1930	3.5		1934	1.8
1931	3.0		1935	1.3
1932	2.5		1936	.8

This decline was in part a result of the great decline in the volume of exports, which was halved between 1931 and 1937. But the declining proportion of Russian exports to total production was the result of two forces, of which one was fortuitous while the other was not. The decline which coincided with the initiation of the Second Five Year Plan, sprang from the specific situation in the 'thirties which were pregnant with war. The loosening of their economic ties with the rest of the world did indeed seem to the Russians to be a necessary element in their plan to increase the military power of the country. Therefore foreign trade was consciously and deliberately throttled. In fact, imports declined even more. Over the same period they were reduced to little more than one-third of what they had been before, because Russia needed an export surplus in order to repay her previously incurred indebtedness and to build up a reserve stock of foreign exchange. This dwindling of both imports and exports we may and should consider as an episode rather than an indication of a trend that was long to continue.

But the proportion of exports to the gross production of the country would, in all likelihood, have declined even if the exports had not decreased. A falling quota of exports in relation to total production has been a phenomenon of industrialization everywhere. It is perfectly compatible with, and in normal conditions even premised upon, a healthy development and growth of international trade, upon an increase rather than a decrease of international specialization.

It is a fallacious belief that a large foreign trade can exist only between agricultural and industrial countries. True, this was the case in the nineteenth century. But it was a special case, or rather just a stage in the economic development of our world. We must work for a greater volume of international trade if we want increased wealth and increased welfare. But we must not commit ourselves to one particular pattern of international trade. We must not worship it and associate any change in this pattern with dangers to, and a decline of, world trade. It is a fact that should be known better than it yet is, that trade between industrial

²¹ D. D. Mishustin, ed. *Vneshniaia torgovlia S.S.S.R.: (Foreign Trade of the U.S.S.R.)*, (Moscow, 1941), p. 38.

countries tends to assume much larger proportions than trade between agricultural and industrial countries ever did. The history of trade between England and Germany, the two most highly developed industrial countries in Europe, has eloquently corroborated this.

The mere fact that a country can produce a commodity which it imports from the other country, is in no sense an indication that it should not import it from abroad. The only thing that is true is that the cost differences between home and abroad are not so large in the case of exchanges of goods between industrial countries as they used to be between industrial and agricultural countries. But this smaller gain per unit of goods traded is more than compensated for by the larger volume of international trade which grows out of the immensely larger total output and productive possibilities of industrial countries. It may perhaps be argued that lower margins of international cost differences tend to make the channels of trade somewhat less stable and secure than they were before. Changes in the direction of trade in individual commodities may occur more frequently, and therefore involve a certain sacrifice of stability. But precisely in this respect trade with Russia, in which certain purchasing commitments can be made, may well be less burdened with this particular disadvantage of economic progress.

We must conclude therefore that for a considerable time to come, Russia will continue to export foodstuffs and raw materials either crude, or very simply processed, but that Russia will also tend increasingly to shift away from these lines of exports. Many of her industrial exports of semi-manufactured and, particularly of finished goods, will tend to be marketable in the vast Asiatic zone which lies south of the boundaries of Russia. This development would be greatly hampered if bilateral methods of trade should become permanent after the war. But if trade proceeds according to a well-developed and well-maintained multilateral pattern, the changing structure of Russian exports will be a factor making for larger and more profitable international trade.

2. *The Structure of Russian Imports*

The development of Russian imports in the interwar period was dominated by the aim of industrialization and by what is called in Russian literature the "struggle for economic independence." The changes that took place between 1913 and the end of the 'thirties are not so clearly expressed in terms of large general categories as is the case with exports. More important is the consideration of groups more narrowly defined. Yet certain statements may first be made with regard to general categories.

It is often believed that the pre-1914 imports into Russia were predominantly consumers' goods. Nothing is further from the truth. In the period 1909-1913 imports of producers' goods amounted to no less than 72 per cent of total imports. Imports for consumption were therefore only 28 per cent of Russia's total imports. From the end of the civil war till the mid 'twenties in only three years did imports for consumption exceed the prewar figure. This was the natural result of the events of 1914-1920 in the course of which the country was "bled white" of consumers' goods. Since the mid 'twenties there has been a great decline in the share of consumption goods in total imports. This decline reached lows in 1931 and 1933, when consumption goods were respectively only 4.6 and 5.2 per cent of the total imports. The percentage share rose again to an annual average of about 12 in the remainder of the Second Five Year Plan, that is, in the period from 1934 to 1937. But, since the total value of imports greatly decreased during the same period, this relative rise did not prevent imports for consumption from falling to 62 per cent of their 1931 value. Imports for consumption in 1933-1937 were, in absolute value, about one-tenth of those in 1909-1913; and their share in total imports was more than halved. This indeed is a considerable change in structure.²²

A large part, perhaps as much as 40 per cent of the pre-1914 imports for consumption, was destined for the use of a very small minority of the population. Elimination of these imports therefore could not lower the standard of living of the overwhelming majority of the Russian people. But this is only one aspect and in view of the truly tremendous reduction of total imports, certainly not a very important aspect of the change. Clearly this change was due to the policy in the industrialization of the country. Imports needed for industrial development were granted absolute precedence over imports for purposes of consumption. This indeed was a decision that was taken before the First Five Year Plan was launched.

The reduction in imports of consumers' goods was, again, only one of the structural transformations that took place, and again it was not of primary importance. More important were the changes that took place within the sector of imports of producers' goods. For here the decision to industrialize at a speed commensurate with the successive Five Year Plans implied that the imports should be placed almost exclusively at the service of the producers' goods industries. It implied, by the same token, that imports of raw materials and machinery for the needs of the consumers'-goods industries should be greatly reduced.

²² *Vneshniaia torgovlia S.S.S.R. za 20 let*, p. 16.

In 1925-1926 the country imported equipment for producers'-goods industries to the amount of 35.3 million rubles or 42 per cent of the value of the total industrial equipment imported in that year. Equipment imports for consumers'-goods industries amounted to 45.6 million rubles or 54 of the total imports of this group. In 1931, however, such imports for the needs of the producers' goods industries reached 446.6 million rubles, representing 93.5 of the total amount spent on importing industrial equipment. In 1925-1926 the metal industries took one-fifth of the total imports of heavy equipment; in 1931 their share rose to almost 65 per cent. On the contrary, equipment for consumers'-goods industries was reduced by 1931 to the negligible sum of 22 million rubles or 4.8 of total imports.²³

The same policy was pursued in the case of raw materials and semi-manufactured goods. The imported quantities of hides and skins, leather, and wool were about halved between 1929 and 1932. Imports of cotton were reduced by three-fourths over the same period. On the other hand imports of ferrous metals increased two and a half times in the same period. The share of metals in total imports increased from 4.9 in 1909-1913 to 13.9 in 1929 and to 24 in 1931. Since machines and equipment amounted in 1931 to 60 per cent of the total imports, this means that in the aggregate in that year 84 per cent of the total imports was devoted to these two groups, as compared with 23.7 in 1909-1913. The imports were wholly and unreservedly serving the purpose of industrialization.²⁴

It would lead us too far if we tried to follow in detail the effects of industrialization on the structure of Russian imports. The table of commodities formerly imported to, and subsequently exported from Russia gives some idea as to the nature of these changes. It may be supplemented by a few figures relating to the share of certain products in the country's total consumption. Thus in 1913, 45.2 per cent of the cotton consumed in Russia was imported and in 1936 only 2.3. In 1913 all rubber consumed was of foreign origin; in 1936 only 44.1. In 1913, 97.2 of the zinc smelted came from abroad; in 1934 only 13.6. In 1913 there was no domestically produced aluminum; in 1935 only 2.3 of the total consumption was imported. And, finally, in 1913, 44 per cent of all machinery used in Russia had been produced abroad; in 1935, 99 per cent of the total was of domestic origin.²⁵

These are very great shifts indeed. What were their general effects

²³ D. D. Mishustin, *Vneshniaia torgovlia i industrializatsiia S.S.S.R.*, p. 52.

²⁴ *Ibid.*, p. 67.

²⁵ *Ibid.*, pp. 194, 196, 200, 202.

on the structure of imports during the period of the Second Five Year Plan in 1933-1937? As already indicated this period was characterized by a great fall in the total volume and value of foreign trade despite the continuing increase of domestic production. The self-sufficiency of the economy was increased. With it a certain relaxation of the industrialization tempo took place. The share represented by metals and machines was reduced from 84 per cent in 1931 to 58.7 between 1933 and 1937.

The share of metals increased, although only by about 3 per cent, while the share of machines was almost halved. Also the types of machines imported changed. While imports during the First Five Year Plan consisted mostly of standard machinery, in the imports of 1933-1937 much greater emphasis was placed on technological innovations and improvements. Imports of machine tools were considerable. The reduction in the share of imports of machinery made possible an increase in the share of raw materials and semi-manufactured goods. In two years of the period, 1935 and 1937, the latter group for the first time exceeded the share of finished goods in the total of Russian imports.

There is little doubt that the intention in the Second Five Year Plan was to increase imports of both machinery and raw materials for the needs of the "light," that is, the consumers'-goods industries. To a certain extent this applied also to foodstuffs, but only with reference to certain goods such as coffee, cocoa and fruits, the imports of which increased between 1934 and 1937. In the same period the amount spent on equipment for textile and paper production was increased eightfold for the former and about tenfold for the latter. But the absolute amounts were still relatively small, amounting only to 9.6 million rubles²⁶ for textile machinery and 17 million rubles for that for paper-making. The absolute amounts of raw materials imported for the light industries were, as in the case of leather and wool, considerably lower than their level at the time of the First Five Year Plan. In view of the great reduction in total imports the professed intention to improve the position of the consumers and to devote more attention to the industries supplying consumers' goods was reflected in the foreign trade of the Soviet Union only to a very limited extent.

The changes in imports differed somewhat from those in exports. In the latter it seems easier to speak of certain trends which will, in all likelihood, persist on the assumption that after the war we shall witness a great revival of economic collaboration between Russia and the rest of the world. It is possible, in a rough and general way, to fit this structure of exports into the pattern of a large and expanding international

²⁶ *Ibid.*, p. 81 ff.

trade. It is not quite so with imports. It does not cast any aspersion on Russian economic policies in the past to say that the structure of Russian imports was determined by the principle of autarky. Even if one deplores this development, a good case can be made for the view that the economic and political world of the unhappy 'thirties being what it was, autarkic policies were inevitable from the point of view of the self-preservation of the country and no responsible Russian government would have pursued essentially different policies. The fact that Russia did follow autarkic policies has been sometimes denied in Russian literature. Taken on their face value such assertions are hardly tenable. But perhaps they may be interpreted in a somewhat different way. It may well be, and it would be in harmony with a general appraisal of Russian developments, that the denial of autarkic policies in the past opens the way for their abandonment or diminution in the future because it implies the refusal of any fundamental acceptance of such policies.

And this is the crucial point. The long-run development of Russian imports in an atmosphere of close economic collaboration with foreign countries presupposes that imports will no longer, or at least not to the same degree, be so controlled as to serve purposes of autarky. This cannot but affect the structure of imports. The direction which an important structural change may take is indicated by the announced but only partially executed changes in import policy at the time of the Second Five Year Plan. Some increase in imports of foodstuffs, raw materials for the consumers'-goods industries, and particularly of machinery and equipment for the same industries must be an essential feature of post-war Russian imports. From the Russian point of view this change would be one of the great advantages of close international collaboration, because it would allow the process of industrialization to continue while also raising the standards of living. This change in the structure of imports would remedy the curious abnormality in the process of Russian industrialization, that is, a marked lag of the consumers'-goods industries behind those of the producers' goods. It is not, however, in the great categories of imports but rather in detail items that the changes would express themselves.

The Russians have a special definition of an agrarian country. They call any country agrarian that produces automobiles, but does not produce the equipment for automobile factories; that produces shoes, but imports the equipment for its shoe factories, and so on. In short, production of producers' goods is regarded as decisive. But nobody can or should expect Russia to abandon its heavy industry, to abandon its pro-

duction of machinery. In the years following the war the structure of Russian imports may confidently be expected to reflect the rehabilitation and the further development of these branches of industry. But the decisive point is that if there is to be intensive economic collaboration, there will be a wide range of machinery and equipment which the Russians, although perfectly able to produce them at home, will import from abroad. One should keep it in mind that in the past Russian policies were to a great extent dictated by the aim, not purely economic, which may be called "practical education." The Five Year Plans were carried out in an atmosphere of great and, to all accounts, genuine enthusiasm. Industrialization was regarded as a great school in which the country learned the methods of modern production. "To master the techniques," as the Russians say, was an essential element of the whole process. The desire to know how to produce "everything" undoubtedly dominated the program of industrialization, and pushed it in some branches beyond what was dictated by considerations of economic development and military safety. This educational factor should not be underestimated. Some of the results of this intensive instruction may have been destroyed by the war, together with other more tangible values. But the comprehensive course in industrial education certainly did bear and will bear economic fruit even though it involved building up branches of production which were irrational on a strictly economic calculus. Psychologically, this attitude may have enhanced the task of industrialization and rendered easier the implementation of the industrialization program.

It is precisely the progress achieved before the outbreak of the present war which should make it possible to proceed with greater discretion and with greater economic rationality in the future. The process of industrialization in Russia need not be slowed. It will continue but it might well continue by intensification rather than extensification. A number of products, even those in which Russia had already become self-sufficient, may again be imported. They will be those products in which Russian costs of production very considerably exceed the costs of production abroad. Liberation from inefficient high-cost production would not only increase the total value of products at the disposal of the country, but would permit of a concentration of effort on achieving greater efficiency in the vast sphere of domestic production that would still remain.

Thus certain interwar trends in Russian imports will have to be reversed in the course of Russia's re-incorporation in the world economy. These changes will tend to increase the volume of Russian imports.

The percentage of imports in total consumption is naturally high in England. It was less important but still considerable in Germany. It cannot be expected that Russia should reach similarly high percentages. This would not be consistent with the basic economic structure of the country. But the share of total imports in total production which was reduced to just one per cent, should increase considerably, perhaps approaching a percentage similar to that which obtains in the United States. The Russians are rightly proud that they "can produce every, yes, every commodity at home." But there is a whole world between potentiality and actuality, between ability to produce if necessary and actual production.

Very often one reads in Russian literature enthusiastic descriptions of American technological attainments. To "catch up" with the United States has been for years the great Russian ambition. American equipment which fought for Russia, and still fights, along the whole front from the Arctic to the Danube was bound to increase the Russian appreciation of American achievements. But at the same time it cannot fail also to be impressed by one of the great lessons of the present war, i.e., that a developed industrial country can afford not to produce every type of commodity at home, because it has the skill and capital needed to begin the production of new commodities as soon as an emergency calls for it. Again, by dispensing with industries which tie down an amount of labor and capital disproportionate to the value of products, which hamper rather than promote the process of capital formation, Russia will become more rather than less industrialized. This will open up broad channels along which foreign goods will be able to flow into Russia beyond the period of rehabilitation. Russia, then, will become a permanent member of the community of trading nations.

VII. *The United States and the U. S. S. R.*

1. *Some Technical Aspects of Trade*

The technique of trade between the United States and Russia has been rather simple. The contracting parties for sales and purchases in most countries were the Russian trade missions. In the United States the function of the trade mission was discharged by the Amtorg Trading Corporation, Amtorg being the Russian abbreviation of *Amerikanskaia torgovlia*, or American trade. It was established in 1924, almost a decade before the recognition of Soviet Russia by the United States, and is an American corporation under the laws of the State of New York. Before 1931 there were a few other Russian-owned corporations which handled

a certain proportion of this trade. But after 1931 the bulk of it was transacted by the Amtorg. In so doing it has acted for the Russian government export and import corporations, described earlier, which are the basic operating organs of the government monopoly. Two or three tendencies in the second half of the 'thirties are worth mentioning.

One was the increasing tendency on the part of the Russian export and import corporations to appear as the contracting parties of the American buyers and sellers. Connected with it was another tendency which has become generally apparent in Russian trade since 1935. Since that time the Russians have been making attempts to shift the concluding of contracts to Russia. There the foreign trader would make his bargains directly with one of the export or import corporations; and this had some real advantages from the Russian point of view, particularly in the case of export trade.

The practice previously followed, that of contracting sales outside of Russia, usually involved holding considerable stocks of export goods on consignment in foreign countries and, by the same token, it involved appreciable additional costs for storage, etc., expenses which into the bargain, had to be defrayed in foreign exchange. This has very often had the effect of depressing Russian selling prices. Besides, the Russians probably feel that they are in a better strategic position if they succeed in making foreign importers come to Russia and compete there for the goods. That the Russians should be keen in pursuing such a policy appears to corroborate the view that they do not intend to pursue any dumping policies. In particular, it is in the case of furs that this policy has found obvious expression in the introduction of the regular, semi-annual fur auctions in Leningrad.

The policy is a sound commercial policy, and one may expect it to be maintained in the future, especially in the case of commodities where Russia is the chief supplying source. Apart from this, there has been an increased tendency to sell abroad on the basis of samples or previous deliveries rather than from consignment stocks abroad. This development may be expected to be enhanced as it essentially denotes a process of normalization in Russian foreign trade.

As far as Russian imports are concerned, and particularly in the case of imports from this country, the tendency to shift the place of purchase to Moscow has not been very strong. The desire of the American exporter to keep transactions subject to American law, or to the judgment of an American arbitration court, may be expected at least for some time to come, to militate against far-reaching changes in this respect.

Finally, a third recent tendency must be mentioned. The fact that during the 'thirties more and more Russian purchases were settled on a cash basis, or on such short-term credits, that is, thirty or forty-five days, that they virtually amounted to cash. And this latter tendency may be expected to become permanent. Some reasons for this will be given in the last section of this chapter.

2. *The Balance of Trade*

The outstanding fact in the trading relations between Russia and the United States has been mentioned before. It is that Russia tends to import much more from the United States than the United States buys in Russia. This is illustrated by the following figures.²⁷

	Exports from the United States to Russia	Imports from Russia into the United States
	<i>(In Thousands of Dollars)</i>	
1909-13 Annual Average	25,798	18,570
1921-25 " "	33,336	4,309
1926-1930 " "	77,666	17,592
1931-35 " "	33,022	13,040
1936	33,427	20,517
1937	42,892	30,768
1938	69,691	24,034
1939	56,638	25,023

The table, throughout, illustrates Russia's import surplus in her trade with this country. This situation is premised in the main upon the economic structure of the respective economies. A country such as Russia which is in the process of industrialization needs a wide range of imports from a highly developed industrial country. Machinery of the most varied description naturally forms the bulk of Russian purchases. The group "Machinery and Vehicles" in United States statistics of exports to Russia comprises almost one hundred subdivisions and some of these sub-groups, in turn, comprise a considerable number of what actually are different commodities. This is true of the large items such as metal-grinding machines, metal-cutting tools, lathes, gear-cutting machines, foundry and molding equipment, chucking machines and so forth. The number of articles that can be supplied to Russia by the

²⁷ United States Department of Commerce, *Foreign Commerce and Navigation of the United States*.

United States is very great, indeed, quite apart from machinery and vehicles.

At the same time the United States is an industrial country in a special position. The agricultural background which has been preserved in the United States reduces its range of purchases from an agricultural country. This is clear if we compare the United States with England. On the other hand, Russia is no longer the agricultural country she was twenty-five years ago, though she has not yet reached a stage where she can export industrial goods proper to a country like the United States, with the exception of certain basic chemical products, or rather by-products, such as ammonium sulphate or crude glycerine. It was therefore a limited number of commodity groups which constituted in the interwar period, and will in all probability constitute for long years after the present war, the main reservoir of Russian goods exportable to the United States. This is not to say that changes which occurred in Russia during the last quarter of a century were of no significance for the export trade to the United States. Certain commodities such as anthracite coal became exportable precisely as a result of the great increase in production and in the productivity of labor in Russia. But the commodities which Russia can export are still mainly raw materials. Moreover, though considerable diversification of Russian exports took place in the interwar period, it cannot be compared to the almost infinite variety offered by the exports of an industrial country. Among such raw materials Russian furs play an important part. Fox, Persian lamb and caracul, squirrel and fitch are the most important. The striking fact is that the value of undressed furs greatly exceeds the value of dressed furs. In fact, the latter form a very small proportion of the total value of furs imported by the United States from Russia. In 1936, for instance, the share of dressed furs in the total imports of Russian furs to this country was less than seven per cent. At the same time the share of dressed furs in the *total* Russian exports of furs was rapidly reaching the 50 per cent mark. The Russians have been very anxious to reduce the share of undressed furs and to increase the share of dressed furs in their exports. The discrepancy is, in part, caused by the high American tariff on dressed furs which amounts to from 25 to 30 per cent of the value, while undressed furs are free of duty. To be sure, as far as the higher classes of furs are concerned the quality of dressing is an additional impediment. The American manufacturers prefer to be able to supervise and guide the process of dressing. But the quality of Russian fur-dressing is rather high in the case of lower-priced furs such as lamb and sheep-skin furs. If the future should bring

changes in the tariff on dressed furs, imports of Russian dressed furs may increase considerably and with them the value of Russian imports.

For the rest, it is manganese ore, anthracite coal, sawn lumber, flax, medicinal herbs, and caviar that bulk large in the Russian exports to this country. Exports of most of these categories are undoubtedly capable of some expansion. In particular, the United States may want to keep a large, permanent stock of manganese within the country. New commodities, such as certain chemical products, may find their way from Russia into the United States. Still there is a strong presumption that a great increase in Russian trade will tend to enhance rather than diminish the traditional Russian import surplus in her trade with the United States.

The general expansion of Russian trade envisaged in this paper is likely to cause an increase in imports to Russia in a specific commodity which to a considerable extent might be supplied by the United States. This commodity is merchant ships. There is little doubt that the development of the Russian merchant marine lagged appreciably behind the general economic development of the country. This was natural in view of the generally small volume of Russian trade. The merchant marine of Russia before 1914 was not very large, amounting only to about two per cent of the world total. Through war and revolution it was reduced by about four-fifths and little was done in that field until the beginning of the 'thirties. In the meantime the role of sea transportation in Russia's foreign trade as compared with the pre-1914 period increased very considerably. In 1909-1913, 73.9 per cent of the value of all exports and 49.3 per cent of all imports went out and came in by sea. In 1937 these figures increased to 85.5 and 84.7 per cent respectively which means that as little as 15 per cent of total Russian trade came into, or left the country by land. As far as the volume of trade is concerned the figures are even more impressive inasmuch as 84.6 per cent of the imports and as much as 93.4 of the exports were shipped by sea routes.²⁸

Throughout the 'thirties efforts were made to increase the Russian merchant marine with the result that by 1938 the gross registered tonnage reached 1.2 millions, as compared with one million tons in 1914. Between 1927 and 1937 ships from abroad were imported to the total amount of 297 million rubles as against, for example, 345 million rubles paid for imported tractors in one year, 1931.²⁹ This sum is not very im-

²⁸ *Vneshniaia torgovlia S.S.S.R. za 20 liet*, p. 12.

²⁹ Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich, 1938* (Berlin, 1938), p. 108*; *Vneshniaia torgovlia S.S.S.R. za 20 liet*, p. 81.

pressive, nor is the tonnage of 1.2 millions which placed Russia, in 1938, in the twelfth place, that is to say between Sweden which exceeded Russian tonnage considerably, and Denmark which followed it rather closely. Even so, Russia had been able, by 1935, to carry most of her imports in her own bottoms. The bulky character of Russian export goods did not permit the carriage in Russian ships of much more than from one-quarter to one-third of total exports by sea. It is to be expected, and there are many indications, that an increase in Russian foreign trade will be accompanied by an increase in shipbuilding; but also, to a large extent, by purchases of merchant ships from abroad. In the past Russia used to buy her ships primarily in England, Germany, Holland and Denmark. It is very likely that the great shipbuilding development in this country during the present war may result in giving the United States an important place among the suppliers of ships, particularly of standardized types, to Russia. Such an evolution may become of some importance in facilitating the adjustment from war to peace economy particularly on the West Coast of the United States. But it will increase the size of Russia's import surplus in her trade with the United States.

3. *How will Russia Pay?*

This import surplus can be handled in three ways. Russia can pay for at least a part of it in gold. Payment may be postponed by the import of capital, that is to say by credits granted to Russia. Or it can be paid for multilaterally by Russian exports to third countries which either have an export surplus with the United States, or with countries which have an export surplus in their trade with the United States. There is little doubt that this method of payment, through a multilateral settlement of balances, is the only one which in the long run will maintain a large volume of trade and make possible smooth and satisfactory trade relations. That the importance of gold, in Russian trade, should not be exaggerated has been indicated above. However, credits, particularly in the first years following the war, may reasonably be expected to play an important, and subsequently a subsidiary, role in trade relations between the United States and Russia. Lack of credits was one of the important impediments in the development of Russia's foreign trade in the interwar period. Apart from the last few years of that period Russian purchases were often predicated upon the possibility of obtaining credits rather than upon considerations of cost. In other words Russia sometimes bought goods at higher prices and of inferior quality because payment for them could be postponed.

For a considerable part of the interwar period the general credit situation was very unsatisfactory from the Russian point of view. This is true to a lesser extent of the financing of Russian exports by foreign credits. Here it took the Russians some time to learn to avail themselves most rationally of international financing mechanisms, and how to compute and lower the cost of credits; but on the whole, because of the security lent by the exported commodity, normalization of the credit conditions with respect to Russian exports took place at a rather early date. The real problem was, and remained, the credits for Russian imports. The normal channels of long-term bonded loans were out of the question. They presupposed at least the recognition of the pre-Soviet Russian debt, and even if such a recognition had been forthcoming, lending to Russia still would have hardly found a sufficiently large market in the general atmosphere of distrust and suspicion.

The result was that when credits began to be granted to Russia they were exclusively "commercial credits," that is, credits granted by the exporting firms. The risk was considered great, so was the urgency of the Russian demand for credits, and normal discount facilities for Russian acceptances were not available. The result was that the cost of credits granted was inordinately high. Very often the high price of credit would be concealed in the high prices of goods sold to Russia or in commissions to be paid to various agencies established precisely for the purpose of collecting the payments of interest under a disguised title. Very often exporting firms discounted Russian acceptances on what was called the "black market," paying rates of discount as high as 30 per cent and more.

As years went by and Russian political relations, first with Germany and then with other countries, became more normal the situation began to improve. From 1926 on, exporter's credits to Russia were guaranteed by the German government to the extent of from 60 to 70 per cent. At the same time rather complex methods were evolved by special agreements with groups of banks in order to make the financing of credits possible. Such or similar practices were subsequently expanded to a number of other countries, particularly when the problem of unemployment became acute in the years of the Great Depression.

Government guarantees tended to reduce the cost of credits somewhat. The meticulous punctuality with which the Russians discharged their debts gave them an excellent reputation as debtors and tended likewise to reduce the price of credits. Still the interest rates remained considerably above normal. The unguaranteed portions of the debt, furthermore, were still frequently discounted through private channels.

In the United States no government guarantee was extended. In 1934, after the Soviet Government had been recognized, the Export-Import Bank of Washington was established by the United States Government with the aim of financing exports to Russia, or granting loans to exporters in the case of default on the part of the Russian purchaser, should such default take place. The credit facilities of the Bank were, at that time, exclusively reserved for that purpose. However, the beginning of these operations was made contingent on a satisfactory settlement of the debts incurred by pre-Soviet governments. Since no agreement could be reached on the latter, the Bank abstained from entering the field of Russo-American trade. Accordingly large firms tended to finance the credits themselves while smaller firms had recourse to the "black market," which the Russians always abhorred, apart from the question of cost, on the grounds of commercial and political prestige.

Thus, even though some improvement took place, the situation remained unfavorable. For, quite apart from the question of cost of credits granted to Russia, they were abnormal in two ways. First, in the insufficient duration of credits. The average duration was about two and a half years. Credits of five years were on the whole an exception. They were short-term or at best medium-term credits. Secondly, credits granted to Russia remained "commercial" rather than "financial" loans. They were granted by firms in connection with the sale of goods to Russia. Thus, even where all arrangements for the government guarantee and financing of credits were made, the purchase still preceded the granting of credit instead of following it. Connected with this was the fact that the instrument of credit was the acceptance of the trade mission and not a bond of the Russian Government, if we disregard the relatively very small amount of 10 and $7\frac{1}{2}$ per cent bonds which the Russians at one time were offering to the public of this country.

It was only from 1934 on that a certain improvement began to be visible. The fact that from the Second Five Year Plan onward the volume of imports was greatly reduced and an export surplus was established naturally contributed to a betterment in the credit conditions obtained by Russia.

In 1934 the Swedish government agreed to grant a five year credit of 100 million kronor at $5\frac{1}{2}$ per cent per annum. The loan was to be used exclusively for purchases of Swedish goods. The utilization of the loan was planned to be *pari passu* with the surrender of equivalent amounts of Russian bonds to the Swedish Government. However, Russia refused to ratify the agreement apparently largely for political reasons. It was

only six years later, in 1940, that a new agreement was made. Size and duration of the credit were as envisaged in 1934, but interest charges were one per cent smaller. Because of the war only about 40 per cent of this credit was utilized.

The following year, 1935, a credit of 200 million marks was arranged with Germany. The form of credit was still acceptance credit but it was granted by a group of German banks directly to the Russian Government. The duration of the credit was likewise five years and its cost, in effect, five per cent. Even greater progress was marked by an agreement with Czechoslovakia concluded in the same year. A credit of 250 million Czechoslovak crowns was granted for five years at an interest rate of six per cent. The credit in this case also was granted by a group of banks to the Russian Government. It was a bonded loan and the great innovation consisted in the fact that for the first time Russian bonds, which the Czechoslovak Government guaranteed, were admitted to the stock exchange in Prague. This was hailed in Russia as a great step forward. Finally, in 1936, an agreement with England provided for a loan of 10 million pounds sterling at 5½ per cent. This loan, like the preceding arrangements with other countries just mentioned, made it possible for the Russians to buy goods from any English firm and effect the payment in cash.

The tendency to break away from "commercial credits" was thus very pronounced in the last years of the interwar period. The Russians tried to get such loans as would not involve receiving credits from their suppliers. In the absence of such loans they preferred to pay cash rather than accept credits on unfavorable conditions. This is an additional reason for the forced increase of gold production during the 'thirties.

There is, therefore, every reason to assume that whatever may be the form of future credit relations with Russia, she will be inclined to persist in conducting her purchases abroad on a cash basis or on a basis of short-term credits not exceeding one or two months.

But there is little doubt that to establish close economic collaboration with Russia after the war will require among other things a normalization of credit relations between Russia and foreign countries. Normal credit relations exclude risk premia and windfall gains of such magnitude as was common during most of the interwar period. They imply a reasonable division between short, medium, and long-term credits, and they imply in each of these cases the use of the appropriate instruments of credit.

It may be assumed as certain that the United States will take a leading part in the export of capital to Russia. Lack of such capital was one

of the forces that made for autarky in Russia in the past. In granting these loans the United States may be able to abstain from giving them the form of "tied loans"—that is, loans to be used exclusively for purchases in the lending country. Given the general demand for American goods after the war, it is certain that even if loans granted to Russia would be utilized by her for purchases in a third country, the dollars with which the Russians would pay for those purchases would immediately be used for payment of American exports to those countries. By rejecting the method of "tied loans" a significant step would be taken towards restoring normal trading and lending conditions as they existed in the world trading system before the outbreak of the First World War.

Russia's participation in the agreement reached at the Conference at Bretton Woods in regard to an International Monetary Fund, and the International Bank for Reconstruction and Development, must be regarded as of great promise for the normalization of at least one aspect of credit relations between Russia and the rest of the world. The size of the quota allotted to Russia in the Fund—\$1200 millions—will make it possible for her to make ample use of the short-term credit facilities. This is not the place for a detailed analysis of Russia's attitude toward the world monetary problem in general and the Monetary Fund in particular. Yet two remarks may be in order.

While the stability of the ruble is a matter of little consequence to Russia's trade partners, Russia has evinced great interest in the task of attaining and maintaining stable and freely convertible exchange rates throughout the world. This is a strong confirmation of what has been said before of Russia's interest in multilateral trade. In this and in the attitude toward gold Russia is very close to the position of the United States Government. Approval of the White Plan and scepticism with respect to the British Keynes plan, as expressed in Russian journals, made this clear long before the Conference at Bretton Woods.

Beyond her attitude to special problems Russia's participation at Bretton Woods furnished most important evidence of Russia's desire to seek peaceful economic relations with other countries and to take an active and constructive part in international economic policies after the war. This desire was emphasized, in the closing hour of the Conference at Bretton Woods by the spontaneous announcement of Russian readiness to increase the amount of her contribution to the International Bank for Reconstruction and Development.

To return to the subject under discussion: Important as is the problem of short-term credits, the issue of long-term credits is still more important. Even so it should be realized that granting credits is no sub-

stitute for a developed system of multilateral trade. On the contrary it is the latter which provides the only healthy basis for international credit both in the transferring of the principal and the servicing of the loans. But this, of course, leads to the general and much-discussed question of the willingness of a creditor to accept payment in goods and services, and therefore raises the question of the reduction of trade barriers as a practical demonstration of such willingness.

Development of the national income and relative prices apart, the total volume of postwar trade with Russia will depend therefore to a varying degree upon all the following factors: multilateral trade, a low level of tariffs, and normal credit relations.

In the long run, of course, in determining their imports, the Russians will have to take account of the volume of their exports. And this will depend, apart from the factors mentioned above, on the political development of the postwar world. If Russia should maintain the policy of military preparedness and devote increasing amounts of her labor and capital to this purpose, the prospects for extensive and continuing trade would be slight indeed. If Russia will desire, and will consider herself able, to relax the policy of continued armament then very considerable amounts of various basic materials will become "exportable," which otherwise would be needed within the country.

From this point of view, therefore, the conclusion of an agreement with Russia in which a global quota of Russian imports is stipulated seems of limited practical value. Such a global quota has been repeatedly suggested. It has naturally no bearing on the question of non-discrimination among individual countries. Its purpose is to make Russia abandon, or deviate from, the road of autarky by agreeing to keep her total imports on a certain level. But it is very questionable whether this aim can be secured at all by means of juridical devices.

Russia will forego autarkic policies if she wishes to live in peace with the rest of the world and if she feels that the rest of the world wants to live in peace with her. Apart from this Russia will be interested in a large and growing foreign trade if she considers foreign trade beneficial to her economy. If these conditions are not present, an obligation on Russia's part to import goods to a certain total annual value will be of little help as Russia would agree only to a very small quota. If those conditions are present then a global quota is not necessary. All we can do therefore is to try to establish for trade with Russia a framework within which trade could proceed with a minimum of discrimination and to the mutual satisfaction of all parties concerned. It is therefore not the size of the total quota but its distribution among individual coun-

tries that is the problem. If we succeed in solving this problem, and the general political evolution will favor our efforts, then we may hope that the end of the war will mark the beginning of an extensive and fruitful economic collaboration between Russia and the rest of the world.

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