

Russian Debts and a New Loan^{*}

I.

THE crux of the Russian problem, as it presents itself to the world today, is the question of foreign credits. It is almost universally admitted that Russia must have loans for the purpose of rehabilitating her economic life, shattered in the last decade by the war and the revolution. But the possibility of such loans is complicated by the crushing heritage of past obligations and the equally difficult handicap of the attitude toward the question of Russia's international obligations still adhered to by the Soviet régime.

At the Genoa Conference of 1922, called for the purpose of laying the groundwork for a genuine economic rehabilitation of Europe, the Russian situation was in the foreground of the discussion. The disastrous effects of the shattered economic life of Central and Eastern Europe upon the trade and industry of Western Europe, had led to the conclusion on the part of most political and business leaders that without Russian and German rehabilitation no rapid recovery from the effects of the war could be expected. A way for the resumption of trading operations with Russia must somehow be found.

It was regarded as self-evident that any Russian government, now in power or henceforth to be in power, must first of all recognize without equivocation ordinary contractual obligations both with reference to the past and the future. Otherwise any negotiations looking toward credit relations with Russia would be futile. It was therefore laid down as a basic principle that Russia must recognize the *legality* of all outstanding foreign obligations whatsoever, whether contracted before or during the war, by the Russian Imperial government, by the Provisional government, by municipalities and local communities or by private companies or individuals—wherever such private property had been confiscated or nationalized by the state.

Recognizing the legality of obligations is, however, a very different matter from paying such obligations. The conferees at the Genoa meeting, realizing in some measure the economic difficulties likely to confront *any* Russian government for some time to come, left the door open to a possible adjustment of Russia's external obligations in conformity with any general plan that might be concluded "between the Allied and Associated Powers for the liquidation or rearrangement of war debts."

The Genoa Conference was entirely right in its implication that the Russian debt problem could not be disassociated from the general problem of war debts, and that its adjustment must be made a

part of a general program of international debt adjustment. The world implications of the Russian problem are such that it cannot be solved by a mere reopening of trade and financial relations with Russia on the part of any single country or group of countries. It is essentially an international affair. The Russian debt situation must be considered as an integral part if the whole international debt impasse.

II.

The primary purpose of a study we have just made of the Russian debt problem has been to disclose the pertinent facts and the controlling factors in Russia's foreign debt situation with a view to ascertaining what adjustments are required. More specifically, we set out to answer three primary questions, viz., (1) What are the amounts which any Russian government would have to pay abroad on account of the various foreign obligations for which Russia is now held responsible? (2) What is involved in obtaining these amounts within the country by means of budgetary surpluses? (3) What is involved in making these surpluses available abroad and what is the probable Russian capacity to make such payments?

The answer to the first question is that Russia is obligated to pay 13,823,000,000 gold rubles, of which 6,681,000,000 gold rubles is for war borrowings and 7,142,000,000 gold rubles for prewar debts, both public and private. The interest charges, making no allowance for amortization, amount to 400,000,000 rubles on the war debt and 320,000,000 rubles on the various prewar obligations, making a total of 720,000,000 rubles.

The answer to the second question is that, given a return to the prewar scale of economic activity, Russia might possibly be able to balance her domestic budget and obtain a surplus sufficient to meet the interest on a considerable part of her foreign obligations. The budget problem, however, will present enormous difficulties, notwithstanding the annihilation of the domestic public debt through the processes of monetary inflation.

The answer to the first part of the third question is that Russia can convert domestic budgetary surpluses into the foreign currencies in which foreign payments are required, *only* by developing an adequate surplus of exports over indispensable imports. There might conceivably be a budgetary surplus and yet it might be impossible to meet foreign payments because of an unsatisfactory foreign trade situation. From the point of view of debt-paying capacity, Russia's foreign trade problem presents much greater difficulties than the internal budget problem.

With reference to the second part of the third question—Russia's probable capacity to meet her foreign payments from an export surplus—we have based our estimates on the assumption that, with

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the aid of reconstruction loans, Russia returns to the prewar scale of economic activity. If Russia regains her prewar status, we estimate that her favorable trade balance would not greatly exceed 100,000,000 rubles a year. This amount is sufficient merely to cover the interest charges on a reconstruction loan of about 1,400,000,000 rubles, allowing for no margin of income above interest obligations. No interest payments would be possible on either the war or the prewar state debt, nor could any interest or dividends be paid to foreign holders of Russian industrial securities.

If, in the course of years, Russia should succeed in developing her internal resources and in increasing her export surplus, she might ultimately be able to assume some charges on account of prewar debts. Her ability to succeed in this direction will be governed not merely by the success of internal reforms; it will be controlled quite as much by the rapidity and the extent to which Russia's markets in Central and Western Europe are restored and expanded.*

If Russia is to recover economic stability, she must have reconstruction loans; and the interest on these loans must be given priority over all past Russian government obligations. Without a prior lien on Russian income, such loans would have to be regarded as the worst credit risk in the world.

III.

Three choices confront the world with reference to the Russian situation: First, there may be a do-nothing policy, with Russia left adrift. Second, there may be an exploitation of Russian resources through the medium of concessions, with the problem of existing indebtedness remaining unsolved. Third, there may be a real settlement of the whole Russian debt problem negotiated in a statesmanlike manner.

Russia may be left severely alone, either because the Russian government fails to meet the conditions stipulated by other countries as a basis for resumption of trade and financial relations, or be-

cause of a fixed opinion that Russia should be forced to lie in the bed which she has made for herself. Under such conditions, insistence that Russia make any payments on her existing debts would be nothing more than an empty gesture. Russia would, however, survive, and many millions of people would continue to eke out a precarious existence on the great white plains of Eastern Europe. But a thriving agricultural, commercial, and industrial Russia would be quite out of the question. That country's great potentialities would be lost to the world.

The question of Russia's outstanding indebtedness may be allowed to drift and new foreign capital may be invested in Russia in the form of private concessions, seized upon as a means of exploiting that country's rich natural resources. Concessions represent special claims by the investing groups upon specific resources. The concessionaires not only have a prior, but they have a sole, lien upon the resources specified. No recognition is given to the existing claims of others upon the income of the country granting the concessions; and but scant attention is paid to the general economic needs of the country itself. The whole history of the concession business—in the Orient, in Persia and the Levant, and in Latin America—is a record of sharp bargaining by special profit-seeking interests. Such is the essence of the concessions that have already been offered by the Soviet régime in Russia.

A policy of concessions affords no real solution of the Russian problem. Some foreign capital might find its way into the country on this basis, and considerable internal development would occur; but Russia could not possibly by this means be restored as an economic entity capable of meeting its existing obligations to the rest of the world. Concessionaires would be concerned only with intensively exploiting the particular resources over which they have acquired exclusive rights during a certain number of years; they would not be concerned with assisting Russia in obtaining a balanced national budget, a sound monetary system, or a favorable balance of trade. At best concessions would make of Russia another China or another Turkey. If we wish to see Russia become another vast area within which foreign capitalists struggle for control of natural resources and seek the aid of their respective governments in support of their various claims, the opportunity may be at hand,—for left to herself Russia may be powerless to resist pressure in that direction. If we wish to see the various parts of Russia's broad domain become spheres of influence, protectorates, and finally virtual colonies of rival foreign governments and capitalistic groups, we need merely seize the present opportunity. But if we are to embark upon such a policy let it be with open eyes and without illusions as to where it leads.

The rest of the world, as a third choice, may take the stand that the Russian problem is to be settled by direct negotiation with Russia just

* An analysis of Russia's prewar economic situation reveals the fact that during the twenty-year period immediately preceding the war Russia was scarcely able to meet, from year to year, the payments which she had to make abroad for her imports, as well as on account of the services rendered her by foreigners and of the interest and dividends on the various types of her foreign indebtedness. Her international revenue came almost solely from the proceeds of her exports, fully ninety percent of which were taken by the other countries of Europe, principally Germany. Although she made every effort to expand her exports, she did not find it possible to do this fast enough and on a sufficiently large scale, with the result that she was obliged to have almost continuous resort to new borrowings, in order to meet interest payments on her foreign debts and thus keep out of international bankruptcy. Her hope lay then, as it does now, in increasing her export surplus through a development of her national production, and in finding foreign markets for this surplus.

as soon as a responsible Russian government accepts the paramount conditions heretofore laid down. Such a settlement would be based fundamentally on two assumptions: First, that Russia remain a sovereign nation, meeting her foreign obligations by ordinary trade and financial methods; and, second, that in the interest of all con-

cerned she be restored to her proper place in the economic fabric of nations. With this approach to the problem, the first formidable task to be resolutely undertaken is a thoroughgoing adjustment of Russia's financial obligations as a part of a comprehensive program of European reconstruction.

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The Patron and the Crocus

YOUNG men and women beginning to write are generally given the plausible but utterly impracticable advice to write what they have to write as shortly as possible, as clearly as possible, and without other thought in their minds except to say exactly what is in them. Nobody ever adds on these occasions the one thing needful: "And be sure you choose your patron wisely," though that is the gist of the whole matter. For a book is always written for somebody to read, and, since the patron is not merely the paymaster, but also in a very subtle and insidious way the instigator and inspirer of what is written, it is of the utmost importance that he should be a desirable man.

But who then is the desirable man—the patron who will cajole the best out of the writer's brain and bring to birth the most varied and vigorous progeny of which he is capable? Different ages have answered the question differently. The Elizabethans, to speak roughly, chose the aristocracy to write for and the playhouse public. The eighteenth-century patron was a combination of coffee-house wit and Grub-street bookseller. In the nineteenth century the great writers wrote for the half-crown magazines and the leisured classes. And looking back and applauding the splendid results of these different alliances, it all seems enviably simple, and plain as a pikestaff compared with our own predicament—for whom should we write? For the present supply of patrons is of unexampled and bewildering variety. There is the daily press, the weekly press, the monthly press; the English public and the American public; the best-seller public and the worst-seller public; the high-brow public and the red-blood public; all now organized self-conscious entities capable through their various mouthpieces of making their needs known and their approval or displeasure felt. Thus the writer who has been moved by the sight of the first crocus in Kensington Gardens has, before he sets pen to paper, to choose from a crowd of competitors the particular patron who suits him best. It is futile to say: "Dismiss them all; think only of your crocus," because writing is a method of communication; and the crocus is an imperfect crocus until it has been shared. The first man or the last may write for himself alone, but he is an exception

and an unenviable one at that, and the gulls are welcome to his works if the gulls can read them.

Granted then that every writer has some public or other at the end of his pen, the high-minded will say that it should be a submissive public, accepting obediently whatever he likes to give it. Plausible as the theory sounds, great risks are attached to it. For in that case the writer remains conscious of his public, yet is superior to it—an uncomfortable and unfortunate combination, as the works of Samuel Butler, George Meredith, and Henry James may be taken to prove. Each despised the public; each desired a public; each failed to attain a public; and each wreaked his failure upon the public by a succession, gradually increasing in intensity, of angularities, obscurities, and affectations which no writer whose patron was his equal and friend would have thought it necessary to inflict. Their crocuses in consequence are tortured plants, beautiful and bright, but with something wry-necked about them, malformed, shrivelled on the one side, overblown on the other. A touch of the sun would have done them a world of good. Shall we then rush to the opposite extreme and accept (if in fancy alone) the flattering proposals which the editors of the Times and the Daily News may be supposed to make us—"Twenty pounds down for your crocus in precisely fifteen hundred words which shall blossom upon every breakfast table from John o' Groats to the Land's End before nine o'clock tomorrow morning with the writer's name attached?"

But will one crocus be enough, and must it not be a very brilliant yellow to shine so far, to cost so much, and to have one's name attached to it? The press is undoubtedly a great multiplier of crocuses. But, if we look at some of these plants, we shall find that they are only very distantly related to the original little yellow or purple flower which pokes up through the grass in Kensington Gardens about this time of year. The newspaper crocus is a different but still a very amazing plant. It fills precisely the space allotted to it. It radiates a golden glow. It is genial, affable, warm-hearted. It is beautifully finished, too, for let nobody think that the art of "our dramatic critic" of the Times or of Mr. Lynd of the Daily News is an easy one. It is no despicable feat to start a