FIGHTING THE RED TRADE MENACE

BY

H. R. KNICKERBOCKER

AUTHOR OF
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CONTENTS

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CHAPTER I

Milan:

Largest department store on earth, the Soviet Union Foreign Trade Monopoly, is conducting the greatest permanent bargain sale in history and in fifty-two lands its agents today are offering a thousand varieties of wares at prices that bring despair to their competitors.

What these offers mean first of all to America, one of the Soviet Union's chief competitors for the European market, is a principal object of this investigation of Soviet trade in Europe's chief industrial cities, ports and capitals, an investigation undertaken on the eve of the spring and summer export campaign of the Soviet Union that is expected to bring increased quantities of Soviet goods on a market already groaning from oversupply.

Milan, Naples, Rome, Genoa, Savona, Marseilles, Paris, Brussels, Antwerp, Amsterdam, The Hague, Rotterdam, London, Liverpool, Manchester, Oslo, Stockholm, Helsingfors, Riga, Copenhagen, Hamburg, Bremen and Berlin are the stopping points for this investigation. All are rich sources of information on the questions that are absorbing the attention of the world's business men and economists, namely, to what extent is Soviet trade expanding, how great is it today, how great will it be tomorrow, with whom does it come in conflict and what influence has it had on the world economic crisis?

Europe recognizes the "Red trade menace," but what is Europe doing to meet it? This is a matter for particular concern in the United States at this moment when conflicting interests at home are representing both sides of the dispute pro or contra trade with the Soviet Union, and whether it can be established that Europe is doing little or doing much to check Soviet economic expansion, it remains of significance to America to know how the rest of the "capitalist" world is reacting to the sudden appearance in international trade of this new and fast growing anti-capitalist competitor.

What is the outlook that success of the Five-Year Plan will add to the flood of Russian petroleum, lumber, coal, grain, flax and other raw materials a corresponding export of manufactured articles is another of the questions that American and European business men are asking and that this investigation will attempt to answer.

Finally a visit to the eleven European countries is intended to throw light on the complex of questions that most excites Moscow, that interests all European nations, that is asked by every country and every corporation doing business with the Soviet Union, namely: What chance is there of the formation of a European economic bloc to boycott the Soviet Union and what chance is there of the establishment of either national or international trading centers to provide for the non-Soviet world in its commercial contacts with the Soviet Union a counterpart to the Soviet foreign trade monopoly? Depending on the answer to this set of inquiries is the whole fabric of Russian credit abroad, and supplementary to these answers must be presented an analysis of Europe's credit policies toward the Soviet Union.

This much may now be said to be fairly well established by the investigation so far carried out: In a period when foreign trade of all non-Soviet countries is falling rapidly, Soviet foreign trade is increasing by leaps and bounds. The fact that the Soviet Union's exports proceed in part from a surplus obtained by depriving the population of much they require is a fact irrelevant to the objective effect of these exports upon the world market.

American and other producers of the great Soviet staples are feeling Soviet competition. European manufacturing countries profit for the moment by purchasing cheap Soviet staples offered in competition to the products of America and other raw material sources. They profit by their own exports of machines and factory equipment for fulfillment of the Five-Year Plan. They are vaguely aware of the possibilities in store for them from an industrialized, economically independent, militarily powerful Soviet Union, but are acutely aware of the immediate gains to be had from Soviet trade.

European commerical dislike of America is astonishingly widespread and exerts strong influence on European policy toward the Soviet Union. In some countries an effort has been made to check Soviet "dumping" by restrictive systems, but in no country visited has the effort been successful. In most countries the realization is strong that if anything effective is to be done by the non-Soviet world to counter Soviet economic expansion it must be done by a united front of all nations.

In conclusion, if it must be formulated in a single sentence, it may be recorded as the writer's unavoidable impression that Europe can arrive at no special accord in respect to combating the Soviet Union until it has arrived at a general accord on all of the manifold questions that now divide this continent, and that if Europe were to arrive at such a general accord, remote though the prospect is, Europe would do so with as much intention of directing it commercially against the United States as of directing it commerically against the Soviet Union.

Like every department store, the Soviet Foreign Trade Monopoly has its specialties to attract customers, cow rivals, and impress the public. Russian coal in Pennsylvania, Russian textiles in Lancashire and Russian razor blades in Germany have been looked upon by producing interests in the nations in question as insults added to the injury felt from more voluminous exports under the Five-Year Plan.

For Italy, though, the Five-Year Planners have reserved their most audacious bit of specialty salesmanship and here today in the Milan Fair, in the home of spaghetti, one may see displayed fourteen varieties of Soviet Russian macaroni—fresh, toothsome, unashamed!

The world at large, American and European, is alarmed at the sales abroad by the Soviet Union at prices below the utmost ability of their bourgeois competitors to meet. "Russian Dumping" is a world-wide cry and has been advanced as an explanation for nearly every economic ill from unemployment to the break in the wheat market. But few persons, even among that increasing number of observers who are keenly interested in the problem of Soviet economic expansion and who declare it the most important development of our times, are aware, specifically and concretely, of just what the Soviet Union is shipping abroad, of how various and voluminous its offers of goods upon the world market are.

An examination of the Soviet Union in European trade, of the Five-Year Plan from the outside, of the Bolshevik behind the counter and of efforts or the lack of them by European nations to checkmate the "Red trade menace" could have no better introduction than a visit to the Soviet exhibit in the Milan Fair.

A stroll around this big rectangular, two-storey permanent building, decorated with hammer and sickle and Soviet star and flying the red flag of Communism undisturbed in the birthplace of Fascism, is more instructive than volumes of prophecy on Soviet foreign trade.

Two things are worth the time of the most hurried visitor to Milan: To reflect upon the past under the marble vault of the Milan Cathedral, grandest Gothic structure in Europe, symbol of the oldest Christian church; to speculate upon the future among the crowded booths of the Red trade exhibit, symbol of the newest economic faith.

Here at hand in the flesh, in the can, in the bale and in the bolt, is a visible part of the inventory of the biggest sales organization in the world, ready to furnish anything from worm medicine for overfed lapdogs to marble gravestones and linen doilies, ready to meet and cut anybody's price from cotton to coal!

It is an astounding exhibition and Soviet macaroni in Italy is only one of its revelations. There in a corner is a stand taller than a man, brilliantly lit with thin-necked globular electric light bulbs. They are for sale. They are Soviet products. Three years ago the best the Soviet Union could do in the way of producing instruments of illumination was to turn out with the help of Swedish concessionaires poor quality kerosene lanterns. Today they are exporting electric light bulbs indistinguishable to the layman from the most modern products of American or German factories. Patents, it may be remarked, are one of the least of Soviet worries.

In another section of the building is a food department. One wonders what the reaction would be if a Russian worker or peasant could be transported suddenly and without the intermediary surprises of bourgeois European restaurants from his table of salt herring, dry grits and black bread to this food department. Here are stacks and stacks of canned goods, all with labels in English, salmon tinned and dried, patties of fish liver, a dozen varieties of smoked delicacies, a huge refrigerator laden with every sort of caviar from gray-grained de luxe Beluga Malosol to the cheaper varieties of amber. Here are long shelves full of preserves in glass, the light glinting from appetizing contours of strawberries, ripe cherries, plums, pears and peaches. Tall jars of jams and marmalades stand opposite other jars of candied fruits and a hundred varieties of confections fill all the chinks and crevices of this opulent display.

Under current conditions of Soviet popular faith in the Five-Year Plan it is perfectly possible that the Russian visitor might be satisfied with the explanation that these Lucullan foods could properly be spared for the sake of the lire, the pounds and the dollars, the machines and the factories necessary to carry out the plan.

Next door are more fundamental foods. Many of them have virtually disappeared from Russian tables since the Five-Year Plan began.

Here are wheat, thirty-nine varieties, and flour, four kinds, for white bread—last seen in Russia in 1928. Here are six sorts of cornmeal, eleven of beans and four grades of sugar. Last autumn in the considerable city of Dniepropetrovsk we could find no sugar. Distribution difficulties were to blame, we were told, and it is true that sugar was available everywhere else en route through the Soviet Union. But distribution runs smoother when the outlet is abroad and foreign currency the goal.

Here are twenty-six sorts of peas and seed vegetables, barley, oats, rye and finally the macaroni. Not just macaroni though, but all calibers in between, from finger-thick noodles to hair-fine vermicelli. In this department is material for every sort of nutriment, from French pastry to mast for swine.

Every department has its director, anxious to distribute literature, ready to explain that the objects on exhibition are only a fraction of those the Soviet Union could supply. The display is quite enough. Description of it reads like a catalogue, and from any other country in the world its relation would be purposeless. Lacking time for a trip to the Soviet Union, however, an outsider interested in what the Five-Year Plan means for his world would find it profitable to continue a stroll through the exhibit, observing next chair-backs, gelatine, cigarette cases and chess boards.

One whole section is devoted to petroleum and every conceivable variety of petroleum product, and another to lumber and wood products, now the largest Soviet exports. Here are parquet floorings, plywood, ready-made doors, sashes, sawn timber, planks.

Upstairs are rugs, antique and new; forty-one kinds of bristles; eighteen of feathers; twelve sorts of sausage casings; twenty-four samples of hemp goods, including ropes, mats and nets, twenty-five kinds of horse hair; sixty-five of furs; 150 examples of fine porcelain; two shelves full of common crockery; a whole department for peasant handwork—toys, dolls, embroidered linen, balalaikas and mandolins.

Downstairs, on the other side, we came up short before three bales of Russian cotton. In 1928, the first year of the Five-Year Plan, the Soviet Union imported nearly 500,000 bales of cotton, 300,000 of them from the United States. American irrigation engineers have been working for the last two and a half years on vast projects for watering the Central

Asian plains, the chief source of the Russian staple. In this, the third year of the Plan, the Russians are exporting cotton.

I asked an American cotton broker here what it meant.

"For the present, a daring gesture: for the future, I don't know," he replied.

"It's possible that, because of the remote distance of their mills in Central Russia from the cotton fields of Turkestan, they may find it cheaper to transport some cotton to foreign markets and import foreign cotton by shorter routes for their own manufacture. At any rate, as far as I know, Americans are not selling any more cotton to Russia this year."

The Soviet Union sent 600 bales of cotton to Milan this spring. It was snapped up at prices averaging $5 a bale below American cotton of the same class.

According to foreign experts who examined it it was good staple—very bright, strict middling, a little coarse and irregular, but very strong and of good character. Soviet trade representatives here offered for sale indeterminable quantities in three classes of strict middling and three of middling, all at prices about $5 a bale less than American cotton and on terms inacceptable to American sellers, including a clause that buyers could reject the cotton before delivery.

This was at any rate an interesting forecast of what may be anticipated from the Soviet Union in another of the world's great staple commodities. But what of manufactured articles? The Soviet exhibit gives a partial answer. A short distance from the baled cotton stand cases of textile samples. More than 300 varieties of Soviet cotton and linen goods are offered for sale.

We hurry along past thirty kinds of hides and leather, water-proofing oil, wax, vermifuge for dogs, ninety-three kinds of chemicals, prepared and raw; fifteen sorts of granite and marble, a case of semi-precious stones and forty-five kinds of other minerals and pause once more before a corner full of silk—raw silk and silk cocoons. There is much to learn in the Soviet trade exhibit. Last year Italy bought more than $1,000,000 worth of cocoons and about $200,000 worth of raw silk from the Soviet Union, where a pair of silk stockings is rarer than white bread. At the exit nuggets, lumps and boulders of anthracite and bituminous coal decorate one side of the doorway. Don Basin coal mines are, with the railroad system, the furthest behind of all branches of Soviet economy under the Plan, but despite the need for fuel at home, the need for foreign exchange abroad is greater and coal is offered in a dozen varieties.

We ask about prices. They are trade secrets and nowhere so strictly as in trade with the Soviets. Not here but in the markets of Milan, Genoa and Naples is it possible to obtain an accurate picture of the price practices of the Soviet trade delegation. Not here but in Rome it is possible to obtain a satisfactory explanation for the economic ties that bind Communist Russia to Fascist Italy today and that constitute one of the most effective hindrances to that union of bourgeois states which the Soviet Union has feared so long.

As one leaves the Soviet exhibit a score of questions clamor for answer. It is true that the total Soviet exports in 1930 only reached 66 per cent of the pre-war Russian exports. Russia under Czar Nicholas, in 1913 sent $750,000,000 worth of goods abroad. The Soviet Union under Stalin in 1930 exported $500,000,000 worth. From 1911 to 1913, according to the United States Department of Commerce, Russia's share of world exports was 4.1 per cent; in 1929 it was 1.4 per cent. Why, then, the excitement, why the protests?

Partly because the world for nearly a decade, from 1915 to 1924, when Russian exports sank to almost nothing, had become accustomed to doing without Russian goods and their place had been filled from other sources. In this sense the Soviet Union is only regaining the old Russian markets.

Partly, however, the world is alarmed not so much at what Soviet exports are now but at what they may become when the Five-Year Plan is carried out and at the use to which devotees of the world revolution may ultimately put the proceeds from a vastly increased foreign trade. For the Plan, be it remembered, makes it the task of the Soviet Union not merely to overtake but to outstrip the "capitalist nations." Not until the czarist total of $750,000,000 worth of exports is overtaken, outstripped and multiplied will the Five-Year Planners be as happy over their foreign trade balance as they are now over their petroleum production, for example.

Finally, however, the world is uneasy precisely because of the picture given here by the Milan Soviet exhibit. No other country on earth ever had its exports concentrated in the hands of a single organization. This huge national department store, capable of supplying wares not by the dozen items but by the dozen shiploads, possesses the inestimable advantage of unified organization. It can maneuver, take losses on some goods to be recouped from profits on others. It can play off its rivals against one another, take bids from a world of competitors, throw its orders here or there as economic or political expedience dictates. Whatever may be the criticism of the workings of Soviet State Capitalism as a system of production and of domestic distribution its virtues as an instrument of foreign trade have at least impressed its competitors.

CHAPTER II

Rome:

A Fascist journalist, a Bolshevik diplomat, a German industrialist and an American banker were gathered for dinner at the home of an American newspaper man. Introductions over, the conversation swept swiftly into political channels and in five minutes the Fascist and Bolshevik had ranged themselves solidly against the citizens of republican states. United in their respect for dictators, agreeing in their contempt for democracy, these individuals betrayed an attitude that today has made Fascist Italy one of the two most reliable safeguards of the Soviet Union against the formation of any kind of anti-Soviet front in Europe.

"To save Italy from Bolshevism," Italy turned Fascist in October, 1922. Two years later Italy recognized the Soviet Union in February, 1924, and exchanged Ambassadors. Italy and the Soviet Union signed a trade agreement in July, 1930, and by the irony of events on May 1, 1931, premier Red holiday, international celebration day for the Communist Party, there was announced the renewal of this trade agreement on terms extremely satisfactory to Moscow, guaranteeing a sure outlet for considerable quantities of Soviet exports, no matter what other European countries might do, and providing on liberal credit terms for the Soviet Union to obtain from Italy some of the instruments of production indispensable for fulfillment of the Five-Year Plan.

It was somewhat surprising to learn here that resentment against America—ill feeling over our tariff—had played a role in the development of Italy's economic rapprochement with the Soviet Union.

"Offer Italy the same goods at the same price, one set of goods from America and one from the Soviet Union," said an American of unimpeachable reliability and experience to me, "and Italy will prefer to take Soviet goods. Chiefly because of our tariff, which has hit Italy hard, and partly because Italy is playing with the Soviets."

American trade with Italy, of course, is still incomparably greater in volume than Soviet trade with Italy, but in view of this sentiment the direction of development is perhaps significant. Italian foreign trade in general has declined since 1929, but Italo-American trade has declined in particular and Italo-Russian trade has increased.

In 1929 Italy imported from America $187,000,000 worth of goods, in 1930, $134,000,000. She exported to America $90,000,000 worth of goods in 1929, and $70,000,000 worth in 1930. Italy imported from the Soviet Union $18,000,000 worth of goods in 1929 and $28,000,000 worth in 1930. She exported to the Soviet Union $3,700,000 worth of goods in 1929, and $5,000,000 worth in 1930.

In the Soviet Union not the faintest whisper of criticism of the Five-Year Plan may be uttered with impunity. Nor in Fascist Italy is criticism of the Government one of the healthiest of occupations. It is therefore difficult to determine what, if any, attitude the broad public here has toward the question of trade with the Soviet Union. I talked with a score of business men and from all received the identical answer that they had never heard expressed by Italians the least apprehension over possible consequences of Italian aid to the Soviet economic expansion. There is no talk about the Five-Year Plan, for nobody knows anything about it. References to it in the press are meager and from a short-period of observation it was my impression that the Italian public must be the least informed of any in Europe on Russia.

In every other country on the continent, including Germany, the country doing the largest trade with the Soviet Union, there are at least groups of public men who assert that aid to Soviet economic growth is a suicidal policy for the bourgeois world. In its complete lack of any critical expression, the Italian public is unique, perhaps unwillingly silent, perhaps merely ignorant, perhaps genuinely acquiescent in the Government's attitude.

This attitude is fairly clear: Italy, it claims, from a purely commercial standpoint at this moment has everything to gain and nothing to lose from trade with the Soviet Union. The financial status of the government with a confessed budget deficit estimated at more than $100,000,000 and with about $150,000,000 payments on treasury bonds coming due in October, 1931, does not permit Italy to let any trade chances slip. In a period of economic depression and loss of foreign markets Italy cannot afford to ignore any opportunities for business.

Specifically, the American tariff has cost Italy money and Italy hopes to make up some of her losses by trade with the Soviet Union. Italy, it is true, buys five times as much from the Soviet Union as she sells to the Soviet Union, and this is serious at a time when the Italian foreign trade balance is $250,000,000 passive, but the new trade agreement, it is hoped, may remedy that. And, anyway, the products that Italy takes from Russia are products Italy has to have but cannot supply herself, four-fifths of all Italian imports from the Soviet Union being petroleum and wheat. As to the "Red Trade Menace," says the Italian Government, "Fascist Italy fears no menace, least of all Russia."

These are the economic arguments of Italy for trade with the Soviet Union. Political considerations have placed at least as large a role. On bad terms with France, distrustful in general of democratic régimes, the Fascist Government has not yet given up hope of establishing some kind of understanding among the defeated nations of Central Europe, including Germany, together with the Soviet Union as a political counterpoise to the French post-Versailles hegemony in Europe. As will appear later, Italian military and naval circles are obviously in favor of developing closer relations with the Soviet Union, scarcely with the hope of any sort of active alliance, but with the intention of insuring, in the event of war with France, secure sources of petroleum and wheat from Russia through the Black Sea, and this development may be observed actually taking place.

These were considerations that led up to the Italo-Soviet trade agreement that has just been extended. A glance at the text shows how advantageous are its terms to the Soviet Union.

The first trade agreement of 1930 provided for Soviet purchases from Italy of at least $10,000,000; the new agreement provides for purchases of at least $15,000,000 and foresees Soviet purchases next year of at least $20,000,000. American observers here are of the opinion that Soviet purchases will probably exceed the stipulated figure.

There is good reason to believe that some part of these Soviet purchases have been and will be diverted from America. Bogdanoff, head of the Amtorg Trading Agency, recently announced that Soviet purchases in the United States had declined from $60,-441,000 in the six months ended March 31, 1930, to $33,385,000 for the six months ended March 31, 1931, and that this decline was largely attributable to lack of credit facilities in the United States and improvement of credit facilities in "some European countries." He meant, among others, Italy.

The Italo-Soviet trade agreement provides, first, that the Soviets need only buy in Italy "in so far as technical and commercial conditions are the same as those existing in other countries for the products requested." Thus the Soviet Union is safeguarded against losing the advantage of playing off the German industrialist against the Italian industrialist, of shopping around, of choosing the best quality at the least price. Italy must deliver at least as cheaply and excellently as any other seller.

The most important clause in the agreement is the well-known section providing that the Italian Government guarantees to Italian business men 75 per cent of the value of their sales to the Soviet Union, enough to cover labor and materials and requiring the seller to take the risk only on the estimated profits and overhead. This liberal guarantee exceeds by 5 per cent the German guarantee. It is sufficient, particularly in a country where the banks are under Government control, to make the question of discounting Soviet bills in Italy of subordinate importance.

For comparison with the credit time terms previously granted in America to Amtorg, it is interesting to note the length of time Italy grants the Soviet Union on twelve categories of products subject to Soviet orders which were distributed by the Italian Government in this manner in order to spread trade evenly throughout her industry: On ships, payments must be made in a maximum of fifty-four months, average forty-two; on ball and roller bearings, maximum thirty-six, average twenty-four; machinery for machine shops, maximum thirty-six, average twenty-nine; electrical machinery, maximum, thirty-six; average twenty-nine; machinery for chemical industry, maximum thirty-six, average twenty-four; other machinery, maximum thirty, average twenty-one; automobiles and tractors, maximum thirty-six, average twenty-four; auto parts, average twelve; airplanes and airplane motors, maximum thirty-six, average twenty-eight; precision, measuring and optical instruments, maximum twenty-eight, average twenty; metals, average twelve; chemicals and dyes, twelve, and fertilizers, twelve months. General average payment will take place in twenty-five months.

But an Italian Government official would object if one commented that Fascist Italy has faith in Communist Russia's solvency for at least two years. He would point out that as far as payments go Italy feels secure, inasmuch as she pays out to the Soviet Union five times what she receives, and there should always be a balance in the Soviet trade delegation's treasury here.

An important item in Soviet purchases from Italy is ships. The new agreement limits them by Italian stipulation to $5,000,000 worth, sufficient, however, to buy four. Two have been ordered by Soviets and are now under construction, but do not appear yet in trade statistics. Why Italy limited the Soviets to $5,000,000 worth of ships is also interesting. The Italian ship subsidy law, designed to stimulate the creation of a merchant marine that would be of service as well in war as in peace, has some remarkable provisions.

There is a basic subsidy of 32 lire per gross ton for all metal hulls and drawback, tariff exemption, of 100 per cent on all customs duties for metal material imported for ship construction. There is a premium for efficiency in fuel consumption running from 16 lire to 12 lire per 100 kilograms of weight for all auxiliary machinery installed. This is to promote the use of labor-saving devices. Finally, the basic subsidy of 32 lire per ton may be increased by 30 per cent if the speed of the boat reaches fourteen knots, and this increase scales upward until if the boat reaches as high as twenty-seven knots, the basic subsidy is increased by 235 per cent. These subsidies, that apply as well to the construction of foreign ships, mount very high and though they are limited to a total of 114,000,000 lire a year from 1930 to 1934, they enable the Italian shipbuilders comfortably to compete with older shipbuilding countries. Hitherto, the Soviet Union has placed most of its shipbuilding contracts in Germany. Today Italy has made her shipyards so attractive that the Soviet Union would like to place more orders here, but the Italian Government will only permit shipbuilding for the Soviet Union in proportion to total Soviet orders at a ratio of $5,000,000 worth of ships out of a total of $20,000,000 for all purchases. This is a feature of Italo-Soviet relations being closely watched by France, for the Soviet Union needs torpedo boats, small cruisers and submarines for the minimum requirements of its long neglected navy and Italian yards are well equipped to supply them.

Another item of interest that does not, however, appear as yet in the Italo-Soviet statistics concerns airplanes. Early in March the Soviet Union ordered seventy-five Savoya Macchetti hydroplanes equipped with 750-horsepower Fraschini single motors, the order including 150 spare motors. They were the type of planes used by Balbo in his South American flight and Maddalena for his rescue flight to the Pole for Nobile.

Besides this deal, Italian manufacturers recently had almost closed the sale to the Soviet Union of 150 Savoya Pomillo planes, deliverable fifty per year, Italy to take wheat for them, but the transaction broke down for causes unknown. The barter feature, however, was taken up by the Fiat Company, and according to unofficial information, Italy has agreed to deliver 2,000 Fiat trucks for grain, the Italian Government Treasury giving two-year notes for 75 per cent of the sum to Fiat who are to discount them. The Government promises to take up the notes within a year, the Soviet Union to deliver wheat to the amount of the sales price, and the Italian Government to sell the wheat and with the proceeds redeem the Fiat notes.

Included in the new treaty is a clause wherein the Italian Government promises to invite the attention of Italian engineers hitherto seldom employed in the Soviet Union to the opportunities for rendering technical assistance in the Five-Year Plan. Italian industry is hopeful over the agreement and for the moment producer interest is in the foreground of Italian economic thinking about the Soviet Union. It is, however, the consumer interest in Italy that is really decisive for the Italian attitude toward Russia. And it is the Italian market for wheat, oil, lumber, coal that interests most the American and other exporters, who, under Soviet competition, have seen or fear they may see their Italian customers slipping away from them into Russian hands.

CHAPTER III

Savona, Italy:

Tucked away in this little Mediterranean port, surrounded by vineyards, almost hidden in a hollow of the hills and unknown to any except the alert observers of foreign oil companies, there is going up an outpost of the Soviet's Five-Year Plan in Europe. A huge oil depot for the storage of Soviet petroleum and petroleum products, the Savona station of the Soviet Oil Trust provides one of the most impressive evidences to be found anywhere in Europe of the far-reaching plans and self-confidence of the Soviet foreign trade monopoly and of the hospitality the Russians have found in Italy.

Here is a bit, and a very significant bit, of Soviet Russia in Italy. After a prolonged tour of Soviet industrial plants in Russia under the Five-Year Plan, it brought a flood of familiar recollections to find in Savona just such another plant, also not quite completed, also very large, also packed full of meaning for the future.

Only the environment is quite different from the bleak surroundings of most great Soviet plants in Russia. A fast hour and a half drive along a highway that skirts the Gulf of Genoa, past coves and bays improbably blue, through tunnels that pierce projecting cliffs, through sleepy towns, where sun-browned girls sit knitting at flowery doorways, brings one to Savona. The port is full of idle ships, beflagged. It is a national holiday. We inquire the way to the new Soviet oil station. The car winds and turns through narrow village streets, walled high on either side by gray stone, topped by nodding blossoms. Out of such an alley we emerge into a broader way and there before us lies a huge complex of freshly built buildings encompassed by a brick wall and dominated by a tall water tower. The plant looks foreign—an intruder among the peaceful hills.

Designed to accommodate an initial capacity of 50,000 tons of petroleum, the plant's liberal use of space makes it appear even larger, The walled inclosure is about 400 yards long by 150 wide. Inside there are an administration building, a double row of fifteen of the largest size oil tanks, two rows of warehouses, various auxiliary buildings, all connected by narrow-gauge railroad tracks.

Nearly completed, the plant should be ready to use this summer. There is no doubt about the permanent character of the structure. It would do credit to any great bourgeois oil trust.

Walking about the interior of the enclosure, I thought involuntarily of Baku, the oil capital of the Soviet Union, of its streets placarded with signs

"Five-Year Plan for oil in two and one-half years." Just this spring Moscow announced that the Five-Year Plan for oil actually had been accomplished in two and a half years. On that occasion the president of the Soviet Oil Trust announced "our daily production now has reached 58,000 tons, compared with an estimate of 57,000 tons for the conclusion of the Five-Year Plan in 1933."

Here in Savona this new Soviet plant will hold about one-tenth of all the petroleum Italy imports in a year, but it would lack 8,000 tons of holding even one day's production of the Soviet Oil Trust. Second oil producing country in the world, now having leaped ahead of Venezuela and only behind —though, of course, far behind—America, the Soviet Union plans to produce this year 27,500,000 tons as compared with the original estimate of 20,-800,000 tons for 1933, and has shoved its production goal for 1933 ahead to 46,000,000 tons. The United States produced 137,000,000 tons in 1929. If American production under restrictive measures remains about static, and if the Soviet Union carries out the Five-Year Plan for oil in the future as it has done in the past, the Soviet Union by 1933 will have nearly one-third of the production of the United States.

These are considerations that are bringing wrinkles to the brows of representatives of foreign oil companies in Italy, as well, it may be said, as almost everywhere else in the world. "The Five-Year Plan for oil," remarked one American oil man in a neighboring country, "is a catastrophe for us."

Why the sober-minded representative of one of the most realistic business organizations on earth should feel justified in using such strong language may perhaps be understood by consideration of the oil situation in Italy.

Until Russian oil re-entered the field, Standard and Shell divided between themselves the Italian market, Russian production had sunk from the pre-war figure of 8,000,000 tons to 5,000,000 in 1924 and the field was clear for the Americans and British. It took until 1926 for the Soviet Oil Trust to recover lost ground and reach approximately pre-war production. There had been some Russian oil coming into Italy, but not much until the formation about this time of "Acienda Generale Italiana Petrolio," called "Agip" for short, which under Italian Government control took over on contract all Soviet oil for Italy and in a short time was disposing of 25 per cent of all the petroleum and petroleum products consumed in this country. Soviet imports of fuel oil alone into Italy rose from 102,000 tons out of a total import of 420,000 tons in 1928 to 264,000 tons out of a total of 705,000 tons in 1930. In crude oil Soviet imports reached one-third of the total by 1930 and in benzine Soviet imports were one-fifth of the total in 1930, compared to one-eighth in 1928.

Shell and Standard were hit but could do nothing effective, for "Agip," an Italian Government corporation, was selling the Russian oil and if any charge of "dumping" was to be made, it would have to be a charge of Italian, not Russian, dumping. "Agip's" contracts with the Russians were an interesting example of Soviet price practice. They provided for the sale of oil products f.o.b. Batum or Novorossisk at a base price always a bit below that of similar American products f.o.b. Gulf ports. With this initial advantage, the Italian purchaser then had the advantage of difference in transport costs between Gulf-Italy and Black Sea-Italy, a difference that sometimes mounted as high as thirty-five shillings per ton, although it is now four shillings per ton.

Even with this diminution in transport price difference, the net advantage of Soviet over American and other foreign oil in Italy is very considerable. It enables the "Agip" to sell Russian gasoline at from three-quarters to one and one-half cents per gallon less than the Americans' price, or about 18 to 20 per cent lower at the present market.

On bunkering oil the resale price of Russian Mazout here is 35 shillings per ton, against 45 to 50 for American fuel oil, but no American fuel oil is now being offered in face of this competition.

All this is not well and not good for the other foreign oil companies operating in Italy, but until now they have been able at least to keep a good share of the market and have not suffered fatally. What they now fear, however, is that the Italian Government intends to permit the Russians to open their own direct selling agency. The Savona plant seems to them clear proof that this is the Government's intention, for the Savona plant has been built by and belongs directly to the Soviet Government. Somewhere on the books of the Five-Year Planners, among countless items of Russian factories, is one item, "Savona plant."

Hitherto, other foreign oil companies have felt Soviet competition only through the Italian Government agency. "Agip" has been able to sell Russian oil under the market and thus to cause discomfort to foreign competitors, but there was a limit to "Agip's price-cutting capacity. It could never go below the price it had paid the Russians. Now foreign companies fear that if the Russians are permitted to open their own importing and distributing agencies the specter of real Russian "dumping" will be upon them, for the Russians, independent of intermediaries, may fix what price they please. This is why Savona is an unpleasant spot for foreign oil men in Italy.

Behind this fear is the apprehension that the

Italian Government may be planning to give the Soviet Union a virtual monopoly on the importation of fuel and crude oil. The Italian navy uses large quantities of Soviet fuel oil now and from year to year is progressively using more.

American and other foreign oil men are looking at Italo-Russian rapprochement anxiously, but not more anxiously than the French Government. Despite Italian protestations that there is nothing political in the economic coöperation of Rome with Moscow, the French worriedly check off: Soviet oil to Italian navy, Italian ships and Italian airplanes to the Soviets, to mention only items of immediate wartime significance. Oil men and Frenchmen have their own special interests in Italo-Soviet relations. For the world at large the important conclusion is that Italian Fascism has, for business and political reasons, joined hands with Russian Communism.

Six years ago I attended the trial in Moscow of three students, two German youths, one Esthonian, charged with entering the country for the purpose of attempting to assassinate Stalin and Trotzky. Attorney General Nicholas Krylenko, who had charged the defendants with being members of a Fascist organization, wound up his address to the court with the flaming sentence, "Bayonets and machine guns are our welcome to Fascists who come to the Soviet Union." Upon the conclusion of the new

Italo-Soviet trade agreement, the Soviet Government invited a group of Italian industrialists to follow the example of the German business tourists and come to Moscow as guests. The invitation has been accepted.

From the Italian side one is bound to admit the cogency of the comment made by the Fascist organ, "Lavoro Fascista," upon the conclusion of the Italo-Soviet trade agreement, "It is true we are aiding in a way the execution of the Five-Year Plan, which intends to put Russia in a state of complete economic independence. But are not there quite a few democratic countries which have not refused to have commercial relations with the Soviet Union?"

CHAPTER IV

Genoa:

"Red Trade Menace?"

"Please give us more of it."

This is the attitude of Italians in Italy today. For it is not the Italians, but Americans, Canadians, British, Argentinians, Swedes, Finns, Jugoslavians, Rumanians,—in fact, all exporters of countries supplying the great staples, grain, oil, lumber and coal who are suffering from Soviet competition in Italy.

Soviet prices are the chief object of criticism on the part of Soviet competitors. As a general rule, the complainant charges broadly that the Soviets for other than economic reasons are "dumping" to "ruin the market," "upset trade," "cause unrest." A subjective examination of Soviet intentions at present is just as impossible as a certain forecast of what they may do in the future, but an objective examination of the actual comparative prices of Soviet and other goods, at least in Italy, does not bear out this particular description of Soviet export policy.

Summarily, this examination shows that Soviet export policy just now, is designed first and last to get the business and that Soviet prices are, as a rule, just low enough—but always low enough—to get the business and not, if the Soviets can help it, any lower. On a commodity market, where business is done on exchanges, as in the grain market, Soviet prices are just a shade below their competitors. On a market where the Soviets must compete with powerful foreign trusts, as in oil, the Soviets cut fairly heavily, because only fairly heavy cuts may not be equaled by countercuts from competing trusts. On a market where the Soviets are new, where they must "muscle in," they do so ruthlessly with slashing reductions, as in the lumber market here.

This market presents a classical example of Soviet methods of conquering a new field. Italy is a large user of plywood and the Russians in the last two years have developed an extraordinary production of that commodity, admitted even by competitors to be of first-class quality. They only began this spring to campaign for the Italian market seriously. It was necessary to make the campaign a determined one, since the Baltic countries, Jugoslavia and Rumania, had for years enjoyed a firm and, as they believed, unshakable position in the Italian trade. A few quotations will show just how determined the Russian campaign was and how shakable the old-established purveyors proved to be.

A leading lumber broker supplied the information. On grade BB plywood the Russians quote a price about 30 per cent under the Finnish price on similar material, and, surprisingly enough, deliver grade B plywood, one grade better. Buyers here now have become accustomed to this practice and are sure that when they order from the Russians BB quality they will get B quality. Such competition, not only on price but on quality, makes Russian plywood almost irresistibly attractive to brokers, even though they may wish to remain loyal to their old sources.

Prices are illustrative. On BB plywood the Russians quote from $32 to $38.80 per cubic meter against Baltic countries' quotations of from $44.37 to $53.35. On B grade plywood the Russians quote $37.31 to $43.65 per cubic meter against Baltic quotations on similar material to $61.56 to $69.10. In addition to these price differences of 30 or more per cent, the Russian prices carry a flat discount of 4 per cent, plus 3 per cent cash discount, while Baltic prices are net. Taking quality and price differences into consideration, the Russians, it may be estimated, offer a 50 per cent advantage on plywood. All prices given are c.i.f. Italian ports.

Other plywood exporters complain that as soon as they reduce their prices, down go the Russian prices still lower. Under these circumstances, lumber dealers in Genoa and Baltic, Finnish Rumanian and Jugoslavian exporters are convinced that the Soviets soon will control completely the Italian plywood market. It is reported that Soviet exports of plywood into Italy will reach 24,000 cubic meters this year, while Italy's entire consumption last year was only 25,000 cubic meters. At the present moment, however, the market is stagnant, for consumer brokers are reluctant to buy, uncertain whether the Russians have touched rock bottom with their prices.

Lumber brokers, and these are the only Italian merchants I found dissatisfied over Soviet trade, are not cheerful over their cheap plywood because many of them were caught with supplies or contracts for supplies with the Soviet's competitors, and the plywood market having slumped so heavily considerable sums of money must be lost before the market is readjusted.

As concerns the United States, there is no American plywood competing on the Italian market, but there is a tendency here to substitute cheap Russian white pine where before American long leaf yellow pine or Swedish redwood had been used. For doors and window sashes, the Russian product at the usual price advantage is being accorded preference.

In all Russian exports it is not so much the absolute figures that are meaningful but the direction and rate of change. The Soviets are just beginning to develop their anthracite industry. It is not today a serious competitor in the Italian market. But whereas in 1928 the Soviet Union sent 66,000 tons of anthracite to Italy, or six-tenths of one per cent of Italy's total imports, Soviet anthracite exports to Italy in 1930 were nearly 300,000 tons, or about two and five-tenths per cent of a total of 12,000,000 tons imported.

The United States only exported 366,000 tons of anthracite to Italy in 1930 and it is anticipated that this year the Soviet anthracite will pass the American product. Neither the Soviet Union nor America are yet important factors in the Italian anthracite market, as Great Britain supplies 60 per cent of the total imports and Germany 30. Important, however, is the declaration of Italian anthracite dealers that they are prepared to take all the anthracite the Soviet Union has to offer, declaring it is of superior quality and cheaper. This "most backward" sector of the Soviet's Five-Year Plan is suffering difficulties but produced last year 17 per cent more than the year before.

Much more important for the United States is Russian competition in wheat here. The wheat market presents a quite different picture from that, for example, of the plywood market. It only takes a shade to get the business on the grain market, but that shade will usually get it. The Soviets have cut the shade regularly. Their share of the Italian grain market is growing steadily, although it is difficult to speak of a steady line of development in grain exports of a country that, according to the London "Grain Seed and Oil Reporter," exported 37,736,000 bushels in 1927; 8,000 bushels in 1928; 7,088,000 bushels in 1929; and already in the period of this season from August 1, 1930, to April 2, 1931, had exported 89,880,000 bushels.

The general expectation that the Soviets would resume grain shipments this spring has been fulfilled. Their shipments in January had fallen to 1,536,000 bushels. In February Soviet shipments picked up to 5,800,000 bushels and in March to 6,800,000 bushels.

How large a part of Italy's wheat needs have been met by these spring shipments of Soviet wheat is indicated by "Bulletin of Arrivals" published in Genoa, showing that out of a total of 1,980,000 bushels of wheat arriving in Italy in January, 759,000 were from the Soviet Union, while in February out of a total of 3,234,000 bushels, 1,518,000 were from the Soviet Union and in March out of 7,689,000 bushels, 2,156,000 were Russian.

It is most interesting to observe on the general question of Russian wheat how its role in the world market varies from month to month. In August, 1930, Soviet shipments of wheat were ten per cent of world shipments; in September they were 11 per cent, in October thirty-seven: November, thirty-eight; December, twenty-one; January, 1931, two per cent; February, nine per cent, March, ten per cent.

It was in October and November when the Soviet Union was pouring on the market more than one-third of the total world wheat supply that cries of pain were loudest from the other wheat-producing countries. The injuries inflicted during those two months have not been forgotten and the wheat world is looking anxiously toward the Black Sea.

This anxiety is explicable on the part of American wheat exporters, for to consider the Italian market alone it would appear from the Italian Government's figures on wheat imports that in the calendar year 1930 the Soviet Union took away from the United States a quite perceptible share of the Italian wheat business. Italy bought a total of 6,600,000 bushels more wheat in 1930 than she did in 1929, yet the United States, that sold Italy 13,827,000 bushels in 1929, sold her only 11,385,000 in 1930, although American supplies in 1930 were the largest in history, while the Soviet Union, that sold no wheat to Italy in 1929, sold her 9,900,000 bushels in 1930. American sales of wheat to Italy fell off 2,442,000 bushels in 1930, while Soviet sales increased by the total amount of her sales—nearly 10,000,000 bushels.

Most of last year's Soviet wheat, however, replaced that of the Argentine, whose sales to Italy declined 8,000,000 bushels from 14,421,000 in 1929 to 5,511,000 in 1930. These figures shed some light on the bitter complaints of the Argentine representative at the world wheat conference in Rome over Soviet competition.

Grain dealers handling Soviet wheat here assert it is only reasonable that Italy should buy from the Soviet Union; that the shorter haul from the Black Sea to Mediterranean ports makes it naturally cheaper than American, Argentine or Manitoba wheat. They say that the high gluten content of Russian hard wheat is particularly desirable for macaroni and that this quality of Russian grain is just as good as the more expensive Manitoba and American hards.

Italy is the third largest wheat-importing country. Her average yearly import is from 60,000,000 to 90,000,000 bushels. Despite the most determined efforts of the Italian Government to develop its home supply, the "battle of wheat" appears to have been stale-mated at the 1929 domestic production of 260,000,000 bushels, the top limit ever reached, 32,000,000 more than the previous year, itself a record. In 1930, the Italian crop was 216,000,000 bushels, 34,000,000 less than the 1929 high. In 1929 the best year, Italy, nevertheless, had to import 63,000,000 bushels. This would appear to be her minimum requirement from abroad, enough to make the Italian one of the most attractive of markets for foreign wheat growers.

Last year out of a total import of 69,000,000 bushels, Italy took 11,000,000, or 16 per cent, from the Soviet Union. Before the war Italy took in in some years as high as 60 per cent of her wheat from Russia. Today one hears on every hand from the Soviet's competitors that Italy now intends to take more and more Russian wheat until eventually she will be drawing most of her supplies from the Soviet Union. One hears the same of oil, of lumber, of coal. These gloomy forebodings may be exaggerated, but in these commodities American and other foreign exporters must be prepared for severe competition from the Soviet Russians in the Italian market.

CHAPTER V

Marseilles:

This sleepy, noisy, lazy, busy, twelfth port of the world, country town and big city, with morals that make Paris blush and food that makes Paris envious, has one link left with the Soviet Union, since the French license system cut Franco-Soviet trade to a minimum. The link is visible by day and by night in the trim forms of French sailors in their cruisers, destroyers, torpedo boats at anchor, in the curling wisps from funnels of the oil-burning vessels of the fleet.

For the link is one of fuel, Soviet fuel for the French Navy. And what is more important to a navy than fuel?

The curious facts are that Soviet petroleum is treasured by France as her most effective weapon in the battle she has just begun to wage with redoubled energy with American and other foreign oil companies; that for the sake of maintaining France's independence or comparative independence of the American petroleum supply, the French Government will not break with the Soviet Union, no matter if the other reasons for not breaking were absent, and that the French Navy, instrument of war of the one country in Europe that was supposed to harbor an undying resentment against the Soviet Union, is one of the largest single consumers of Soviet petroleum in the world. To complete the picture one must recollect that the other largest single consumer of Soviet petroleum is the Italian Navy.

The struggle for the French oil market is one of the most dramatic in the never-dull history of the greatest international trusts. It has been going on for seven years in its present setting, with the Irak Petroleum Company noisily in the fore-front, the Soviet Oil Trust silently in the background.

Stakes are, for the foreign oil trusts, the market for the 30,000,000 to 35,000,000 barrels of petroleum consumed by France yearly; for the French Government, independence of foreign oil in time of war; for the Soviet Union—guarantee that France, most feared by Moscow of any European country, shall not take up arms against her, nor lead an economic boycott. In other words, in a sense, the Soviet stake is the Five-Year Plan, for war or boycott are the two elements beyond Soviet control that the Kremlin daily dreads.

France has nearly one million automobiles. She is one of the largest consumers of petroleum. She has none worth mentioning within her own boundaries. Foreign oil companies are thinking of the French peacetime market. France is thinking of that moment at the height of the battle of Verdun when German submarines had sunk so many tankers that France's gasoline reservoirs went nearly dry. The Soviet Union is thinking that it is worth selling the French Navy oil at any price to keep the nation with the strongest military establishment in the world satisfied to continue relations, unwilling to take leadership of the anti-Soviet crusade.

Arena of this struggle appears to be France. In reality it is a distant Eastern kingdom, the realm of Irak, British mandate, but ruled by Feisal, wily prince. He makes the fourth in the game. His trump is political power over the Irak dominions, where France wants to obtain her independent oil. Trump of the foreign oil companies, Standard, Shell and Anglo-Persian, is their financial power, their experience and their influence on French officials. Trump of France is the just established license system requiring all oil companies to refine their petroleum in France, forbidding import of other than crude oil. Finally, the trump of the Soviet Union, in this oil game, is simply oil, cheap oil, good oil and oceans of it.

The story of Mosul oil would fill a book, has filled many, but it is doubtful if the role of the Soviet Oil Trust ever has been properly portrayed. For an examination of the chances, or lack of them, that capitalist Europe should unite in one form or another against the Red power in the East, the gap in the story deserves to be filled in.

One of the events, it will be recalled, that formed the background to the outbreak of the war was the acquisition by Germany from Turkey not only of the concession for the Bagdad Railway, but for the Mosul oilfields. Nobody knows just how rich those fields are. They lie inland, some 450 miles from the coast, on the left bank of the Tigris River, not far, perhaps, from the Garden of Eden. Oil experts, however, know that the fields are rich enough probably to supply France with all the oil she needs, if it could only be moved.

The German concessions led at the time to international complications that were finally settled by the organization of an international company known as the Turkish Petroleum Company, in which German and British interests predominated. The French were left out until during the war, after Turkey had entered against the Allies, France succeeded, under the Sykes-Picot agreement, in obtaining title to the former German concession, when and if the allies won and could take it.

Defeated, Germany relinquished Mosul. Victorious, France demanded possession, but in 1920 at San Remo, France gave up to England her territorial rights in the Mosul district in exchange for England's recognition of her right to have a share in the petroleum produced in that district. Under the "open door" the United States also demanded and received a share.

Thus was born the Irak Petroleum Company, Britain with the lion's share, Anglo-Persian Oil Company 23¾ per cent, Anglo-Saxon Oil Company, or Royal Dutch Shell, 23¾ per cent; the United States —Near East Development Company, or Standard Oil, 23¾per cent and France 23¾ per cent, with 5 per cent to Mr. Gulbenkian, original promoter of the Turkish Petroleum Company. In 1924 the Compagnie Française des Petroles was organized to take title to the French Government's shares in the capital stock of the Irak Petroleum Co.

At the time of the organization of the Irak Company every one concerned was more or less keen to develop the fields, get the oil out. Then came a rush of world production, and today there is so much oil that "limitation" is the worldwide cry. Everywhere, be it said, except in the Soviet Union.

All this world oil, however, was doing France no good. She wanted badly to develop her own oil supply. If she did so, it would mean loss to the foreign oil companies of their rich French market. Without reference to their interest in the French market, the British and American oil companies do not want to move their own oil out of this field because of the over production in British and American territory.

It is much more economical to use the Mosul oil as a future reserve, leaving it in the ground, the cheapest warehouse.

The foreign oil companies selling to France about 78 per cent of all her oil were the same companies representing American and Great Britain in the Irak Petroleum Company. It was then to the interest of the French to speed production and delivery of Irak oil; to the interest of her partners in the company to prevent production. On this issue the battle has been fought, is still being fought between the French and the Americans and British, and in this issue the Soviet Oil Trust has played a role in the past important, today decisive.

There has never been much dispute about the ability of the Mosul Field to produce oil. The only question was how to get it out. The most direct route is due west through Syria, a French mandate, about 450 miles in a straight line from the Mosul Field to Tripoli, Syrian port. By a southwestern route through Irak, trans-Jordan and Palestine, all British mandates, the British port of Haifa can be reached by a pipe line about 550 miles long.

The Compagnie Française des Petroles, a nationalist company, formed under the auspices of the French Government for the purpose of administering France's interest in the Mosul Field and for the further specific interest of securing for France independent sources of oil, struggled for years with the American and British stockholders to try to induce them to consent to do something effective about moving the Mosul production. Balked at every turn, the French Government has finally found what it believes is a way out.

On April 4 of this year the French Government published a decree revolutionizing the petroleum industry in France. It is a complicated document, much too long even for summary, but the important provisions are: all imports of other than crude petroleum into France must cease for three years; after those three years all petroleum products used in France must be refined in France; all imports of crude petroleum are contingented among French and foreign companies, Standard, Vacuum, Royal Dutch and Anglo-Persian getting 51.8 per cent of the import licenses, the Cie. Française des Petroles getting 19.8 per cent and independent French producers getting 28.4 per cent.

Lastly, but most important, the Cie. Française is given the right during twenty years to import, treat and distribute one-fourth of the total amount of petroleum products consumed in France. This oil may come from Mosul or from any other source that is approved by the Government, Soviet oil not excluded. Here is the crux of the battle for the French oil market. Soviet oil is the threat, Soviet oil the weapon used by the French to force the American and British interests to consent to the building of the Irak pipe line, an enterprise that it is estimated will cost around $50,000,000, may or may not be profitable to the French, certainly will be unprofitable to the British and Americans.

But faced with the alternative of Mosul oil, in France, or an increase of the Soviet's share in the Market to 25 per cent, France's partners in the Irak Company have gone at least far enough to have enabled an announcement in the Chamber of Deputies that an agreement had been reached whereby a trunk line would be built part of the way from Mosul, with a branch line to the French port of Tripoli and a branch line to the British port of Haifa. The French apparently had triumphed, but the line is not yet built, and, until it is, there is no likelihood that they will let drop the weapon that brought about the victory.

Nobody knows exactly how large Soviet oil exports to France are, for nobody outside the confidence of the French Government knows exactly how much Soviet oil the French military and naval establishment takes. For civil consumption there is listed an import of 375,748 tons of Soviet oil out of a total oil import of 3,525,000 tons, or a little over 10 per cent. It is believed, however, that the navy uses not less than 260,000 tons of Soviet fuel oil and oil products yearly, while the army is said to use around 40,000 tons, making a total of 300,000 tons for the two services.

This large quantity, about 2,000,000 barrels, not included in the foreign trade statistics and intended exclusively for the French military and naval establishments, amounts to more than one-half of the total imports by Italy of petroleum and petroleum products.

Both the Italian and French navies nurse at the oil reservoirs of the Soviet Union, the Italian navy to strengthen itself against France, the French to strengthen itself against whom? Only the French, or time, perhaps can say. But as far as oil politics are concerned, Soviet oil serves France as its best armament against American and British oil interests. And "disarmament" is an unpopular cry in France today.

CHAPTER VI

Paris:

If the Soviet Union has nothing more to fear than the present French efforts at "defense against the Bolshevik menace" the future is rosy for Red economic expansion. With more reasons than any other nation to resent and fear the Five-Year Plan, France, whom Moscow perpetually charges with leadership of the anti-Soviet front in Europe, is today actually thinking of nothing more aggressive than a method to improve its trade relations with the Five-Year planners.

Tight-lipped and determined, France announced October, 1930 that she had found the way to curb Russian "dumping." It was in the month when more than one-third of all the wheat, more than three-fourths of all the rye, more than half of all the barley, and a third of all the oats coming on the world market were pouring from the holds of Soviet and Soviet chartered steamships.

In that month alone the Soviet Union sent abroad eleven million bushels of wheat, nineteen million bushels of rye, four million bushels of barley, twelve million bushels of oats.

The Little Entente, Rumania, Czecko-Slovakia, Poland, France's allies, and Bulgaria and Hungary, most of them heavy grain exporters, were stricken with alarm, had met, passed protests, appealed to France to help them, at Geneva, unite the nations to dam the avalanche of Russian grain. At the League in September, Fascist Italy, Republican Germany refused to coöperate. Sympathetic, the others shared the general regret, remembered their industrialists' contracts to sell to the Soviet Union, asked France to show what ought to be done.

France did. By decree under article 17 of her customs laws, authorizing the Government to take urgent measures in case foreign governments behave in a way calculated to impede French commerce, the Cabinet of André Tardieu, the man of the strong line, on October 4 announced an edict subordinating the importation of Soviet merchandise in fifteen categories to special authorization of the Minister of the Budget.

Applause was not only national but international. The rest of the world saw France, defender of Europe against the Red, as one time against the German tide, taking the lead to check the Soviet march toward industrialization, toward power, toward a future heavy with portent for this continent and the world. Moscow painted pictures of Briand, Poincaré, Weygand, plotting war.

High point of world reaction to the alarm over

Soviet "dumping," the French license system turned out to be, however, not a measure for the defense of Europe, not one for the defense of the capitalist principle in France, but a measure for the defense of the French balance of trade—of trade with the state that avows eternal war with capitalism, predicts the eventual fall of all capitalist Governments. Seven months after the license system was inaugurated, the French Government admitted that it had failed of even this modest goal.

The then Minister of Commerce, M. Flandin, in October declared that French trade with the Soviet Union was extremely adverse, that France in the first six months of the year had bought $14,000,000 worth of products from the Soviet Union, and sold but $4,000,000 worth, that this could not continue, and that the license system should be the remedy.

He reckoned without Moscow. For despite all the fanfare, and because of various somewhat intricate reasons, having something to do with the attractiveness of low prices, Soviet or otherwise, and having something to do also with the strong commercial antagonism felt in France toward other countries than the Soviet Union, the French Government could not bring itself actually to refuse licenses to many categories of Soviet products. Yet the Soviet Government canceled contracts right and left, retaliating with a brusque effectiveness that evoked pain in French industrial and official circles.

France's trade balance with the Soviet Union is now worse than ever. In the five months, October 1, 1929, to March 1, 1930, the Soviet Union exported to France goods to the value of $14,300,000; in the same five months, 1930–31, after the license system, Soviet exports to France fell off to $12,300,000. But in the five months October 1929 to March 1930, France exported to the Soviet Union goods to the value of $5,700,000, while in the same five months, 1930–31, French exports to the Soviet Union fell off to $1,300,000. The Soviet Union lost $2,000,000; France lost $4,400,000. The Soviet Union's exports to France fell off by 14 per cent; France's exports to the Soviet Union fell off by 80 per cent.

If the purpose of the license system had been to sacrifice French trade in order to hurt the Soviet Union, it might have been said to have achieved a meager success, but nevertheless a success. For the Soviet Union was hit. If the purpose had been to help French trade and only incidentally to hurt the Soviet Union, the license system must be said to have failed. For France was hit harder.

Proof that the French Government did really only intend to protect French industries and agriculture, and only incidentally to hurt the Soviet Union is provided by an examination of the articles subjected to the license system, and of those omitted and of the way it has been applied. It is at the same time of particular interest to the United States to note the degree to which the French Government has been embarrassed in its possibly sincere, if incidental, desire to strike a blow at Bolshevism by its unwillingness to deprive the French people of the advantages of low priced Soviet commodities if the competing commodities are of other than French or of French-allied origin.

The decree listed as requiring special authorization for import: cereals and their derivatives, sugar, molasses, common woods, flax, live poultry, refrigerated pork, killed poultry, eggs, isinglass and glue, gelatine, oleine, stearine, and oleic and stearic acid.

Omitted was the largest item of Soviet export to France, petroleum and petroleum products, an item that made up nearly 30 per cent of Soviet sales to France in 1930, one of the items of Soviet exports with which the United States products compete intensely in this country.

After the license system was invoked, France increased her purchases of petroleum from the Soviet Union, buying more than twice as much in the first two months of 1931 as in the first two months of 1930, or 108,900 tons as against 42,300 tons. The fact that France has no petroleum production of her own was certainly decisive for the omission of petroleum from the list of Soviet goods requiring licenses, and was an indication of the absence of any French intent merely to block Soviet trade. But the part played in this omission by the French attitude toward American and other foreign oil importers requires more detailed treatment in a further chapter.

The feeling of France toward America also played a role in her attitude toward Soviet wheat. It was joyfully expected by the wheat exporting countries of the world, including the United States, that the French license system would mean a flat embargo on Soviet wheat. Had the license system not come partly as a result of the protest that Soviet wheat, selling in October at 73 to 75 cents a bushel, c.a.f. ports, before customs, as compared with Manitoba and American wheat at 91 cents a bushel, was ruining the French wheat grower even when protected by a tariff of 90 cents a bushel? Even today the impression prevails that the French did embargo Soviet wheat, but the foreign trade statistics of the Ministry of France tell a different story.

According to these statistics, France in the five months after passing the license decree, from October 4, 1930, to March 1, 1931, imported a total of 1,764,000 bushels of Russian wheat, in October 788,000 bushels, in November 637,000, in December 235,000, in January 83,000, and in February 21,000 bushels.

The Soviet Union's total exports of wheat to all countries in January and February fell off to 2,900,000 bushels, so that it is difficult to say whether the decline in French imports of Soviet wheat in January and February was due to the license system or due to the diminished supply of Soviet wheat.

A part but not all of the October imports may have been due to the clause exempting from the operation of the license decree "merchandise which it can be shown was shipped directly for France before October 4." In other words, while it is certain that Soviet wheat entered the country in smaller volume after the license decree than would have been the case had there been no license decree, it is equally clear from the French official statistics that the Government issued licenses for the import of a considerable quantity of Soviet wheat.

To have forbidden it entry after the French growers had disposed of their crop would have been to benefit whom? The principal competitors of the Soviet Union for the French wheat markets are America, Canada, Australia.

A similar picture is provided in the records of timber imports from the Soviet Union, another item placed on the list of commodities requiring licenses. After the license system had been established, in the five months from October, 1930, to the end of March, 1931, France imported 128,080 metric tons of timber from the Soviet Union, compared to 125,250 metric tons in the same period 1929–30. To have forbidden its entry, in any case, after the artificially stimulated French timber industry had taken its share of the market would have been to benefit whom? The principal competitors of the Soviet Union for the French timber market are America, Germany, Austria, Finland, Sweden and, to a less extent Poland.

These three commodities, oil, wheat, timber, with flax constitute the most important Soviet exports to France. But the French Government's treatment of flax provides an instructive comparison. It, too, was put on the license list.

French flax growers complained they were overwhelmed by Russian flax. In this case the Government acted energetically, so energetically, in fact, that, whereas Soviet imports of flax into France in the five months October to April in 1929–30 had been 13,086 metric tons, they amounted to only 3,003 metric tons in the five months after the license system was passed. To prohibit its introduction would benefit whom? Belgium, firmest ally of France, large flax producer, has heretofore shared with the Soviet Union the privilege of supplying France with the seventy to eighty thousand tons of flax France needs to import yearly.

America and other countries compete with the Soviet Union for the French oil market. Oil is omitted from the license system decree against Soviet products. America and other countries compete with the Soviet Union for the French wheat and timber market. Soviet wheat and timber are put on the license system, but considerable quantities permitted admission. Not America, nor Germany, nor Great Britain, but only Belgium competes with the Soviet Union for the French flax market. Flax is put on the license system, and the Soviet imports choked down to nearly nothing.

Illuminating were the remarks of M. Louis Rollin, successor in the Laval Cabinet to M. Flandin as Minister of Commerce, at an official celebration of the Lille Fair, on April 12, 1931, after six months of experience with the license system on Soviet imports. With regard to Russia, he said, France had no intention of breaking off trade relations and was far from desiring the economic isolation of that country! It would be better for all, he declared, if Russia could take her place in the international exchanges and improve both her economic situation and the well being of her people. But commercial exchanges, he emphasized, must be based on equality and reciprocity, at present completely absent.

The Minister went on, however, to observe that "certain overseas countries" were disregarding the facilities accorded them in the French market and were confronting French goods with insurmountable tariff walls. The French Government, he said could not tolerate this and would take appropriate measures of retaliation.

It has become evident that the French attitude toward the Soviet Union, though it may have a different affective tone, is in its concrete application not much different from her attitude toward all other nations not bound to her by ties of national selfinterest, by common fear of a common enemy. In particular the resentment now lessened but still keen felt in all circles against America's refusal to cancel the French debt, is so strong that it is not an exaggeration to compare it with the resentment felt against the Soviet Union for having repudiated the Czarist pre-war debt to France that amounted on April 30, 1926, to 6,738,000,000 gold francs ($1,347,000,000).

This, the original basis of French hostility to the Soviet Union, was a business matter. Today the French, whatever their sentiments may be and contrary to widespread opinion abroad, regard their relationship with the Soviet Union as a business matter. The Roland of the capitalist world against the "Red Trade Menace" must be sought elsewhere.

CHAPTER VII

Paris:

A new sect of Russian racketeers had grown up in Paris, and their motor cars and villas, their mistresses and champagne parties have pre-empted a place of their own in the life of this pleasure capital of the world. They enjoy one of the oddest of advantages. They live on assassination, insurrection, bomb assaults and mutinies. Every time Joseph Stalin is killed, every time the Kremlin is blown to bits, every time Trotsky returns to the Soviet Union at the head of an army to throw out the rascals and every time the peasants of Mother Russia rise as one man to destroy their oppressors, the Parisian money lenders, men of the "Black Bourse," knot their ties more hurriedly in the morning, get down to business earlier, for that day there will be fat pickings.

Into their offices come streams of business men, or their agents, bearing Soviet notes—Soviet promises to pay to American, French, Austrian manufacturers.

"But you promised to take this bill and charge me only 22 per cent," exclaims one.

"My friend, love you as I do! Have you not seen the morning paper. What? Yes, I see you have, but you didn't think I had. What? Twenty per cent and the paper says the Red Army has mutinied, Kronstadt rebelled, peasant uprisings in the Ukraine! Why here it is, from Bucharest. The correspondent says that drum fire was heard in the distance across the Bessarabian border all night last night. Twenty per cent! I wouldn't take a piece of Soviet paper for 100 per cent."

The customer pleads, offers 25, 30, 35 per cent.

"No—not for any price."

He turns to go. The broker waits until the lagging feet cross the threshold and calls.

"See, here, you are an old customer, I am an old Russian. I know I shouldn't do it, but I feel that now those things are happening in Russia and my dear fatherland is about to throw off the Bolshevik yoke, it will be worth the money to me. I'll take your note; 45 per cent!"

Which is to say that for a note drawn by the Soviet Trade Delegation for $100,000 payable in full with 6 per cent interest in one year to the French or American or other manufacturer who has sold electrical machines to the Soviet Government, the "Black broker" pays $55,000. He tucks the note away in his safety deposit box, and at the end of the year, if the Soviet Government has not resigned and fled to Sweden disguised in green spectacles, the patriotic émigré will collect. He has been collecting for many years, and the profits from the chronic collapse of his fatherland's tottering Government have filled out the frame that was meager when he left Russia in 1919.

It was one of the most curious and instructive events of this trip to learn here that most of the business of discounting Soviet bills is done by Russian émigrés. The majority are men of the merchant class willing to turn an honest penny at anything, who started on a shoe string and, by constantly reinvesting their winnings in the same business, have acquired fortunes. While Russian princes tend bar, drive taxicabs, play the balalaika in dance halls, the lowly merchant turns his penny so swiftly that already he has become a minor power in the financial world.

To these worthies of the Bourse, the "Red Trade Menace" is an abominable idea. Their dialectics are interesting. "Menace! Of course they are a menace. They don't pay their bills," exclaims the broker of Soviet notes. "Five-Year Plan? Already completely failed. They will never be able to export enough to meet their obligations. Anyway, they spend all their money on propaganda."

Any argument that the Five-Year Plan is succeeding, that the Soviet Government is more powerful than ever, that its future growth has become a matter of a great deal more concern to European Governments than the mostly imaginary sums spent by the Third International for foreign Communist parties, is met by the glance of suspicion, the sure and ready word, "Bolshevik."

A real Bolshevik, an official of the Government, remarked once that the Soviet Union's enemies were her best friends; they were so in love with Soviet collapse that they refused to pay attention to Soviet power.

An official of a great Government, anxious however that neither his identity nor that of his Government should be cited, told me that after a world-wide check-up by his department in the attempt to determine the total amount of outstanding Soviet obligations of every variety, they had just arrived at the estimate of $240,000,000 to $400,000,000, a very wide discrepancy, it is true, but interesting minimum and maximum limits. The Soviet Union exported last year to the value of $500,000,000. With a decent crop this year the total exports are expected to increase considerably, as timber and oil will certainly go out in larger quantities, and if the weather is favorable, the grain crop, European grain merchants anticipate, will be still larger than last season when the Soviet Union threw the outside world into a panic over its grain exports. A total export for 1931 of $600,000,000 to $750,000,000 is considered not impossible, barring the usual reservations against the possibilities of foreign war, economic boycott or crop failure.

The rate on Soviet bills in Paris is down now. Nothing worse is happening in the Soviet Union than the interminable bankruptcy of the Five-Year Plan, and the usual starvation, so when I visited an American banker and asked him to ascertain the day's quotation for me, the answer came after a telephone call, "27 per cent."

"Twenty-seven?" I exclaimed, "Why?"

"I don't know," he answered. "It's seldom much lower. But you understand that is for privately discounted bills that have not gone through a Soviet Bank."

"How long will it last?" I asked. "Two years more, three?"

Not so very long ago that question put to an American banker would have been taken as a request for his opinion on the probable duration of the Soviet régime. Today the banker friend, European director of one of the oldest, most conservative houses in America, replied: "One year," snorting. "One year, I give them, one year, and they'll be getting nearly normal discounts."

The views of this American banker, shared by a few of the better informed French Government experts, must also be taken into account in judging the French attitude toward the problem of Soviet economic expansion. The ranks of the old guard of observers of the Soviet problem, who persist sincerely in the opinions held for commercial reasons by the brokers of Soviet bills, are rapidly thinning. The current attitude of the French Government and its plans for the future are based on the assumption that there is a better than even chance that the Five-Year Plan will succeed. But whatever time may hold for Europe as a consequence of the success of the Five-Year Plan and of its successors, the French business man holds to the opinion that a present profit in the hand is worth two threats in the bush of the future. The loss of Soviet orders injured him at this moment out of proportion to the actual magnitude of the business done with the Soviet Union, for France is now feeling keenly the pinch of the economic depression, and, as one Frenchman remarked:

"When you have got 1,000 francs in your pocket, you don't miss the loss of ten, but when you've only got 100 francs in your pocket, you don't overlook the loss of ten."

The French Government has studied its trade balance with the Soviet Union before and after the license system. When M. Flandin spoke in October the ratio of French sales in the Soviet Union to Soviet sales in France was one to three. Today the ratio is one to twelve. And that, say the entire Cabinet and members of all political parties, has to be remedied.

Four remedies are proposed. The first, aired by Stephen Lauzanne, editor of L'Echo de Paris, fathered by Senator Joseph Caillaux, famous former Premier, sponsored by Senator Henri Berenger, one time French Ambassador to Washington, and others, is most ingenious. It proposes the erection of a central governmental organization to be known as the "Office National for Trade with the Soviet Union." This office shall be a counterpart of the Soviet Monopoly of Foreign Trade, with the distinction that it is to handle only trade with the Soviet Union.

The committee will be glad to accept sales from the Soviet Union at any price the Soviets want to make, the heavier the cut the better. For the committee will buy Russian commodities as cheaply as possible, limiting in theory their purchases to the amount of Soviet purchases in France, then sell to the French public at the prevailing French market price. The profits are to be turned into a fund for compensation of holders of Russian Imperial bonds.

Thus at one stroke a whole flock of harassing problems, the debt question, the dumping question, the balance of trade question, are solved. There may be many objections to this proposal, but one is perhaps sufficient. Three years ago Germany tried a modified form of it. The German National Association of Manufacturers, anxious to obtain for themselves the same advantages of concentrated salesmanship and elimination of competition enjoyed by the Soviet Foreign Trade Monopoly, set up a "Russian Committee" through which were to pass all Soviet orders for German industrial products. The Soviet Government anxiously but resolutely declared it would buy absolutely nothing of German manufacturers who submitted their bids through the Russian committee.

Charged with bad logic, inconsistency, since the Soviet Union itself had a Foreign Trade Monopoly, the Soviet Government replied that it would not object if Germany or any other country set up a Foreign Trade Monopoly for trade with all countries, but would consider such a monopoly for trade with the Soviet Union alone as an intolerable discrimination. The Germans' "Russian Committee" still exists, but exclusively as an organ of information.

In view of this Soviet attitude, adoption by the French of the Caillaux-Berenger scheme would result effectively in complete cessation of trade with the Soviets, for experience has shown that Moscow will no more consent to such an arrangement than she would consent to abandon her own Foreign Trade Monopoly, keystone of her structure of state capitalism. The French Government is aware of this objection, and a high official, eminently authoritative on matters of Franco-Soviet trade, in a conversation with me, alluded to the scheme as an opportunity for the Senate and possibly the Chamber to ventilate their views on Russia.

Nevertheless, those students of the problem of Soviet foreign trade not inclined to advocate boycott, but interested in the working out of a more acceptable relationship than now exists between the huge, unified organ of state-capitalistic trade represented by the Soviet Foreign Trade Monopoly, on the one hand, and competitive private-capitalist trading corporations of the non-Soviet world on the other hand, are convinced that in the Caillaux-Berenger scheme exists the germ of a solution. It seems to them to be one method that would be effective even against Soviet rejection if all nations were to adopt it, and that it might be much easier to persuade at least a good many nations to adopt it than to induce them to cut off their trade with the Soviet Union entirely, if that were the goal desired.

The great obstacle to the erection of a state monopoly for trade with the Soviet Union, is to be found in most countries in the opposition of private business men who do not want the Government interfering in their affairs. The German attempt was made under the direction of the Government which through its state guarantee for the payment of Russian bills, had a means of exercising pressure upon those business men who would have preferred to operate independently. The only other step in this direction essayed by a non-Soviet state was taken by Persia which on March 11, 1931, installed a system of state monopoly of foreign trade. But Persia is an absolute monarchy and when Mirza Reza Pahlevi, impressed by the trade methods of the Russians, decided to emulate them, he simply decreed the law. Its prime intention, like that of the Italo-Soviet trade agreement, and the present French plans for remedying their commercial relations with the Soviet Union, was to balance the foreign trade account.

Meanwhile M. Briand is credited with one of the four plans under discussion here for solution of the Soviet trade problem. As might have been expected from the Nestor of European politicians, the plan is original. The germ of its idea was at one time ascribed to Montague Norman, governor of the Bank of England, but he denied paternity, and M. Briand is popularly credited with its authorship.

The plan, still very vague, but perceptible in its outlines, is to set up an international credit institute in Europe for the rediscounting of all Russian bills, through which every member of the League of Nations would pass its trade with the Soviet Union. It would be, in other words, an International Institute for Trade with the Soviet Union. Participation of all members of the League of Nations in the International Institute would make it necessary either for the Soviet Union to submit to its authority, or cease virtually all trade with the outside world.

It is suggested that if it were difficult or impossible to induce all nations to pass laws requiring their nationals to do business with the Soviet Union only through the International Institute, it would be possible to accomplish the same end by financial pressure. That is to say, the Institute, by offering to discount Soviet bills at a rate approaching the usual bank rate for non-Soviet bills, would destroy the private market, the "Black Bourse," and make it necessary for the seller of goods to the Soviet Union either to carry the entire burden of financing the Soviet one-year, two-year or even longer notes himself, or to do his business through the Institute and submit to its control. Thus, with all Soviet credit in its hands, the Institute, it is conceived, could also regulate Soviet sales, curb "dumping," by limiting or refusing credit unless the Soviet Foreign Trade Monopoly conformed to the ideas of the Institute.

The subject is not, however, considered ripe for serious discussion, for without capital it could not be realized and whatever may be private opinions, the international banking world has not yet been willing openly to espouse Soviet solvency.

The third proposal for the remedy of Franco-

Soviet relations is suggested among others by Gaston Bergery, secretary of the so-called Russo-French Parliamentary Group in the Chamber, a loose organization composed of deputies from various parties who believe that the Russian problem is perhaps the most important one facing Europe today, but who are not at all unanimous in their views as to its solution. This proposal, apparently simple but in reality full of thorns, is to resume the Franco-Soviet negotiations over the debt question where they were left off five years ago.

Chief objection to this proposal is the fact that the Soviet Government has grown not less, but more hard in its attitude since 1926 when the negotiations were broken off upon Moscow's insistence that before it pay a cent on the Czarist bonds, the Soviet Union would have to have a considerable money credit. The debt at that time was reckoned at 6,738,000,000 gold francs, $1,347,000,000. The average Frenchman has not yet entirely abandoned hope of getting something back on this huge sum and the bonds are occasionally traded in at a fraction of 1 per cent to 4 or 5 per cent on days when assassinations in the Kremlin are particularly numerous.

But another prime difficulty in the way of solution of the debt question is the lack of a Soviet representative here whom the French can understand and who understands the French. In this respect the Trotzky-Stalin controversy in the Russian Communist Party is still making its effects felt, for Christian Rakovsky, stanch friend of Trotzky and one of the few who have held out without capitulation for four years in the exile to which he was sent by Stalin, was perhaps the one Soviet representative who could match French diplomacy.

But it is the French this time who are anxious to remedy the stagnation in Franco-Russian relations. The fourth and last proposal to this end, most sweeping of all, is made by Senator Anatole de Monzie. He, one of the original proponents of French recognition of the Soviet Union, and in this sense comparable to our own Senator Borah, is in favor of negotiating a trade agreement with the Soviet Union and postponing consideration of the debt question to a "more convenient time."

It is difficult to forecast what will be the solution finally evolved. Perhaps it will be one different from any of those listed, but these are all that are being discussed at present. Important for the outside world is the observation that of all the solutions suggested the outer limit of aggressiveness is represented by the Caillaux-Berenger project for control, but not cessation of trade with the Soviet Union. This is from the country that suffered most heavily from the Bolshevik revolution. For France that revolution meant not only the loss of the huge amount of money in Czarist bonds distributed almost literally among every French family. It meant prolongation of the war with Germany and might have meant its loss had not America intervened. It meant after the war that Germany, friendly to the Soviet Union for its own reasons, could be much more independent than if she had been bordered by Czarist Russia. Nevertheless France recognized the Soviet Union in October, 1924, nine months after the British Labor Government showed the way.

Today France views with distrust and a vague growing uneasiness, the climb to power of the Soviet Union, friend from expedience, but nevertheless friend of Germany and Italy. French courts make trouble for the Soviet trade representatives, her press fumes at the disappearance of a General Kutiepoff, the flight of a Bolshevik diplomat from the "Claws of the Cheka." But the French business man is making trouble for the French Foreign Office, and through the rattle of persistent popular agitation against the Soviet Union penetrates to governmental chambers only the clear cold voice of business: "We want our Soviet orders back."

CHAPTER VIII

Brussels:

It was in Antwerp. I asked a newspaper vendor: "Où se trouve-t-il le consul Américain?"

No answer. A sullen look.

"Wo ist der amerikanische Konsul?"

Instantly came the reply, shot back in Flemish so like German it was easy to understand.

"Don't you speak French?" I asked the Antwerp citizen.

"Oh, yes," he replied, "but we prefer German if we have to speak a foreign tongue."

French a foreign tongue in Belgium! German preferred in the land that suffered the yoke of German military rule the whole long length of the war!

But Antwerp is Flemish, Brussels Walloon, and their differences, so easily forgotten by the outside world, are playing a curious role today in the relation of Belgium to the Soviet Union. The Walloon-Flemish, Brussels-Antwerp conflict, interminable and never settled, has helped make it impossible for Belgium to achieve any satisfactory results in its efforts to protect itself against Soviet imports, has helped make this sector of the "anti-Soviet front" illusory.

In this country, in miniature, for convenient inspection, as on a small-scale model of a Continental map, may be observed in classic form the nationalistic, local patriotic, commercial reasons why Europe, though partly convinced that the economic expansion of the Soviet Union means trouble, and wholly if vaguely convinced that it is undesirable, has done nothing effective to check that expansion.

Seldom can one find conflicting interests in such profusion as exist here, and each has its bearing on Belgo-Soviet relations. The traditional conflicts existent everywhere are here between industry and agriculture; between producer and consumer; between those who want to buy Soviet goods because they are cheaper, and those who want to keep Soviet goods out because they compete with their own products; between those industrials who long for Soviet orders and those who fear Soviet industrial competition. And to these conflicts are added the uniquely Belgian conflict between the Walloons and the Flemish. Looming over all is the Belgian national rivalry with the old antagonist, Holland.

The Walloon-Flemish controversy must surprise any observer coming in from the outside with the war-time American picture in his mind of the hotly patriotic nation of Belgians, united as a monolith under the aegis of Albert.

To learn that radicals in the Flemish party agitate for separation from Belgium, that moderates in the same party, in very considerable numbers demand a revision of the constitution and organization of a sort of dual, federal state, and that the police frequently have to use their clubs to quell the treasonable public demonstrations of the secessionists, is to realize that the Walloon-Flemish conflict has more serious aspects than the mere fact that it requires knowledge of two languages to get a place in the public service.

This is an aspect of Belgium that has more significance as an illustration of one of Europe's most acute post-war ailments than for its importance in itself. And particularly in any study of the relationship of Europe to the Soviet Union is it desirable correctly to estimate the part played by the astonishing growth since the war of the spirit of nationalism, of sectional patriotism. Upon these centrifugal forces the Soviet Union is depending in large part for the undisturbed execution of its ambition to erect an economically independent, militarily potent Communist state, in a world of capitalist enemies too busy hating each other to band against a common foe.

Hardly a nation in Europe is free from the disintegrating element of national minorities, bent on having their independence even if they have to tear up the Continent into scraps of States. Poland has its Ukrainians, its Germans and its Jews; Germany has its Poles; Czecho-Slovakia has its Slovaks; Jugoslavia its Croats; Rumania its Hungarians; Italy its

Austrians; France its Germans, and the Spanish revolution has shown what the Basques and the Catalonians thought of Spain.

These are by no means all. There are many more groups of peoples dissatisfied and bitter against their Governments. It may be remarked that of the examples named, all except the Spanish dissenters blame their troubles on the Versailles peace treaty that rearranged Europe's boundaries with awkward hand. For that very reason it was interesting to find in Belgium a "national minority" problem that had nothing to do with the Versailles peace treaty.

The Belgians have had 100 years since the foundation of their present nation in 1830 in which to reconcile the differences between the Flemish inhabitants of the coast and the Walloon inhabitants of the interior. The conflict still exists; the Flemish language was given equal official rights with the French in 1898; in 1923 the formerly French speaking university at Ghent was converted to the Flemish tongue, and today in Antwerp it is easier to get a civil answer from a man on the street by speaking German than by speaking French.

The Flemish, proud masters of the Port of Antwerp, claim that the Walloons pre-empt the plums of government. The Walloons propose to continue the pre-empting. Thus when Brussels takes a step toward checking Soviet imports, Antwerp is urged by no exaggerated feelings of friendliness toward the capital to refrain from pressing its local claims to consideration. Brussels is forced to compromise; Moscow profits.

How Antwerp actually behaved when Brussels tried to curb Soviet imports, and the role played by Rotterdam, and the dramatic circumstances of the rift in Belgo-Soviet trade will be discussed in another chapter. Here it is necessary to record the formal course of events.

Belgium has no diplomatic relations with the Soviet Union. This is one of the few important instances in which Brussels has failed to follow the lead of Paris. Belgium industrial investments in Czarist Russia are estimated to have been worth around $800,000,000. This was all lost when the Soviet Government nationalized property and not a penny has been recovered.

Feeling over this loss is still strong and the predominance in politics here of the clerical Catholic element has made the assumption of diplomatic relations with the Soviet Union an academic question. So far Belgo-Soviet diplomatic relations consist of an agreement for the return of citizens, signed April 20, 1920.

Despite the lack of diplomatic relations, Belgium and the Soviet Union by last year had developed a trade that, though small in itself, made Belgium seventh largest taker of Soviet goods. In 1930 Belgium imported Soviet grain, flax, oil, lumber and a few other products to the value of $12,800,000. She exported to the Soviet Union, however, only $3,750,000 worth of machines, tools and boilers.

The Belgo-Russian balance of trade was distinctly unfavorable to Belgium but not large enough in itself, out of a total Belgian foreign trade of $1,700,000,000, to worry about so long as prosperity was abroad in the land. Last autumn the flood of Soviet grain disturbed Belgian farmers, the general economic depression made even the small unfavorable trade balance with Russia irritating and the action of the French in establishing their license system for Soviet imports convinced Belgium she should do the same. The license system, it was hoped, would throttle Russian "dumping" and improve the trade balance.

France decreed its license system October 4, 1930. Belgium followed on October 26. Less extensive even than the French, the Belgian list of Soviet products requiring a license for import included only cereals and cereal products, wine, glue and oleic and stearic acid. The results of the French experiment have been described. The Belgian findings have been if anything even more discouraging.

Although Soviet grain has ceased to come into the country legally, it is conceded by the Government that it comes in in large quantities illegally, smuggled by Belgian, Dutch and French traders. Petroleum and timber were not put on the license list because they are products not produced in Belgium, and, as in France, the Government had no interest in protecting American, Canadian or Scandinavian oil and timber interests. Flax was not put on the list for reasons given later.

Leaving grain entirely out of account, official Belgium statistics show that in the first two months of this year, after two months of operation of the license system, Belgian imports of Soviet petroleum, lumber and flax have averaged a little over a million dollars a month, almost precisely as much as last year, while Soviet imports of Belgian goods had fallen off from a monthly average in 1930 of $300,000 to a monthly average in 1931 of $100,000.

As in France the trade balance is now considerably worse. As in France, Moscow had peremptorily cut off orders from Belgium while Belgian desire for cheap Soviet goods not competing with their own had induced her traders to continue buying nearly as much as they had before the license system.

As in France the Soviet export trade had suffered very little, while that of America and the other great producers of the Soviet staples, oil and lumber, continues to meet the pressure of Soviet competition here. In both these products America competes directly with the Soviet Union for the Belgian market, the United States having sold to Belgium in 1929 more than $15,000,000 of petroleum and petroleum products, and $3,200,000 of timber.

The Belgian Government is admittedly uncertain what to do. It is sure of but one thing: that its license system has failed to accomplish the ends for which it was created. The opinion in governmental circles is that nothing can be done effectively against Soviet economic expansion by one state acting alone, that only united action can avail, but that the possibility of united action appears remote as a dream.

Only a few objective Belgians realize that the reasons why Europe cannot unite against the Soviet Union are contained in substance in Belgium itself, where not even within its own boundaries can the citizens agree to carry out loyally the policy of the Government.

While members of militant anti-Bolshevik organizations speak of Briand's Pan-Europe as the coming cure for Communism, Belgian smugglers ship quantities of unlicensed Soviet grain across the border, others falsify bills of lading and forward freight carloads of unlicensed Soviet timber into France, still others buy Soviet flax, oil, and timber in preference to the more expensive products of non-Soviet countries, and Antwerp, anxious over her port fees, stevedore wages and her trade rivalry with Rotterdam, presses hard for complete abolition of all checks on Soviet trade.

Moscow worries over the "anti-Soviet front" in Europe. One wonders why.

CHAPTER IX

Antwerp:

Miles of brilliant flower beds, tulips, crocuses, scarlet yellow, purple, lie between the tiny states of Belgium and Holland. Spring makes their frontier the pleasantest in Europe. But a great deal more than flowers divides the Belgians from the Dutch and to their many grounds for mutual national antagonism has been added today the question of trade with the Soviet Union.

Twenty-nine ships flying the red flag with the Soviet hammer and sickle approached the port of Antwerp. Two million bushels of grain were in their holds.

Strung out along the ocean track from the Black to the North Seas the twenty-nine ships steamed forward oblivious of world events, their twenty-nine captains busy only with the chart, course, Antwerp.

That forenoon there met in Brussels twelve men, the Belgian Cabinet. They reflected on the "Red Trade Menace," the falling price of wheat, on the protests of their farmers, on the example set by France. They framed a law, and thenceforth Soviet grain required a license to enter Belgium.

That afternoon there met in Moscow nine men, the Politburo of the Russian Communist Party.

That night the twenty-nine captains of the Soviet grain fleet simultaneously by radio received one laconic message: "Pass Antwerp; dock Rotterdam."

Now, Antwerp, Belgium, is the fifth greatest port in the world. Rotterdam, Dutch, is the fourth. Antwerp hates Rotterdam; Rotterdam hates Antwerp. For Antwerp the menace is not Red; it is Rotterdam. For Rotterdam the menace is not Moscow, it is Antwerp.

It took the Antwerp Chamber of Commerce just twenty-four hours to awake, but in twenty-four hours a long and burning telegram was laid before the Belgian Cabinet.

"For the sake of this, for the sake of that you cripple our trade, you help our rival. The Soviet Government has ordered its Antwerp cargoes to Rotterdam, has boycotted our port. We are even going to lose the Soviet transit trade. Help!"

Not in these words, but in this sense, the Antwerp Chamber of Commerce framed its protest.

Before the Belgian Cabinet loomed the threat to Antwerp. It had been forgotten in the larger threat to Belgium. Now it nearly dimmed the "Red Trade Menace." Embarrassed, unable incontinently to withdraw a royal edict, the Cabinet compromised and two days after its first decree, issued another that the license law did not apply to transit grain. Too late, for the Soviet Government announced its boycott on Antwerp as port of transit would be maintained so long as the Belgian Government kept any license system discriminating against the import into Belgium of Soviet goods. The Antwerp Chamber of Commerce has reckoned that it will lose in a year on the transit of Soviet grain alone around 200,000 tons of traffic and from 800,000 to 1,000,000 tons of imports.

The nine men in Moscow happily observed that the twenty-nine ships were hospitably received in Rotterdam; they observed the indignation in Antwerp, not against Moscow but against Brussels, and summing up their observations they noted that the Five-Year Export Plan was holding up nicely.

To the many reasons why the bourgeois world has not been able to unite against Soviet economic expansion, to the reasons of European national rivalry, mistrust and fear, to the reasons of individual businessmen's desire for profit from Soviet trade, the Moscow observers were able to add as a curiosity the special reasons of local patriotism operating in two of the greatest ports of the world.

Rotterdam and Antwerp are favored in almost equal degree by nature. Both have canal systems reaching deep into the heart of Europe, and because of these canal systems and their excellent harbor facilities, the two cities, though belonging to the smallest of continental nations, have developed into world ports behind only New York, London, Hamburg and Los Angeles. Their natural advantages being equal the two ports can only compete through their hospitality to trade.

The two ports covet each other's shipping to such a degree that consideration of international scope recede behind the foreground of their local ambitions. Antwerp has made it hard for the Belgian Government to maintain any sort of control system on Soviet imports; Holland has made it virtually impossible.

The license system was established in late October. Since that time sufficient has transpired to confirm the impression that it has been unsuccessful. Belgium's experience is worth attention as an example of the difficulties that must be met by any bourgeois nation that attempts individually to exert measures of control over trade with the Soviet Union. For the history of the Belgian license system on Soviet imports is the history of the development of a new bootlegging racket, the business of smuggling Soviet wares under false certificates of origin.

It is not so picturesque a racket as the business of liquor dealing in the United States, nor is it as profitable, but it is profitable enough. Its methods afford an instructive view of a sort of individual disloyalty of citizens to their state during its attempt at trade war with the Soviet Union—a disloyalty that Marxists contend is inseparable from the private capitalist system.

Bootlegging Soviet grain into Belgium is made easier by the fact that the canal systems of the two countries interlace and frequently a Belgian canal passes for a short distance through Dutch territory. One spot where this occurs has been exploited heavily by the grain smugglers. Down in the extreme southern tip of Holland a little tongue of Dutch territory runs in between Germany and Belgium. Through this tongue of Holland runs the Belgian "Zuid-Willems" canal. It runs from Liege to Antwerp and save for the few miles on Dutch territory is exclusively Belgian.

In the little strip of Dutch territory through which the canal passes it touches the Dutch town of Maastricht. Boats coming up the canal had been long accustomed to carry wheat from Antwerp to Liege. After the Belgian Government subjected Soviet wheat to an import license, Belgian customs authorities remarked an extraordinary increase in the canal traffic from Antwerp to Liege. Dutch importers of the Soviet grain that had been refused admittance to Belgium had sold quantities of it to Belgian brokers and shipped it to Maastricht.

As the Belgian canal boats came through they were loaded with the contraband wheat and provided with false bills of lading attesting that the grain was of American or Canadian origin, pursued their dignified way on back into Belgium. In this way many thousands of tons of Soviet grain have entered the country. Other thousands, also on false bills of lading, have been brought on lighters from Rotterdam into Antwerp. One Antwerp business man told me he estimated that more Soviet grain had been brought into the country in this illegal manner than before the license system was passed.

"It's like trying to dam a river with a fish net; like trying to sweep the tide back with a broom," he exclaimed. "There is no use in any one country trying to keep out the cheap products of the Soviet Union. So long as any nation in the world takes Soviet goods, those goods will eventually find their way into all the other nations. How can you identify Soviet wheat, oats, rye, barley; how can you spot Soviet timber, coal or oil? It is not as though you put up a tariff on all grain, timber, coal or oil. That is easy to enforce. But when you put up restrictions only against Soviet products, you have to be able to identify the stuff as coming from the Soviet Union. How can you do it? We have not been able to find out."

He shrugged his shoulders.

As a matter of fact the Belgian Government is now trying the experiment of requiring importers of grain from all countries to show samples as well as produce certificates of origin, and it is hoped that expert grain men may be able to distinguish the Russian growths if they continue to be offered under false bills of lading.

Worth noting is the fact that the smugglers of Soviet wares are never the Soviet trade representatives but always citizens of the country that has laid down the restrictions, or of neighboring countries.

So for the last several months there has been a heavy traffic in Soviet timber through Belgium into France.

France, it may be remembered, last October included timber on its list of Soviet products requiring special import licenses. But French timber brokers, operating through Rotterdam agents, buy their quantities of Soviet timber and, shipping it through Belgium, send it across the French frontier on false bills of lading, alleging its origin in Finnland, Sweden, Poland, or some other non-Soviet timber producing country. The Soviets would not permit this, for they have refused to send any more transit through Belgium. Nevertheless the Soviets profit thereby.

All of the familiar aspects of capitalist internecine contention are present in Belgium to paralyze the efforts of the few who believe that Soviet economic expansion is not a threat merely to the individual producers now feeling the pinch of Soviet state capitalist competition, but a threat to the entire structure of private capitalism in Europe. So far, in Belgium as in France, the only capitalists who react are those immediately hit, and there are always to be found other capitalists whose profits from Soviet trade make them active in counteracting the efforts of their injured countrymen to defend themselves.

Flax in Belgium provides a useful example. Russian flax dominates the world market and under the Five-Year Plan the Soviet production has already outstripped the pre-war output. In 1913 Russia grew 330,000 tons of flax; in 1929, 427,700 tons, out of a total world production of 689,100 tons. About two-thirds of all the world's flax is grown in Russia, and last year the Soviet Union exported 71,583 tons of it. After Russia come Poland with 67,500 tons annual production, Latvia with 34,600 tons and Belgium fourth with 27,400 tons. In Belgium the flax industry is especially important, for the plant is not only grown there, but is worked up into linen.

But the Belgian flax industry is sharply divided between the growers and the weavers. The growers suffer under Russian competition, the weavers profit by it. When the Government was considering its import license plan for Soviet products, the flax growers asked that Russian flax be put on the list. The weavers demanded that it be kept off the list. It was kept off, and today even under the bad relations existing between Belgium and the Soviet Union, exports of flax into Belgium have increased enormously. In the first two months this year they amounted to 2,746 tons against 836 tons in the same period the year before, or an increase of more than 300 per cent.

The Flemish fight the Walloons, they both fight the Dutch; Belgian industry fights Belgian agriculture while Moscow marks triumphant red the North Sea sector of the "Anti-Soviet Front."

CHAPTER X

Amsterdam:

Twenty-nine ships carrying Soviet cargoes passed Antwerp in a huff last October when the Belgian Government decreed a license law for Soviet imports. The twenty-nine ships went to Rotterdam instead. Today the twenty-nine ships have been followed by 307 more.

With wide outstretched arms Holland eagerly has received the Soviet trade that Belgium denied its doors and the Netherlands are doing an import business from the Soviet Union that for volume and variety is nothing short of phenomenal, and in relationship to American trade with Holland is most instructive.

Three hundred and seven steamships carrying Soviet cargoes have discharged in Holland during the seven months up to May 1, 1931. Three hundred and seven merchant vessels can carry a great deal of goods. So much, in fact, that not only has the Dutch import from the Soviet Union risen by far above that of the same period in the previous year, but it has exceeded the combined Belgian and Dutch imports from the Soviet Union for the same period in the previous year. If any evidence were needed that Soviet exports are on the sharp upgrade, it is offered by an examination of the contents of this Red armada.

Furthermore, although it is impossible to establish a causal connection between the decline in American exports to Holland and the increase in Soviet exports to Holland, the statistical record of this movement nevertheless is more interesting than statistics are wont to be.

In blunt terms, the United States lost $5,000,000 worth of exports to Holland and the Soviet Union gained precisely $5,000,000 worth of exports to Holland in the three months, January to March, 1931, as compared with the same period in 1930. American exports to Holland in the first three months of 1931 were just one-half as much as they were in the first three months of 1929, and Soviet exports to Holland in the first three months of 1931 were just nine times more than in the first three months of 1929.

Wheat, corn, lumber and petroleum are the principal products in which the United States competes with the Soviet Union for the Dutch market.

The movement of trade thus indicated is so extraordinarily violent that it had better be fully documented. The official figures are:

(Last three ciphers omitted)

	—In First Three Months of—		
	1929	1930	1931
Total Dutch imports	$250,400	$259,200	$197,600
From U. S.	32,400	21,600	16,409
From Soviet Union	800	2,644	7,600

American exports to Holland sank from $32,400,000 in the first quarter of 1929 to $16,400,000 in 1931, while Soviet exports to Holland rose from $800,000 to $7,600,000. America's share of total Dutch imports sank from 13 per cent in 1929, March quarter, to 8.45 per cent in the corresponding quarter this year, while the Soviet Union's share in all Netherlands imports rose from .37 per cent in 1929 to nearly 4 per cent in 1931.

If one has no taste for statistics but is skeptical still of the ability of the Soviet Union to export any considerable quantities of the copious assortment of goods observed as for sale in the Soviet pavilion of the Milan Fair, there could be no more easy and enlightening reading than the ships' manifests of the Soviet armada.

Here on the docks of capacious Dutch ports may be seen in bulk the items displayed to the public in the samples in Milan. In bales, blocks, sacks, cases, tons, standards, barrels, from Archangel, Leningrad, Kherson, Mariupol, Murmansk, Nicolaieff, Novorossik, Odessa, Poti, Sevastopol, Theodosia and Vladivostock, "a great variety of commodities," as the official report says, arrived. They came in ships flying flags of virtually every maritime nation, British and Italian companies leading and Soviet ships of "Sovtorgflot" carrying perhaps 40 per cent of the cargoes. To be quite exact about it, there arrived goods in more than 200 different categories from Russia, most of them either not mentioned at all in the ships' manifests of 1929 and 1930 or appearing in small volume. The list is much too long to reproduce. Alphabetically, it ranges from four cases of "advertising-printed matter," to fifteen barrels of "zinc ash."

Grain men will be interested to observe that in these first three months of 1931 there entered Holland from the Soviet Union 85,222 tons of barley, 1,920 tons of buckwheat, 18,741 of corn, 58,970 of oats, 23,799 of rye and 46,117 of wheat.

Rotterdam quotations on wheat as of May 16, 1931 showed Russian wheat selling at only a slight advantage in price under wheat of similar quality from other countries, a difference in fact of only five Dutch cents per hundred weight. Russian rye was quoted the same day at exactly the same price as rye from other countries. This bears out the observation already made that in the grain market the Soviet does not always or often find it necessary to cut prices more than a shade. Informed circles here are aware that there is still a stock of surplus grain in Russia. How much of this stock from the old crop will be sold depends on the prospects for the new crop. If the new crop is favorable, it is anticipated the Soviet Union will come on the market again with fairly large quantities. If the new crop is unfavorable, the market may be spared further Soviet exports of grain until the actual harvest in the Summer and Autumn of 1931 has proved the supplies are sufficient both for the Russian internal consumption and for export.

But grain is only one set of items worth pausing before in these ship manifests from Russia. The manifests, it must be recorded, have been made available in the reports of the American consular service in Holland—reports on Dutch imports from the Soviet Union that for comprehensiveness surpass any piece of official reporting on Soviet trade yet encountered on this trip.

Here one reads that the Soviets imported into Holland 853 cases of frozen eggs, 157 cases of egg yolks, although the Soviet foreign trade delegations abroad have frequently sought to give the impression that so long as the acute shortage of eggs for the population persisted at home, export of eggs would be eliminated.

Of particular value for the light it throws on the attitude of the German Dye Trust toward the Soviet Union is the list of chemicals Holland imported from Russia. It may be recalled that the German Dye Trust, Europe's greatest chemical concern, is adverse to trading with the Soviet Union, although in that respect it differs not only from the official policy of the German Government but from the general attitude of most of the larger German manufacturing concerns. Few of these concerns have been hit by Soviet competition. Here in the ports of Holland one finds the reason for the German Dye Trust's unwillingness to keep step with its own Government on the Russian problem.

The infant Soviet chemical industry has sent to Holland in the first three months of this year 990 sacks of calcined soda, 180 drums of calcium chloride, 440 drums of calcium carbide, 3,362 drums of caustic soda, 19 drums of chromic acid, 340 demijohns of formic acid, 325 drums of glycerin, 9,528 bags of magnesite and 3,858 tons of sodium sulphite.

One surprising item of Soviet exports was clothing. No specifications were given and one was left in the dark as to what sort of clothing it could have been or who could have been the prospective wearers, but at any rate there is the fact—three bales and 1,262 cases of Soviet clothing exported into Holland.

Of other manufactured articles there are items in plenty, although the total volume is not sufficient to be evidence that any serious export of manufactured goods has begun from the Soviet Union to this country. The list nevertheless is long and various. According to the ships' manifests Holland took from the Soviet Union in the first quarter of this year among other things various quantities of aniline dyes, billiard balls, blankets, brass ware, brushes, buttons, cables, carpets, celluloid, cotton textiles, drugs, embroideries, electric light bulbs, lacquered goods, lampsteads, finished leather, matches, metal-ware, paint, paper, pencils, porcelain, rubber galoshes, rubber tires, shawls, shoes, silk, window glass, plywood and telegraph poles.

But what a really large place Soviet wares have won recently in the Dutch market can best be judged by the fact that in the period under consideration Russia contributed more than two-thirds of all the wheat Holland imported, 93 per cent of all rye, 73 per cent of all oats, 64 per cent of all lumber, 99 per cent of all pulpwood, 94 per cent of all manganese and so on down a long list of products including forty of the more important Dutch imports, of which on the average Holland took from the Soviet Union more than 30 per cent of her total acquirements from abroad.

A similar study of Soviet exports to Holland in the year 1930 reveals that during the year the quantity and value of exports steadily rose, although not so rapidly as after Belgium and France laid down their restrictive measures. During these months, however, when the Soviet grain crop was being rushed to the market, the Rotterdam market had a busy time of it, as a large part of the total Soviet grain exports went through that port. Rotterdam grain merchants are unanimous in their opinion of the quality of the salesmanship and the mastery of market tactics displayed by the Soviet foreign trade monopoly.

According to one grain broker, the Russian organization for the marketing of their grain was "elaborate, farflung and farsighted." The Russians received in their headquarters, he said, from every important grain center in the world information covering supplies both on hand and expected from crops and other sources, as well as on the market trend, demand and other factors. They not only gauged correctly the trend of 1930 prices as strongly downward, helped by their own knowledge of generally unsuspected Russian supplies, but they maneuvered arrivals of their grain in various market centers, so as to take the utmost advantage of any local conditions favoring them.

In view of the fact that the Soviet grain exporters knew the market was going to decline continuously, they hastened to sell their own grain as fast as possible. It was reported in Rotterdam that a ship often would be chartered by the Soviets, loaded and dispatched on its way with instructions to deliver the cargo as indicated later. Sometimes the point of destination was not decided until almost at the last moment. Sometimes on arrival at the designated port, instructions were received to deliver the cargo at another port. With its hand on the pulse of the market, the Soviet Foreign Trade Monopoly made the best of its advantage and Rotterdam is convinced that even if the Russians were willing to shade prices to dispose of their stocks, they probably made more out of the quantities they had to sell than any other nations' traders divided among many competing firms, could have made out of the same volume of trade.

CHAPTER XI

Rotterdam:

It is impossible to get away from superlatives in dealing with the Soviet Union and here in Rotterdam one is compelled to use a timeworn phrase to record that the largest grain elevator in Europe—one of the largest in the world—has just been preempted for Soviet grain.

Another monument to the Five-Year Plan in trade, this huge structure, whose bins had been intended for wheat from the Dakotas, Manitoba and the Argentine, today embraces in its capacious hold the products of the North Caucasian plains, the Ural steppes, the Ukrainian fields of Russia.

It is the sort of building that young Soviet poets choose for subject of their odes and its dimensions would be spelled in dithyrambs if Demyan Bedny, Kremlin troubadour, could stand beneath its looming bulk. Two million bushels of grain can lie within its walls.

All Holland is proud of the "Graansilo" of Rotterdam. Its builders, a Dutch "Maatschappij," admit it is magnificent. It is worthy of pride. It is magnificent, but the wheat growers of America and Canada may perhaps be pardoned for contemplating its contents with less enthusiasm than does "Export Chleb," the Soviet grain export company that at one leap in one year has become the greatest single merchant of cereals on earth.

One is irresistibly reminded in the block-long shadow of the "Graansilo" of the remark the manager of one of the principal Soviet state farms made last autumn. He declared soberly and without excitement: "It is probable that American wheat farmers will be compelled to confine their production to domestic consumption, for Russia is the logical granary of Europe."

Rotterdam makes the dull term "commerce" exciting. Its crowded ways are populated by ships of every nation bearing wares from every portion of the globe. The sirens of the harbor are never still and the white plumes of its steamers paint romance on the sky.

For Rotterdam trade is romance. It means the one thing that has a universal interest for mankind—a fight. And today Rotterdam is excited at the entrance of the new contestant in the age-old fight for the market, at the entrance of the Soviet Union in the lists of commerce.

"They are doing a big business here, sir," said a boy on the docks, pointing at a Soviet steamship.

"Oh, yes, the Russkies 'ave got the grain all right," remarked a stevedore as he jerked this thumb in the direction of a fleet of 210 great barges anchored side by side in the Waalhaven.

So great was the inflow of Soviet grain last autumn, and so large the stock still remaining that when combined with the quantities that came in from other countries the grain elevators of this fourth largest port in the world could not accommodate it all and millions of bushels had to be stored in barges.

Grain receipts totaled as high as 3,600,000 bushels a week. Rotterdam stocks at the end of the year were nearly 30,000,000 bushels and even the dock employees, chauffeurs and newsboys of Rotterdam today discuss Russian trade with almost as much avidity as they do football.

It is a huge game for Holland and her traders are enjoying it. As one very competent observer formulated the attitude here: "Whether Russian imports are looked upon favorably or condemned, those in need of any article generally buy it where it can be had to advantage and with but very few exceptions do not care whether it originates from Russia or from any other country in the world provided the commodity meets the requirements.

Holland is simply not aware of any "Red trade menace" any more than Italy is. It only exists here in the apprehensions of those firms of other countries which deal in the export of wares competing with Soviet wares. The Dutch, however, look upon this competition as an excellent opportunity to get bargains, and inasmuch as in this country consumer interest far outbalances producer interest at least in those articles which the Soviet Union has to offer it was not surprising that the feeble protest recently made in the Dutch Parliament against Russian "dumping" of grain was answered by the Foreign Minister:

"While Holland is at liberty to raise its tariffs, this does not mean that it will do so nor will it now fix any special tariffs against dumping."

The Dutch attempt at organizing an anti-dumping, anti-Soviet campaign met a melancholy end. Its history deserves to be related as an example of the sort of surrender that often has taken place when capitalist groups in Europe, at first inveighing against Soviet trade, are offered definite immediate profit. The central office of the "Dutch Agrarian Committee," an organization of more than 400 farmers' coöperatives, last June took a strong line on the Russian question and published resolutions to the effect that no patriotic Dutchman should trade with the Soviet Union, no upright merchant should lend his hand to aid the Soviets, no right thinking citizen should become "an accomplice to Soviet methods," in the words of the resolution.

Nine months later the Dutch Agrarian Committee, on behalf of its member coöperatives who were in need of barley for fodder, succumbed to the attractive prices offered by the Soviet trade representative and purchased a quantity described by the Dutch press as "considerable." At one stroke the Soviet trade representative had disposed of a "considerable" quantity of barley fodder, had silenced forever the pious protestations of the Dutch Agrarian Committee and had made it difficult for similar protests to be taken seriously by Dutch governmental authorities in the future. Dutch wits had material for their lampoons and the prestige of the Soviet trade representative rose.

So far only two important Dutch interests have been so nearly touched by Soviet competition that a movement toward reprisal could have been expected. There are the sugar and petroleum interests. The very important Dutch Java Corporation, producing nearly one-sixth of all the world's supply of cane sugar, possesses thirty of the ninety votes in the International Sugar Council organized in Brussels by Thomas L. Chadbourne. This council was able to unite in its attempt to limit the export of sugar all sugar-producing countries in the world with the exception of the Dominican Republic, Peru and the Soviet Union.

It is recalled with deep feeling by the Sugar Council that at a previous assembly of sugar magnates the Soviet Union was represented and that at the moment when the comfortable impression had got about that even the Soviet Union was about to enter the agreement, news reached the Council that the Soviets in one transaction had disposed of 100,000 tons of sugar in India at a price and on terms that were declared to be completely offside. It was asserted that the Russians had not only sold at a price considerably below the market, but had agreed that if the market sank still lower before delivery a sum would be accepted equivalent to the market price on delivery.

The significant fact in this incident is that India is the bailiwick of the Java sugar producers, is known as "the Java market." Dutch sugar interests were hit hardest by the Soviet's sales in the Java market but so far the voice of Dutch sugar interests has not been publicly audible in Holland itself in any serious protest against the continuance of trade relations with the Soviet Union.

The reason for this reluctance on the part of the injured Dutch sugar interests to launch reprisals against the Soviet Union in the form of a demand for an embargo or limitation upon Soviet imports into Holland is the fact that the Sugar Council still hopes to bring the Soviets into their agreement. In this hope they are encouraged by the Soviet's generally favorable attitude toward attempts at restrictive schemes for raising world commodity prices.

It is a mistake to believe that the Soviet Union is in principle or practice against participation in world pools for the control of commodity prices. There are only two conditions indispensable for Soviet coöperation in any such pool. The first is that the net return in foreign currency to the Soviet Union from its exports under a control pool shall be at least as much as the return would have been from a larger volume of Soviet exports outside such a pool; second, that no such pool shall impose restrictions as to the total Soviet production, be it in wheat, sugar, oil, timber, or what not.

These two conditions made plain by the Soviet delegates, both at the international negotiations over sugar and over wheat, point at the same time to the conclusion that the Soviet Union is only participating in such international efforts out of the necessities of the moment and not from any intention permanently to coöperate with the capitalist world.

Temporary coöperation is justified in Soviet's eyes at the present juncture of Soviet affairs. For once the principle had been adopted of building up the Soviet Union and letting the world revolution take care of itself until the Soviet Union became independent, the requirements of the Five-Year Plan had to come ahead of any objections to helping out the bourgeois world.

The Five-Year Plan peremptorily demands that imports be kept up to the Plan level; that means that returns from exports must be retained at the Plan level. The decline of world commodity prices, however, by forcing the Soviet Union to export up to 50 per cent more than had been planned in order to obtain the planned level of the returns from exports has hit the Soviet Union harder than it has any other country, and for this reason the Soviet Union for the moment has more to gain than any other country by a world pool agreement that would permit an equal return in value from a diminished export quantity.

It may be remarked that this would be the attitude equally of any non-Soviet country. But the Soviet Union's inexorable refusal to accept any scheme such as that proposed by the Americans at the London wheat conference, that by limitation of production might bring about the desired rise in prices, differentiates the Soviet Union from all bourgeois countries. Some bourgeois countries have also protested against the limitation of production, arguing that the trouble in the world markets is not overproduction but faulty distribution and underconsumption. But these countries are open to argument on the point, are willing for concessions to give in. Not the Soviet Union.

For the Soviet Union is in a unique position. Under an export quota scheme that would return for a smaller quantity of exports an amount of money equivalent to that which would have been obtained from a larger quantity of exports outside a quota scheme, the Soviet Union is able to continue to increase production and yet dispose advantageously of its increased production on the home market.

And the Soviet Union is the only country in a position to do this, for it is the only country whose internal market is not saturated.

At the same time by entering into any export quota system, the Soviet Union encourages the decrease of production in all other countries except the Soviet Union, for the natural effect of an export quota system restricting the outlet should ultimately be to reduce the amount produced in a capitalist country. And this tendency toward a reduction is encouraged in most capitalist countries by governmental advice to farmers to diversify crops and limit the area sown to the great staples. While this is going on in capitalist countries, however, the Soviet Union, alone among the principal producing nations, not only does not discourage increased production but strives with every ounce of energy to raise production to ever higher levels. Enabled during the duration of the quota system to dispose of its increased production on the home market, but always able to take it away again from the home market if desirable, the Soviet Union is thus in a position at the expiration of an export quota agreement to appear upon the world market with a still larger volume of the commodity in question or, in case of a new export quota agreement, to claim a larger quota by reason of its larger supplies. But even if the Soviet internal market were saturated, it is conceivable that the same policy would be feasible for the Soviet Union and only for the Soviet Union. For through its unique state control of national economy the Soviet Union would be in a position, if necessary, to store quantities of commodities against the time when, the export quota having accomplished its effect of reducing production in bourgeois countries, Soviet reserves could be released to the market in a volume and at a price calculated to achieve the desired goal of obtaining permanent control of the market.

That this is the ultimate Soviet goal for many commodities is not denied by Soviet spokesmen. Certainly not in the case of wheat, for the assertion too frequently has been made by the Soviet authorities that Russia is the natural source of Europe's supply of bread. It is considerations like these that move American, British and Dutch petroleum trusts to increasing apprehension over the growth of the Soviet oil production. So obvious has this apprehension become that a responsible American oil man, occupied for many profitable years in observation of the international oil game, told me that in his opinion the time was not far distant—he named three years—when Standard, Shell and Anglo-Persian would sink their differences and approach the Soviet oil trust with an offer of a very large loan in return for the privilege of a monopoly on the distribution of Soviet oil products in the world. Not, be it observed, that the capitalist oil trusts would combine their resources to inflame public opinion, lay down embargoes, choke off Soviet oil, but that the capitalist oil trusts, that have in part and on occasion tried these methods and found them wanting, would approach the Soviets with gifts to purchase by persuasion what they could not achieve by force. This was the American oil man's considered opinion. "Now," he said, "I think the Soviets would take such an offer if the loan were large enough. In three years, perhaps, they won't."

Meanwhile, Europe's chief agitator against the "Bolshevik menace" is Sir Henri Deterding. Sir Henri's name is used to frighten naughty children in Soviet Union. Sir Henri does not deny, indeed affirms that his efforts have been extensive, intensive and well financed to organize international public opinion against the Soviet Union. Yet in Holland itself, home of Sir Henri's Royal Dutch Shell Company, where Sir Henri rates as the country's most influential figure, Sir Henri has not been able to induce even his own Government to impose the faintest restriction upon Soviet trade.

For one definition of "dumping" is giving much, and asking little, while Holland's traders relate of themselves——

"In matters of commerce the fault of the Dutch
Is in giving too little and asking too much."

Whatever the rest of the world may say, think or do about the Soviet Union, the Russians and Dutch appear for the moment to be pleasantly contented with each other's commercial policies.

CHAPTER XII

London:

A top hat shone in the dim light of the doorway.

Tall, slim, bemonocled, the owner of the hat strode in, seated himself on a bench, pulled the topper down over his eyes. He then extended his long legs, elevated them to a level with his chin and settled his feet firmly on the table in front of him.

The man with his feet on the table was flanked on both sides by other men with their feet on the table. Most of these men wore black cutaway coats and pin-striped gray trousers.

On the other side of the table sat another row of men, also with their feet on the table. They wore business suits.

At the far end of the table sat a man in a black gown. He read a paragraph. Sir Austen Chamberlain thereupon took his feet off the table, his colleagues, the Tory leaders of the Opposition, took their feet off the table, Mr. Ramsay MacDonald, Prime Minister of his Majesty's Government, and all his Ministers on the other bench took their feet off the table and Sir Austen, doffing his topper, rose, adjusted his monocle and drawled, "I naturally regret——"

It was the House of Commons about to listen to the best dressed ex-Foreign Minister in Europe open the debate on Russia. In the next three hours in this oldest, most important Parliament in the Eastern Hemisphere, where extreme formality is linked with the intimacy of a club, a listener could detect if not the precise future of Russo-British relations at least all the elements that determine that future. He could establish that if the Labor Party stays in, the United Kingdom will continue to trade with the Soviet Union, but if the Conservative Party comes in, the United Kingdom will also continue to trade with the Soviet Union, though perhaps with reservations. These possible reservations deserve more detailed treatment later.

Nevertheless this is the one country so far visited in Europe where Russia is a major public issue, where there is an active violent anti-Soviet movement, an equally active, equally violent pro-Soviet movement, dozens of private organizations to wage the battle on individual issues and masses of information and huge masses of misinformation about it all. Around the Conservative Party group the antagonists of the Soviet Union. Around the Labor Party group the proponents of close coöperation with the Soviet Union.

The fog of dispute is deepened uniquely here by the fact that the British alone among European peoples possess the typically Anglo-Saxon capacity to be moved by arguments of sentiment to let moral issues play a genuinely effective role in politics. The British people have been moved to a degree by the Soviets' treatment of the church. They have been moved to another degree by the campaign against "slave labor" in Russia. Neither of these issues interests the Continent at all. Here they play a role and Tory spokesmen were delighted when they coined the phrase, "Slave Labor Party" to fling at MacDonald.

These elements cannot be overlooked, yet the record of the House of Commons puts the emphasis of British interest in their relations to Russia on a different note. The House has just refused to pass a bill to prohibit the import of the products of forced labor, and Winston Churchill, most brilliant, most bitter and most Chauvinist British arch-enemy of the Bolsheviks, despite his indignation at Communist propaganda in India, despite his profound sympathy for "Russian conscripts," concluded his contribution to this debate in the House with an argument that boiled down meant "let us break diplomatic relations with the Soviet Union, for if we do so, we shall receive more Soviet orders. America proves it."

To any one interested in the present condition and future prospects of the world's relations with the Soviet Union this debate in Commons must be of interest.

For in all Europe Great Britain is the only country where even a threat to Soviet economic expansion can be detected and this threat could conceivably have such consequences that, no matter how remote its execution into action may appear, it deserves the closest attention.

Great Britain takes nearly one-third of the Soviet Union's total exports. If Britain were to embargo these Soviet goods it is difficult to see where they could be sent. It was this consideration that led the German Government to refuse to take any more than $75,000,000 worth of new orders from the Soviet a few months ago, though Moscow offered to buy $125,000,000 worth over and above the normal year's purchases.

The reduction by one-third or even by one-fourth or fifth of the Soviet Union's exports, especially if it came suddenly, would impose a serious strain upon Moscow's ability to meet her obligations. Informed opinion in conservative banking circles believes that Moscow would meet her obligations anyway, even if she had to sell the treasures of the Hermitage and dump the crown jewels of Nicholas in one glittering $100,000,000 heap on the Amsterdam diamond market. For Soviet credit is an imperative condition for the fulfillment of the Five-Year Plan. But the risk, nevertheless, of credits to the Soviet Union, whatever that risk may normally be, would indubitably be increased by a British embargo and it was apprehension of a British embargo on Soviet goods that more than anything else kept Germany from taking that extra $50,000,000 of orders badly as she wanted them.

To what degree that apprehension was justified is one of the most important points to be established in this entire investigation of Russo-European relations. Moscow itself is puzzled. Moscow believes that profits come before patriotism in every capitalist country. But Moscow has trouble judging when politics come before profit. And Moscow is quite confused when pity and passion join politics in obscuring the otherwise matter of fact view that greed rules the world.

On this puzzle the House of Commons debate shed much light. And had it not been the least instructive, its entertainment value remained high.

Said Mr. Haycock, Labor, "Russia is the most wonderful country in the world."

Said Commander Locker-Lampson, Conservative, "Lenin was a German agent and today Russian rubles would be found in the pockets of Mr. Gandhi, if he wore breeches like the rest of us."

Said Sir Rennell Rodd, Conservative, "A former colleague of mine who at one time represented in Russia a foreign Government told me of a discovery which he made in his own bedroom at the Embassy, of a microphone fixed into the wall behind the curtains of his bed which would enable any observations he might make to his wife to be transmitted at once to headquarters."

Said Mr. Haycock, "Scotland Yard forged a copy of Pravda to mislead British workers."

Said Mr. Churchill, "I see that a gentleman named Menjinsky, chief of the GPU. has said 'as long as there are idiots to take our signature seriously and to put their trust in it we must promise everything that is being asked and as much as one likes, if we can only get something tangible in exchange.' "

Mr. Churchill cited no source. Nobody cited any sources save Mr. MacDonald. The Prime Minister, replying to Sir Austen Chamberlain's plea for breaking relations merely cited Sir Austen Chamberlain, who in June 25, 1926, when he was Foreign Minister and when the members of his own party were urging him to break with Russia, had said: "It would create division where we seek union and would in its echoes abroad increase the uncertainty, increase the fears, increase the instability of European conditions, which it is and ought to be our chief object to remove." This, declared MacDonald, is precisely the view of the Labor Government today. But MacDonald went further, and, with singular frankness, took up the challenge to discuss "The Red Menace" in realistic terms. "Germany is closer to the danger, closer to propaganda, has suffered far more, not merely in words thrown at her but in deeds done within Germany. If there was any uprising, any trouble, Germany would be in trouble, would be involved and whirling in the maelstrom long before we either at home or abroad would be involved, and yet Germany today retains diplomatic relations with Moscow."

This statement deserves more than casual attention for the light it throws on two remarkable characteristics of Europe's attitude toward the Soviet Union: First, the matter-of-fact assumption that "trouble" from the Soviet Union, "whirling in the maelstrom," may be admitted to the realm of possibilities, may even be publicly and officially mentioned by the Prime Minister of a Government maintaining correct relations with Moscow, and, second, the comfortable assurance on the part of all that Germany will receive that impact first.

Finally, however, out of the fog emerged the real substance of the debate. Sir Austen had intended to attack MacDonald on the charge that the Soviets had violated their promise not to spread propaganda, had incited to rebellion in India. Curiously enough, he had completely omitted to specify the indictment, an omission that a colleague later made good with quotations from a Communist International circular on the new program of the Indian Communist Party. But at the end of his speech Sir Austen did remember the one concrete charge, "the Government have never succeeded with their diplomatic relations in securing as much trade as America has constantly had without diplomatic relations."

On this key the debate continued. "We all wish," retorted the Prime Minister, "that trade returns from Russia were better, but when the trade agreement was abrogated and denounced in 1927 what happened? Trade went down. When relations were resumed trade began to go up, and it is very extraordinary that in the first three months of 1930 the exports of British products to Russia were £1,000,000 sterling and in the first three months of 1931 they were £1,500,000 sterling."

This did not satisfy Mr. Churchill, but in his dissatisfaction he too revealed that not the existence of trade with the Soviet Union but lack of more trade with the Soviet Union was what rankled. "You," he exclaimed to the Prime Minister, "are responsible for the lamentable failure to trade between the two countries. The United States have done far more trade and more profitable trade. They have sold a much larger quantity of goods."

If any further statement of the Conservative position were required Commander Locker-Lampson, he who believed that Lenin was paid by the Germans and Gandhi by the Bolsheviks, provided it when in the same address he summed up with, "there is no one on this side of the house who is against trade with Russia. We signed the trade agreement of 1921 and voted for it. We would vote again for agreements that would facilitate and encourage trade with that great country. We are ready to trade with Mormons or with anybody else who is ready to pay."

Back on this familiar ground the Under Secretary of State of Foreign Affairs, Mr. Dalton, struck the note that harmonizes not only the conflicting parties in the House no matter how they vote but that represents as well the feeling of the entire Continent of Europe. It is the one sentiment common to Italians, Frenchmen, Belgians, the Dutch, the Germans, the British. "We shall be gravely disappointed," he asserted, "unless in the near future we get a considerable increase of orders from the Soviet Union."

The vote was taken. Two hundred and twenty-three who said they believed that more Soviet orders could be gotten by breaking off diplomatic relations voted against the Government. Two hundred and forty-three who believed that more Soviet orders could be gotten by maintaining diplomatic relations voted with the Government. The Government was saved. Soviet trade had never been in danger.

This matter of stating the result of the vote is open to one objection. It is certainly true that many of the Conservatives, who today argue somewhat speciously perhaps and perhaps without meaning it that more trade would follow from a break in diplomatic relations because America had enjoyed more trade without diplomatic relations, would not have troubled about trade at all in more prosperous times. There was a time when Winston Churchill and his fellow extremists were in principle and in practice against all relations with the Soviet Union whether profitable or unprofitable.

But the world economic crisis has had this curious double-edged effect on the Soviet Union in its relations to the outside world. On the one hand the fall in commodity prices has had a most injurious effect upon the Soviet's economic plans. On the other hand that same crisis has made virtually the entire world of bourgeois business men and politicians much more sensitive to opportunities for trade with the Soviet Union. In the present state of the economic affairs of Great Britain no party could afford to take a stand that would exclude chances of trade, not even with "Forces of Evil Incorporated" as many Conservatives believe the Soviets to be.

Despite this acknowledged fact, however, there are individuals and individual organizations whose principle remains "better bankruptcy than barter with the devil." There for example is Commander Carlyon Bellairs of the Conservatives, who has organized "The Trade Defense Union" to fight for a common front against the "Soviet slave war" and who together with the "American Coalition of Patriotic Societies" is laboring for a complete embargo on Russian trade.

The fact that the Soviet factory worker considers himself not merely no slave but the master of his country, the fact that the proletariat of Russia thoroughly approves the expropriation and exile to timber camps of "kulaks," the fact that the Five-Year Plan is being pushed to completion as much by zealotry as by terror and more by piecework and premiums than by disciplinary measures—these facts do not prevent the Trade Defense Union from declaring in its pamphlets that "Russia has been transformed into a vast slave state with an enslaved population of 160,000,000. Working with slave labor in shifts day and night for 360 days out of 365, they gain on us one year in every five. It is a question of fighting for the life of free labor in civilized countries against the greatest menace the world has ever known, namely, the slave labor of 160,000,000 people, increasing by 3,650,000 a year, harnessed to the most modern mass production machinery."

The Trade Defense Union believes the Five-Year Plan will succeed but cannot conceive that it can succeed except by the use of slave labor. Commander Bellairs is not interested in maintaining trade with the Soviet Union, but his arguments against it are by no means widely accepted in Britain, even among those not personally acquainted with the inaccuracy of the statements concerning the 160,000,000 Russian slaves.

There too is the "Christian Protest Movement" under Prebendary Gough, counterpole of the Moscow "League of the Godless," to arouse the conscience of the Christian world against the Soviet persecution of the church. "The Christian Protest Movement" also has no interest in maintaining trade with the godless.

There are the "Young Britons" and the "British Fascists Ltd." who have furnished Aldous Huxley with rich material for satire. There is the "Economic League" that supplies speakers with notes for diatribes on dumping. It has no objection to British exports to the Soviet Union, but regards Soviet exports to Great Britain as an unqualified catastrophe. Finally, there is the "Anti-slavery and Aborigines Protection Society" that exposed to the world the slave barracks of the Belgian King Leopold's Putamayo rubber plantations and by that exposure put an end to the system, and that intends to do the same for the timber camps of Russia. It intends, in the words of an authority who certainly should know its intentions "to awaken the conscience of the Soviet authorities, to bring the moral pressure of the world to bear to enforce reforms."

Some persons in Britain today recall the days of Gladstone and his nation wide, successful campaign against the Turkish atrocities in Bulgaria. But a city banker analysing the prospects in Russo-Britain relations said to me, "if the Soviets would only put a few more orders in this country the chances of a break in relations would be materially diminished."

CHAPTER XIII

London:

England alone of all the countries in Europe so far visited on this trip of investigation is genuinely excited about "The Red Trade Menace" and the fight against it, though at times partaking of the nature of shadow boxing, is at the forefront of public consciousness.

Organs of the Conservative press attend to this. From their columns the Red threat glowers daily. Hardly a pound of Russian goods can cross a grocery counter without the finger of Tory reproach pointing at the purchaser. Every boatload of Soviet wares that touches British land is welcomed with headlines, "Red Russia's Ruthless Trade War," "Moscow's Shock' Dumping," "Grave Peril." The "Alexy Rykoff," a Soviet ship, put in at Hays Wharf and the correspondent of the most violently anti-Soviet newspaper in England, visiting her, reports in an aggrieved half column, "Cold Reception," "No one to Greet Us."

It is precisely this phase of "Fighting the Red Trade Menace" that may be described as partaking of the nature of shadow boxing. For under the influence of political expediency this phase of the contest is carried out with so little regard for proportion and so little reference to reality that proponents of Soviet trade are able to counter it with simple and effective arguments.

In one breath the anti-Soviet Party announces that the Soviet Government is bankrupt and that it is purchasing vast amounts of war material. In another breath it declares the Five-Year Plan an utter failure and that it will overwhelm the British market with manufactured goods.

The arrival of two shiploads of Soviet butter evoked a panic in the Tory press that could hardly have been exceeded if ships loaded with dynamite had arrived. It was days before representatives of the British Butter Trade managed to point out that whereas Russia before the war was the second largest exporter of butter in the world, she is now the sixth, and whereas she exported in 1930 about 10,000 tons, and that England last year took but one-fiftieth of her butter imports from Russia, and that when all was said and done the menace to British dairy farmers was from Danish, and not Russian, butter.

Quieter, but no less bitterly, goes on the fight over trade returns as they come in from month to month. In this fight there have developed two whole schools of foreign trade students, who in their zeal to prove different points from the same figures resemble theologians expounding Scripture or Bolsheviks disputing paragraphs from the works of Lenin.

The chief concern of one school is to prove that trade with the Soviet Union is a delusion and a snare and more particularly that the resumption of diplomatic relations in November, 1929 and the signing of a temporary commercial agreement in April, 1930, were followed by a decrease in Soviet orders to Britain. Furthermore, to prove America has enjoyed more profit from Soviet trade without diplomatic recognition than Britain has enjoyed with full relations.

The chief concern of the other school is to prove the opposite. Both use the same exegetical methods, both quote chapter and verse.

The anti-Soviet party cites with satisfaction the figures of the British Customs House showing that in the first quarter of 1931 the Soviet Union sold Britain goods to the value of 6,433,886 pounds sterling and bought from Britain only to the value of 1,425,113 pounds. This passivity of balance they exclaim is ruinous.

Was it ruinous, retort Soviet friends, when in 1913 Britain bought from imperial Russia 40,270,539 pounds worth of goods and sold to imperial Russia only 18,102,683 pounds? And, anyway, point out Soviet sympathizers, Britain is selling more and more to the Soviet Union, for in the first quarter of 1929

British sales to Russia were 729,344 pounds sterling; in the first quarter of 1930 they were 1,127,258 pounds and in the first quarter of 1931, 1,425,113 pounds.

Undismayed, the anti-Soviet party calls in a pundit, former employee of the Soviet trade delegation in London, one of the "new emigration" of those who, having been ordered to return to Moscow, find it expedient often for perfectly sound reasons having to do with their health to refuse to go.

This authority discovers and announces in "The Statist" of London that in the six months from October, 1929, to March, 1930, after the resumption of diplomatic relations, but before the signing of the temporary trade agreement, Soviet purchases in England amounted to only 6,308,853 pounds, obvious proof that trade agreements ruin trade.

But the pundit meets his equal when the editor of the "Bank for Russian Trade Review" swears on his oath that the total value of Soviet purchases from Britain in the whole year, October, 1929, to September, 1930, amounted to £15,400,000 sterling, compared to £9,346,322 worth of Russian purchases in the year from October, 1928, to September, 1929. Obvious proof that trade agreements help trade.

The latest communiqué from this battle of statistics gives voice to the émigré authority broadcasting that "according to absolutely reliable private information" Soviet purchases for the half-year, October, 1930, to March, 1931, amount to no more than £5,000,000 sterling, compared to £6,308,853 sterling of purchases in the six months, April, 1930, to September, 1931.

Speedier foreign trade tabulations would enable the two schools to carry on their comparisons from day to day with twenty-four hour reports on the last shilling's worth of business done. In the present temper of the British business world the tabulations would find readers. For others, however, this phenomenon is chiefly significant as proof of the intense interest British business takes today in every chance to turn a penny, as proof of the predominant importance given to the trade aspect of British relations with the Soviet Union, and as confirmation of the city banker's remark that a few more Soviet orders in this country would change the complexion of British feelings toward "the Red Trade Menace."

Meanwhile, behind the political racket and behind the hairsplitting over trade returns there is going on a much more significant effort in serious business circles to find a solution for the problem of commercial relationships between the Soviet Union and the non-Soviet world. These circles have already to a large extent defined their field of action. The best informed among them have ruled out international political action as hopeless in the present condition of

Europe. Even if the apparently impossible should occur and Briand's scheme for the United States of Europe were effectuated on the Continent, it is doubtful if Britain would join it, not even to combat the Soviet Union.

These earnest business circles have ruled out to all practical intents and purposes the hope of international private commercial action except on the part of these great firms whose international connections already give them a dominant position in more than one country. For when the International Chamber of Commerce held its last congress in Washington it had been planned to put "Soviet dumping" in a prominent place on the list of topics for debate. But the German and Italian delegates announced they would be compelled publicly to oppose measures against unrestricted trade with the Soviet Union. Since unanimity was required to pass a resolution, it was agreed that rather than risk public defeat it would be better to leave the subject untouched. So the International Chamber of Commerce delegates went home without a word having been officially uttered on one of the topics uppermost in their minds. These British business men, however, have ruled in first of all careful inquiry into the actual status of "the Red Trade Menace" as it affects British trade. The Association of British Chambers of Commerce, meeting in April last, accepted the following resolution proposed by Sir John Sandeman Allen, M. P. of Liverpool:

"That the executive council be requested to study the effect on the trade and industries of this country through exports from Russia to the United Kingdom and its important world markets, especially of manufactured goods which are steadily increasing as the Five-Year Plan develops and the offering of such goods for sale at prices which bear no relation to the true cost of production calculated on a regular commercial basis and to consider what, if any, steps can be taken in this country by the Government or the business world jointly or separately to counteract this entirely new method of marketing, which manifestly constitutes an organized and serious attack on the commercial system of the whole world."

It will be noted that the emphasis is on "the method of marketing" and on manufactured goods. It is conceivable that the investigation now under way may result in the discovery that Russian exports at this stage are no menace to a predominantly industrial population, heavy consumers of agricultural imports. Or it may be discovered they are a menace, but there is nothing to be done about it. In either case, no public report may be anticipated. It now seems probable, however, that the association may report that Russo-British trade relations are unsatisfactory and that something must be done about it. In any case, Sir

John's formulation of the question has the unique merit of having isolated the practical problem for the bourgeois world of disunited, disharmonious, competitive, conflicting business interests to reflect upon, namely, how to meet "the methods of marketing" of the world's largest industrial and commercial trust, uniting the resources of one-seventh of the earth's land surface under the harmonious, purposeful control of its board of directors, the leaders of the Communist Party of Russia.

Already several adumbrations of solutions have been proposed as a result of the Association's preliminary investigations. The first and most important is sponsored by the London Chamber of Commerce, though it must in advance be emphasized that nothing has yet been arrived at definite enough to present as the official opinion of that body.

The scheme the London business circles now are considering, however, is sufficiently developed to be usefully discussed. It resembles in principle that of Caillaux and Berenger in France, but without the French complication of the desire to compensate owners of the czarist Russian bonds.

The scheme has the double interlocking purpose: By control over Russian exports to Britain to exercise a check on the sale here at low prices of products competing with British products and possibly also with Empire products, and through this control over

Russian exports to exercise a coercive stimulation of Soviet purchases from Britain. In other words, in the last analysis, to force the Soviet to buy more in Britain.

It is proposed that either by voluntary consent of all British firms buying from or selling to the Soviet Union or by act of Parliament or by an Order in Council all purchases from the Soviet Union should be required to be made through a "Clearing House for Soviet Trade," or whatever it might be called. The voluntary consent of British sellers to the Soviet Union might be obtained for such an arrangement, for it is proposed that the money due to the Soviet Union from British purchasers of Soviet goods should not be turned over directly to the Soviet trade representative, but should be turned into a fund out of which British sellers to the Soviet Union should be paid. All transactions should be in cash. To carry out the intention of such a scheme to balance the British trade with the Soviet Union it is proposed that the Soviet trade representative should be allowed to receive for his sales to Great Britain only as much as the value of his purchases. Since the British industrialists who now grant credit to the Soviet Union averaging twelve months would under this scheme receive cash instead, there could be no doubt that other things being equal they would require no legal compulsion to enter under such an agreement.

What the attitude would be of British consumers and of merchants now purchasing consumption goods from the Soviet Union is open to much more serious doubt. Particularly is this true of British coöperative societies who, numbering several millions of members, serve every corner of the British Isles, have always maintained cordial relations with the Soviet coöperatives and are in fact the mainstay of the Soviets in England. Their negative attitude to such a scheme could be forecast with almost complete certainty. But the attitude of the Soviet Union to such a scheme is open to no doubt at all.

In this as in every case of an attempt on the part of the capitalist world or of any single capitalist nation to unite its economic forces against the united economic forces of the Soviet Union, the Soviet retort, it may without fear of contradiction be said, would be unqualified defiance. Immediate cessation of all Soviet orders to British firms might be anticipated. Yet in this case the advantage might not so clearly be on the side of the Soviet Union and the outcome not easy to foresee. For the fact that the Soviet Union sends nearly one-third of its exports to Great Britain, the fact that the rest of the world is already nearly saturated with Soviet products, the fact that the present juncture of affairs in the Five-Year Plan makes any recession in the returns from Soviet exports a grave hazard to Soviet solvency—

all these facts would insure that such a trade war would be most bitter, most decisive, fraught with destiny for the relationships not only of Britain with the Soviet Union, but of the Soviet Union with the non-Soviet world.

The trial of such a scheme in France would almost certainly be futile, for the Soviet Union could afford to cease entirely its almost insignificant exports to France and feel, but not too painfully, the loss. But the Soviet Union could not be indifferent to the loss of the exports to Britain.

The outcome of such a Russo-British trade war would depend in the degree to which British authorities, commercial or Governmental, could unite the nation behind the effort, would depend, on the other hand, on the degree to which the Soviet Union would be willing to sacrifice swift completion of the Five-Year Plan for a very important fighting principle. French experience with their license system on Soviet exports has shown that for such a trial of strength it would be essential to answer Soviet cancellation of orders by a complete embargo on Soviet exports into Britain. Otherwise, as in France, the consumer interests would continue to buy from the Soviet Union and the net result would be a further worsening of the British-Russian trade balance.

With such an embargo, the British could settle down and wait to see which could hold out longer, the

Soviet Union with its desperate necessity to maintain its exports at the planned level, or British manufacturers with their desperate need to keep their factories going, flanked by British consumers with their keen desire to buy as cheaply as possible. One could guess what the public reaction might be in Britain to the loss of the Soviet's $40,000,000 to $50,000,000 worth of orders. The closure perhaps of a few factories more, short time in others and the increase if even by a few thousands of unemployed. One could reckon the effect upon other nations' markets of the sudden diversion to other countries of even part of the $170,000,000 worth of goods that the Soviet Union annually sells Great Britain, diverted in this emergency with the imperative direction, "sell at any price."

After Belgium's experience one would anticipate the brisk business that would spring up on the Continent in the transfer of Soviet cargoes of staple commodities into neutral bottoms to be introduced into Britain under false certificates of origin. In short, one could foresee that such a scheme might prove a notable contribution to the world's attempt to redress its economic balance.

Perhaps, of course, the outcome might be different. Perhaps the Soviet Government would give in. But nobody who knows that Government believes they would without fighting. For acceptance by the

Soviets of the British scheme would constitute a precedent almost as dangerous in Soviet eyes as the precedent that would be established should the Soviet Union agree to pay the United States, say, the repudiated deb of $230,000,000 with the Russian debt to France of $1,347,000,000 in the background.

For the British the conjectural fight would be a fight to overcome the enormous commercial advantages possessed by the Soviet Foreign Trade Monopoly, but more than that a fight for more Soviet orders. For the Soviets it would be a fight to retain liberty of action in buying where the Soviet Foreign Trade Monopoly pleases, but more than a fight to check in its beginnings any attempt at capitalist combination against the Soviet Union.

The prospect of such a trial of strength is fascinating if not comfortable. In any case it could hardly be attempted under the present British Government, for though it is conceivable that the Labor Party would look with complacency on a scheme to balance trade with the Soviet Union it could never be induced to use the weapon of embargo to make the Soviet Union accept such a scheme. The Tories might and that is why Moscow and a good many other capitals no less are restless at the thought of MacDonald's fall.

CHAPTER XIV

London:

Whatever difficulties the Soviet Union is facing, whatever checks it has suffered in the past, is suffering in the present, may suffer in the future, its huge mercantiling trust, the Monopoly of Foreign Trade, continues today to pour out upon the world a quantity of goods unprecedented in the history of the Soviet Union, steadily mounting from month to month.

Released by spring from the ice that bound the northern shores of Russia, the whole battery of Soviet ports from Archangel and Murmansk to Odessa and Vladivostock has begun to discharge a steady stream of ships pointing for nearly every harbor of importance on the globe.

The volume of the flow is difficult to estimate. Months pass before the customs returns of import countries can be compiled, and even were they interested in accelerating public acquaintance with the export figures Soviet authorities could issue their statistics only after a comparatively long lapse of time.

Yet the outside world now is concerned in knowing those figures today more than ever, when Russia is at the forefront of discussion and merchants, bankers, wheat farmers, lumber dealers, Governments are wondering what will be the export total of the Soviet Union. The answer is: it is going up, steadily up.

There is one spot where Soviet exports can be accurately measured months in advance of customs statistics. That spot is the one that imperial Russia coveted more than any other spot on earth, so keenly that she fought a bloody war for it and lost and helped precipitate the last great conflict in the hope of its possession. The place is Istanbul, one time Constantinople, and there, far ahead of Soviet information, can be weighed, ton for ton, the Soviet exports that come from out the Black Sea. Istanbul knows first the symptoms of Soviet foreign trade development, can tell today what Europe finds out later, will be first to note that check in Soviet exports some observers have predicted must be the consequence of overstraining the Russian population. But Istanbul reports no such check today.

While the latest Soviet bulletins have just announced that the first two months of 1931 showed an increase of 556,000 tons of Soviet exports over the first two months of 1930, Istanbul reports already that Black Sea ports of Soviet Russia alone poured out in the first four months of this year 801,193 more tons of goods than in the same period the year before.

There have still to come the heavy export months when the new crop upon which the Soviet Union builds such hopes and wheat farmers of non-Soviet countries build such fears will be hastened to market. The Soviet spokesman at the London wheat conference, I. E. Lubimoff, announced that in wheat alone the Soviet Union expects a crop of 1,314,000,000 bushels, 252,000,000 bushels more than last year. Such a surplus would exceed by twice the total Soviet exports for the season year 1930–31, the year when Russia exported more than one-tenth of all the wheat exported in the world.

It is not necessary to presume that the Soviet Union will export all its anticipated surplus to realize that Soviet wheat exports in the season year 1931–32 may leap far ahead of pre-war Russian exports, may "overtake and outstrip" those of Canada and of the United States if the crop is as good as Lubimoff expects it to be.

Soviet wheat exported in the season year 1930–1931 by August will amount to around 125,000,000 bushels, Lubimoff said. If the crop this year were no bigger than last year's crop, the Soviet Union could export at least 125,000,000 bushels again. The Soviet Union's total wheat crop last year, according to Lubimoff, was 1,044,000,000 bushels. He said that consumption within the country amounted to 842,400,000 bushels. This would indicate that after 125,000,000 bushels had been exported, there still remained in Russia a reserve of about 80,000,000 bushels. Granted the accuracy of these figures and that the reserve to be held in the coming season will not exceed that held last season, the Soviet Union will have available for export this season 377,000,000 bushels—last year's export of 125,000,000 plus the anticipated increase of 252,000,000 in the coming crop.

Soviet authorities, of course, will not affirm that they intend to export it all. But it occurs to any one who was in the Soviet Union during the current season year to ask why not? Everybody in the Soviet Union had all the bread he could eat. Russians eat more rye than wheat bread, but last year the average consumption of wheat was 300 pounds per person. If 3,500,000 persons are added to the population at Russia's normal rate of annual increase, there should be consumed next year 17,500,000 more than last year, reducing the amount available for exports to a round 360,000,000 bushels, about 60,000,000 bushels more than Canada's average export for the years 1927–1930 and about 160,000,000 bushels more than America's average export for these years, and more than twice the average export of Imperial Russia in pre-war years when she was the greatest wheat exporter in the world, the granary of Europe. In the face of this prospect, one begins to understand why the Soviet trade representative in Rotterdam wanted space in Europe's largest grain elevator. It is a prospect no less interesting to wheat farmers of America and Canada than to students of the course of Soviet economic expansion who remember the prophecy made not only by the outside world but by many Communists that the Soviet's collectivization of farms was premature and doomed to failure.

Just now it is only a prospect, yet Istanbul has furnished some significant figures that may help to estimate its chances of being realized. These figures are worth recording as a possible indication of the Soviet authorities' private opinion of the size of their coming wheat crop.

One of the criteria of this private opinion of Soviets is how much they dare to export of their reserve stores of wheat from the 1930–31 crop. Istanbul's record of ship cargoes passing through the Dardanelles shows that in the first four months of 1931 the Soviets have exported from Black Sea ports alone nearly 18,000,000 bushels of wheat, compared with 4,000,000 in the first four months of 1930. The extent of this early Spring export is taken by the trade as an indication that the Soviet authorities are genuinely confident of the size of their this year's crop and therefore grain merchants on this continent are preparing for an even larger flood of Soviet wheat exports than that which last year was the sensation of the world market. Nature, of course, may run a blue pencil through the Soviet's calculations, but those whose business it is to look ahead on world commodity markets are this time taking Soviet announcements about their wheat program seriously.

Wheat is a subject that has the world's attention just now, but all other exports of the Soviet Union recorded in Istanbul are worthy of attention. The total exports passing through the Dardanelles amounted in the first four months of 1931 to 3,595,-438 tons, compared to 2,794, 245 tons in the same period in 1930, an increase of nearly 30 per cent. In the month of April alone total cereal exports from Black Sea ports almost doubled, 132,000 tons, compared to 740,000 last year: petroleum products went from 389,000 to 408,000 tons, minerals from 195,-000 to 244,000 tons and so on,—the only diminution being registered in timber, and that a very slight decrease, from 15,500 to 15,110 tons.

This sort of increase of exports taking place on an over-saturated market, an increase that as every indication shows may sharply accelerate when the new crop begins to move, appears to competitors of the Soviets to be not merely uneconomic but maliciously uneconomic.

It certainly is uneconomic from almost any viewpoint save the highly special viewpoint of the Five-Year Plan, but that it is malicious at the present juncture of Soviet affairs or that it is deliberately intended to break the market is not borne out by the latest returns on Soviet foreign trade.

These returns show even more clearly than had previously been brought out that in order to keep up the planned level of returns from exports, the Soviet Union had to increase its quantity of exports immensely above that which had been planned, and this feature of Soviet foreign trade cannot be overemphasized as the duration of the world economic crisis bids fair to make it one of the decisive elements in the success or failure of the Five-Year Plan. To be specific, according to figures given in "The Statist" of London, in the year 1930–31, the quantity of grain exported by the Soviets increased nearly twenty-three times over that exported in 1929–30, and the value only seven times; the quantity of timber exported increased by 53 per cent and the value by 30 per cent; exports of oil products increased by 25 per cent and value by 17 per cent and so on.

Nevertheless, however free from immediate political intentions the management of the Soviet Monopoly for Foreign Trade may or may not be the fact of exports remains and their effect upon the exports of competing lands remains, and no matter how one may analyze the motives of the Soviet authorities, the sufferers abroad from Soviet competition continue to suffer. It must by now have become a platitude to anyone watching the effects of Soviet exports upon the outside world to observe that the interest hit by cheap Soviet goods are almost never in that land that is importing those goods, but nearly always in other countries supplying the importing lands. Soviet competition, in other words, seldom strikes directly but strikes through each country's export markets.

It may seem to be laboring an obvious point to dwell on this, but one constantly meets persons who exclaim, "Well, if the Soviet Union keeps on dumping this way it is bound to force the world to get together and protect itself." It is not bound to do so at all, for the countries unfavorably affected by Soviet exports are affected not at home where they could put up bars, but abroad in some other country where for the most part the consumers are glad to receive Soviet goods at prices beneath those of the complaining exporters from the injured nations.

The only suggestion yet advanced for international action against the Soviet exports that has taken this fundamental factor into account was that of the Argentine delegate to the Rome wheat conference, who in the extremity of distress caused by the Soviet's deep inroads into the Argentines wheat markets, proposed that the nations of the world should agree among themselves to cancel trade treaties with any country that accepted Soviet exports. His suggestion was ignored.

If the Soviet Union exported wheat to the Argentine and Canada, or petroleum to Venezuela or Texas at prices undercutting local production, it can be ventured that all the centrifugal forces of the non-Soviet world could not have prevented unanimous international bars to Soviet trade. But who for example are feeling most the pressure of Soviet competition in England? Not the British, though the Tory press has had partial success in convincing some of the public that this is so. It is the Americans, Canadians, Argentinians, Scandinavians, once again the producers of great staples, that are hit here.

The Association of British Chambers of Commerce in its investigation of the effects of Soviet exports upon British economy has recognized this point at once and in their preliminary researches have wasted little attention on what to do about Soviet imports into Britain that compete, not with British, but with other foreign producers and have concentrated attention upon the one fear of this predominantly manufacturing country, namely that the Soviet Union industrialized may become a serious competitor in manufactured articles. Already members of the association have compiled a list that at first glance seems imposing of articles of Soviet manufacture that have become or, threaten to become, competitive with British products.

Heading it is anthracite coal, not of course a manufactured article but so important to Britain that the association's investigators were moved to include it and to note that "Russia has always been more or less a normal supplier of certain Mediterranean markets, but in recent times has displaced us in Italy and in the last year had made a determined attack at very low prices in the American and Canadian markets and more recently sent consignments into France, Belgium and Germany." This statement, though it does not coincide with Italian foreign trade statistics showing Britain still supplying about two-thirds of Italy's imports of anthracite and Germany nearly a third, with the Soviet Union just beginning to enter the market, is nevertheless a striking illustration of the sensitiveness of the British business world to any threat to her coal industry, one of the keynotes of the British economic system.

Hackled flax, it is recorded, is sent by the Soviets to Britain at a price about $60 per ton less than the price at which the raw material can be obtained and hackled here, with the result, it is alleged, that many hackling machines here have suspended operations.

In the fur trade, it is observed, Russia exported some lines of dressed pelts before the war, but the

Soviet Union now has greatly extended this business and is also exporting dyed furs and these, it is alleged, are sold at prices considerably below what the British have to pay for the raw article. The British glucose industry, say the association's investigators, has been built up over a number of years against American competition, and now that it has about won its footing against the Americans, it has to face the Russian imports at $15 to $25 below the normal price of $100 per ton.

Cornstarch, note the reporters, now is coming into Britain from the Soviet Union at prices greatly below the cost of production here. The amount imported has been comparatively small, but contracts for very large amounts are said to have been arranged.

More than 3,000 tons per year of Russian glues are being shipped into Britain, say the investigators, at prices alleged to be about one-third the cost of production here.

A really important Soviet manufactured export is ready-made wooden doors, and the investigators report about 600,000 will be imported this year, approximately the quantity usually imported from Sweden and at a price alleged to be 25 to 30 per cent below normal. Soap, it is said, is coming in from the Soviet Union where, be it noted, it has been for nearly two years on the deficit list. Over 500 tons of

Russian candy have been imported into Britain recently at prices reported ranging around $251 a ton, compared with British prices of $360 a ton.

A considerable quantity of malt extract recently has been offered by the Soviet trade representative, according to the reporters, at a price of $65 per ton, or about one-half the British production price. Fruit pulp, pit props, rubber goods, asbestos are mentioned as Soviet products that are beginning to make progress in British markets, while of Soviet matches it is remarked that "export of these at cut prices is greatly increasing."

The list is long and varied, but it will at once strike the reader that in it is contained not a single article except anthracite coal that plays a decisive role in British economics. The only Soviet manufactured articles that might conceivably have become a serious competitor to a genuinely important British industry in Britain itself were textiles. In Britain textiles and coal lead big business, and were textile and coal operators genuinely alarmed, their influence might be sufficient to introduce serious checks to Soviet trade. By this may be judged the disappointment of the more radical in the Anti-Soviet Party when the announcement was made that the Soviet trade representative in Britain had promised the Manchester Chamber of Commerce that the Soviet Union would export no textiles either to

Britain or to the Empire. With this gesture the Soviets offered a truce to one of the most powerful sets of business interests in England. As will be seen later, some of these interests have even developed an active desire to see at least one category of Soviet exports that competes chiefly with American wares increase.

CHAPTER XV

Manchester:

This textile center of the British Empire that on Sundays has a population of 700,000 and on week-days a population of double that number, this historical home of Liberalism and piety with the statue of a bishop on its central square, is receiving a lesson in methods of Soviet trade. It is paying careful attention, for the chimneys that smoked for decades over some of Manchester's factories are smokeless today and the town's elders declare that times have not been so moldy since memory of man runneth not to the contrary.

Manchester's instructor is Saul G. Bron, one-time head of Amtorg, today chief of Arcos, the British corporation acting for the Soviet trade delegation. Manchester likes its teacher personally but has not yet been able fully to comprehend the course of study. This course is not yet ended and no one is able to forecast what its conclusion will be, but for the rest of the world perhaps it is worth passing on as far as it has proceeded to date.

Bron, be it said, has accomplished a job reminding one that the Soviet foreign trade monopoly not only has all the well-known advantages of a trust but disposes over diplomatic talent of a high order. His task was to take over an organization "Arcos," that had been literally dynamited out of existence by British authorities in the famous raid that led to the break in diplomatic relations in 1927 and as that organization's head to regain the confidence of the British trading public.

Plainly, no easy assignment, but Bron, the target today of innumerable attacks in the Conservative press, has achieved something when a Manchester business man says of him as he did to me, "He made a good impression, an honest man; a capable fellow who puts his case well."

Just the same Manchester is puzzled and its puzzlement mirrors in fine the uncertainty and even the bewilderment of the trade and industrial world of Europe in the face of this strange new phenomenon—the Bolshevik in business. More than that, Manchester is today a perfect example of a divided personality, of that sort of neurosis that occurs among Bourgeois business groups when brought in commercial contact with the Soviet, in contact with its lure and with its threat. For Manchester is the home of men who make machines that make cloth, and the Soviet Union is buying these machines and pleasing thus their makers, while the cloth that the Soviet Union is making and will make from these machines is to Manchester textile manufacturers an extremely displeasing addition to the world's oversupply of that commodity. So Manchester is torn between satisfaction over the present profit of its textile machine manufacturers and dissatisfaction over the few slight present losses and expected larger future losses of its cloth manufacturers from Soviet competition.

The city has been trying to make up its mind what it thinks. To help the process, it invited Bron to address the Chamber of Commerce shortly after his arrival in England. He came. The hall was crowded as seldom before. For this was the first session the Manchester Chamber of Commerce had devoted to Russia since before the war, when Lancashire did a rushing business with the great Eastern empire.

Herbert W. Lee, president of the Chamber, cordially welcomed Bron with the statement that Manchester was now of the opinion that, "the possibilities of safe and profitable trade with Russia are rather better than formerly," and that "if Russia places large orders, if she keeps to the spirit as well as the letter of her contract, what more do we need as business men?"

Then diplomatically but in clear enough language, Mr. Lee asked Mr. Bron to tell the Chamber two things: first, was Russia going to buy much textile machinery; second, was she going to sell much textiles, and, if so, where? Mr. Bron answered to everybody's satisfaction and made one announcement that sent the Chamber's members home in high spirits.

The Soviet Union, he said, had decided not to sell any more textiles in England. Not only would it not sell any more here, where a few consignments had been shipped in a more or less experimental or desultory way, but it would not sell any in any part of the British Empire. This, he said, was official, authorized by the Soviet Government, "We will," he declared, "abstain from competition with your producers in British colonies and British dominions."

As to textile machinery, he sincerely hoped that the last word had not been said in the Soviet's relations with the textile machinery industry of Lancashire, and as to the Five-Year Plan, Mr. Bron explained in a few words that it was a plan for raising as quickly as possible the standard of living of the Russian people.

After the announcement that the Soviet Union intended to "abstain from competition," at any rate in Britain's own home territory, the textile makers of the Chamber had few thoughts left for the Five-Year Plan and indeed the news was sufficiently significant to have a world-wide echo. At one stroke the Soviet Union had pulled the teeth of one of England's key industries and had stepped out of a field of competition that might have led to really serious economic friction.

A month later the president of the Chamber, having had time to reflect, addressed the Chamber's semiannual meeting and among other things about Russia remarked, "it would obviously be unreasonable for them to expect us to supply them with machinery on long credit terms unless we had some assurance that this machinery would not be used under the cheap conditions under which they are working to take trade away from us in markets on which we depend for keeping our own workers employed. They state that they have decided to give an undertaking that they will not export textiles to any part of the Empire in competition with our manufacturers. We are willing to believe in Mr. Bron's good faith, but we are not yet convinced that circumstances will permit him to guarantee the full safeguards we should desire." Reserved, the Chamber was still cautiously friendly.

Six months later, having had much more time to reflect, and equipped with somewhat more experience, Mr. Lee in the annual report of the Chamber of Commerce expressed himself as follows: "Mr. Bron made an official statement that Russia would not attempt to sell cotton goods in competition with us in the British market and would abstain from competition with us in British colonies and British dominions. These assurances seemed to the Chamber of considerable value and calculated to encourage among

Lancashire business men a more favorable attitude toward the policy on the part of the British Government of fostering Russian trade and assisting it by credits.

"After the meeting, however, facts were brought to the notice of the Chamber concerning a large contract designed to run for a long period for the sale of Russian textiles in a market within the British Empire at prices much below those obtainable in any other producing country, especially Lancashire.

"Mr. Bron complied with the request from the Chamber to investigate this matter. He found that there was such a contract. He stated that it was made before the policy which he announced had been decided upon. He explained that it was being executed not through his office in London but through another European center and he declared that it arose from an unfortunate but now irretrievable error which would not be repeated."

Mr. Lee went on to say that the board had convinced itself of the good faith of the Russian authorities in promising to abstain from direct sales to Britain and the British Empire, but it had convinced itself likewise that it was impossible to guarantee that no purchaser of Russian cotton goods would seek to resell them in British markets. "Therefore, despite all assurances," said Mr. Lee, "the board are of the opinion that the situation is one which must provoke considerable anxiety and they believe the British Government should seek to promote some stable arrangements to remove all grounds of apprehension possible in concert with other powers." No longer even cautiously friendly, the Chamber now was calling for international action.

Further, Mr. Lee delivered some reflections on the Five-Year Plan: "Russia makes all trade the business of the state and it may suit so gigantic an amalgamation at any given moment to sell at very low prices. Controlling production and wages as well as distribution within its own borders, the Russian state may theoretically feel able so to arrange matters that these prices will not necessarily involve loss on its operations for a whole year or five years. But Russia must realize that such action on her part, whilst apparently of temporary advantage to her, causes such disturbance in the economic situation elsewhere that other countries in the long run will be obliged to protect themselves."

Another month later at the annual meeting of the Chamber in February, 1931 Mr. Lee had dropped diplomatic phraseology entirely and exclaimed: "I want to emphasize as strongly as I can that the granting of further credit facilities to Russia should be made absolutely conditional upon obtaining satisfactory assurances from Russia that the Russians will not jeopardize our trade by selling goods in competition with us at prices which bear no relation to cost of production. Some of my textile machinery friends who are anxious to get more orders from Russia backed by the British Government's credits may take exception to this view, but I think they would be penny wise and pound foolish to go on selling machinery to Russia if the goods which that machinery was used to produce are going to be thrown on markets in which we are interested at a price which will completely disorganize those markets for other supplying countries."

All of which, as one Britisher remarked, is only proof that Manchester wanted to have its cake and eat it too. Sales of textile machinery to Russia continue and when Lancashire textile machinery manufacturers meet Lancashire Textile Manufacturers in the Club the most frequent remark heard is, "Well if we didn't, somebody else would." Nobody blames Bron, particularly since Manchester is beginning to realize now it is a literal fact that there is no way to guarantee enforcement of any such Soviet agreement to abstain from competition, no matter how sincerely the agreement may have been meant.

As a matter of fact, Soviet textile exports actually fell off in the year from October, 1929, to September, 1930. According to Soviet returns, 14,924 tons of textiles were exported in the 1928–1929 period and 14,378 tons in 1929–1930. Nevertheless, Manchester cannot understand why the Soviet Union should export textiles at all at this stage when, as Bron took pains to emphasize, Russian internal consumption of textiles is now only sixteen meters per person per year, that figure representing, however, a great increase over his figure of pre-war consumption of eleven meters per person.

Now when British salesmen in Persia write home that it is useless to send any more samples of Lancashire fabrics to that once good British market, because Persian merchants declare the Russian cotton goods not only are too cheap to resist but are actually of better quality than the British goods, and when east and west Africa and numerous Far Eastern markets report initial signs of the Soviets "muscling in," Manchester's gloom deepens. First it was Japan, that little country that also industrialized itself with foreign engineers and by following foreign example, and that also had been the object of forecasts of inevitable failure. But Japan industrialized herself to such a point that she now has taken a very painful slice from Lancashire's one-time near monopoly of the Far Eastern market. Then it was reconstructed Poland with her Lodz mills. Then came the Indian boycott. And now comes Russia. British exports of cotton piece goods fell from 7,075 million square yards in 1913 to 2,407 million square yards in 1930. Manchester looks at those figures with quite other feelings than those of mild astonishment they may evoke in an outsider.

They help to explain why the bewilderment that is shared by all Manchester is bitter bewilderment on the part of textile manufacturers when they hear the explanation that the Five-Year Plan does not necessarily mean that the new textile machinery is to be used to make textiles just now for the Russian population, but that the new machinery will make cloth to sell abroad to buy more machinery to make more cloth to sell abroad and so on, until Russia has all the textile machinery she can possibly use for home consumption or for export. Manchester's Chamber of Commerce president, even as late as July, 1930 expressed the optimistic sentiment that, "As Russia increases in prosperity, and we hope it may do so rapidly, it ought to be able not only to take our machinery but to have room also for considerable quantities of our textiles." Slowly but finally Manchester is coming to realize that every textile machine sent to Russia means just so many less bolts of cloth that Russia will have to import.

Meanwhile, it may have occurred to some observers to wonder why the Manchester Chamber of Commerce should feel so closely touched by competition that is as yet mostly a threat and especially after a year when Soviet textile exports actually, if slightly, decreased. A partial answer may be found in the report of the British customs authorities that, whereas in the first quarter of 1929, 2,504 tons of textile machinery were shipped to the Soviet Union, in the first quarter of 1930 only 396 tons were shipped. Decreased Soviet orders equal increased British bitterness, appears to be the equation that holds true in Manchester as well as in the rest of England.

CHAPTER XVI

Liverpool:

"Like a cloud the size of a man's hand" Soviet exports creep up on the horizon of world trade. For grain growers all over the world it is a cloud that already covers a considerable portion of the heavens. For American cotton planters it is a cloud that can best be observed from latitude 53 degrees 24 minutes 5 seconds North and longitude 3 degrees 4 minutes 20 seconds West, namely Liverpool.

It may be the general world depression that has caused a major portion of the uneasiness among American cotton agents in this city, but the 163,000 bales of Soviet cotton imported into Britain this year at prices averaging $3 a bale less than the same quality of American cotton certainly did nothing to decrease that uneasiness.

Liverpool itself is unconcerned. Cotton is cotton to Liverpool and commissions on the sale of Soviet cotton are just as high as commissions on the sale of American cotton. In fact, this is another instance where, search as one will, one can find not even a chemical trace of excitement on the part of European nations over the Soviet export of goods competing not with their own but with American products. One hundred and sixty-three thousand bales of cotton is not a very large amount compared to the American sales in Liverpool of 847,000 bales from August to March, especially when one must take into consideration that the Russian bale weighs but 375 pounds against the American bale's 500 pounds. Nevertheless, these 163,000 bales have attracted more attention in Liverpool than all the rest of the 1,575,000 bales of cotton imports in this greatest cotton importing port in the world, and to Americans they came at an unusually inconvenient time when, for the first time in history, sales of non-American growths exceeded total American sales.

Attention on the part of Liverpool in general was coolly professional. The city's experts established that Soviet cotton, known to the trade as "Turkestan," was incomprehensibly "of bread and butter Texas type, but of Memphis character," meaning merely that it was like middling to good middling American with staple up to one and one-eighth inch, whitish, clean and in good condition.

Attention on the part of the Lancashire mills was less cool, ever warm. Under present day conditions here every penny shaved is a penny saved and mill owners are seeking economies as never before. They snapped up the Soviet cotton. None of them advertises nor willingly lets it be known that they are using Soviet cotton, for Bolshevik is still a term of reproach in this part of the world, but nevertheless they bought it. Furthermore, they indicated they would be glad to get more. And when some remark was passed in Liverpool cotton circles as to the advisability of cutting loose from old business friends for the sake of new ones, an anonymous contributor to the Liverpool "Post and Mercury" in a letter to the editor avowed: "Spinners who have found out the merits of this cotton are buying it from Liverpool brokers and merchants in the usual way. There is no reason why there should be a prejudice against this cotton any more than there should be against Peruvian, Argentinian or American."

American cotton men here reluctantly admit the argument and declare that so far they have not been hurt perceptibly but observe with some anxiety that if, as seems quite possible, Soviet cotton comes in during the next years in greater quantities, it is going to meet no hindrance in the Liverpool trade despite all of Britain's grumbling about the Soviets, and that if it continues to be offered at prices averaging 1 point under the American prices it will be bought in preference to the American cotton.

American cotton men would not perhaps have displayed even what little anxiety they do permit to be displayed about Soviet cotton if they were not acquainted with so many grain men in this cotton and grainman's town. It is recalled that only a little while ago the world was convinced that Russia under Soviet rule would be lucky if she could produce enough grain to feed herself. Now, after the Soviet Union shipped to this country alone more wheat, for example, in the last quarter of 1930 than all other wheat exporting countries together with the sole exception of Canada—shipped to Britain in the entire year, cotton men are not so inclined to discount entirely the statements of the president of the Soviet Cotton Syndicate. These prophecies, made more than a year ago, were to the effect that the Soviet Union was going to supply not only all its raw cotton needs previously supplied by America at the rate of several hundred thousand bales yearly, but was going to be in the export field before the end of the Five-Year Plan. Ignored at the time, these statements have now been taken out of the file and reëxamined by Liverpool cotton men. They observed that the president of the Soviet Cotton Syndicate estimated Russia's 1931 crop would be more than double the 1930 crop, or 3,000,000 bales more than last year. They observed that Russia's cotton crop in 1921 was 57,000 bales, in 1930 was 2,500,000. The question of how much she can export in 1931 is one that nobody here will risk answering.

But one significant fact deserves to be recorded. No cotton men, American or otherwise, think the Soviet's export of 163,000 bales is a mere gesture.

Some had been inclined to believe that exports had been made from Turkestan over the Black Sea in order to save the long rail haul to the mills of Central Russia and that these exports would be compensated by imports. But the Soviet Union in the 1930 season bought only 6,000 bales via the British market and in the first four months of 1931 imported none, according to the Liverpool Chamber of Commerce. All her cotton exports came out of Leningrad and Murmansk, still further from Turkestan than the Soviet milling centers. Liverpool trade takes Soviet exports seriously.

They think that the President of the Soviet Cotton Syndicate meant what he said. Liverpool hopes he did. Liverpool is like every great port yet visited on this trip. The more Soviet trade the more harbor fees, the more stevedore wages, the more warehouse rent. These are in the main Liverpool's reflections on the "Red Trade Menace," and if it were not for echoes from the Tory press that occasionally penetrated Liverpool counting rooms, the attitude of this city probably would be no different from that of Rotterdam. As it is, on a rough estimate about 75 per cent of Soviet imports into Britain come through this port and it is all welcome.

Through here came last year most of nearly 3,000,000 loads of wood and timber that made Britain one of the Soviet's best lumber markets. It was one of the best, but nevertheless, it contained seeds of anxiety for the Soviet Union, and the history of the Central Softwood Buying Corporation's famous $36,000,000 contract to buy all Russian softwood imported into Britain this year is the history of a business development not nearly so agreeable to the Soviet Union as it appeared when announced. The size of the contract, the fact the Soviet Union was going to receive such a large sum of money, the fact that Britain took such a large consignment of Soviet timber at a moment when American timber men were complaining most about Soviet competition obscured for the time being the really important feature of that transaction.

For its chief significance was that for the first time in the history of the Soviet Foreign Trade Monopoly, at least for the first time since it became strong enough to stand upright, that Monopoly was beaten by a syndicate of bourgeois business men. It has been the principle of the Soviet Foreign Trade Monopoly not to deal with bourgeois syndicates. There is, of course, no objection to dealing with big firms. The Soviet prefer big firms, since the bigger the firm, usually, the lower the prices for goods the Soviet has to buy and the more prompt the payment on the goods the Soviet has to sell. But the Foreign Trade Monopoly always made a point of having at least two firms bidding against each other.

British lumber men for several years had watched the operations of the Soviet Foreign Trade Monopoly, noted its superiority as an instrument of commerce, agreed among themselves to counter it, and last autumn to Russia's surprise they suddenly presented a united front of firms representing four-fifths of the entire British lumber purchasing capacity. Seven of the largest British firms pledged themselves not to buy a stick of Russian timber separately, but to buy together and not to buy at all unless the Soviets gave their syndicate a monopoly on Russian softwood, and not to buy more than a maximum of 600,000 standards, or 100,000 to 200,000 less than the Russians had expected to export to Britain this year. The price terms they offered were not so bad, but the Soviet trade representatives here were extremely reluctant to enter into a contract to deliver only so much and no more to the British market. And most reluctant were they to permit the precedent of a bourgeois business combine operating successfully against or with the Foreign Trade Monopoly.

The Russians held out as long as they could, used all the arts of trade cajolery on the members of the syndicate to try to pry individual firms loose, but to no avail. Finally, when it become evident that if the Soviets did not deal with the British Softwood Buying Corporation, Soviet sales to the one-fifth of

British lumber buying capacity outside of that corporation would total only a fraction of Soviet planned sales, the Russians succumbed and signed the contract. The Swedes and Finns set up a violent protest and sent a petition to all the members of Parliament because the contract completely excluded them from even a chance at competition, and its effects still are being felt in Scandinavia. Sympathy here, though, with the Scandinavians, is much less than one would expect since the British insist upon recalling that when the war shut Russian timber out of the market Scandinavian wood skyrocketed in price. For those fat years, say the British, the Scandinavians must now suffer a few lean ones.

The future of the Russo-British timber trade, considered apart from possible change in general relations of the two governments, appears certain to this extent that through the unique example of business loyalty, dictated though it is by self interest, British timber dealers will be able to negotiate again with the Foreign Trade Monopoly on even or better than even terms.

In softwood America does not compete in this market to any considerable extent with the Russians, but in another timber product, this time a manufactured article, the Americans have been pushed severely. Ready-made doors from Soviet factories are winning a leading role in Britain, as they have begun to do in France and Italy. Britain takes from all sources an average of 2,000,000 doors a year, of which the United States for the last several years contributed seventy-five per cent, the Swedes twenty-five per cent. Last year for the first time and at one leap the Soviets brought into Britain 120,000 doors.

This year they have contracted to sell in Britain 400,000 to 500,000 doors to one concern, the Merchant Trading Company, on a sliding scale price agreement that will keep Soviet prices automatically a shade, about 18 cents, per door under American competitors' prices. This form of contract, making it literally impossible for a competitor to undercut the Soviets unless he gives his product away, is particularly irksome to the trade.

Miscellaneous as is the list of Soviet goods for sale to the world markets, just so miscellaneous but not nearly so long is the list of Soviet products that compete with America in Britain. One rather important minor item is canned salmon. In 1924 the United States sent 33,000,000 pounds of canned salmon and the Soviet Union sent 26,000,000 to Britain while in 1930 the United States share had dropped to 24,000,000 pounds and the Soviet share had risen to 64,000,000 pounds. The Soviets have more than doubled their exports of canned salmon: the United States exports declined about 25 per cent.

The old familiar figure of Soviet petroleum is very much in evidence in Britain also as a competitor not only with American but with all other foreign oils. Here, however, there is a strict price agreement. Anglo-American, Standard, Anglo-Persian and Shell have an arrangement with the Soviet oil trust whereby they maintain not the same price but the same price differential, amounting now to about one cent a gallon, so that no matter what price the non-Soviet trusts fix the Soviet trust sells just a shade cheaper. This arrangement applies only to gasoline. There is also a quantity agreement whereby each concern's imports are confined to a certain quota proportional to its 1928 sales, each to receive a certain percentage of increase each year. Details of this agreement never have been published. The report is now afloat it may soon be abrogated by the Soviets, who desire a free hand.

Not any of these products, however, had anything like the significance for American producers that wheat did in the Soviet big wheat year 1930–31. What Russian wheat did to American wheat in the British market is indicated as well by the 1931 spring export figures as by those in the heavier exporting months of 1930. While the Soviet Union in the first four months of 1929 exported no wheat to Britain and in the first four months of 1930 exported 845,161 bushels, she exported in the first four months of 1931 11,876,391 bushels—while the

United States in the same periods under consideration exported to Britain 10,125,146 and 8,249,564 and 3,346,736 bushels respectively.

At the same time, Canadian wheat exports to Britain suffered, if not quite so heavily, coming down from 16,129,032 bushels in the first four months of 1929 to 11,290,322 in the same period of 1931. Britain was the largest single taker of Soviet wheat and absorbed a third of all Russian wheat exports in 1930. This one circumstance may become decisive for Russo-British commercial relations. The British realize it gives them a powerful lever to move the Russians in the direction of placing more orders in this country. After all other schemes have been discussed whereby this movement might be promoted, the one quite practicable project remains of the Empire quota system by which grain from the outside could be controlled. No other commodity lends itself so well to this method of pressing the Soviets as does wheat.

There is not enough or not enough of the right kind of timber, oil, furs, etc., in the Empire to satisfy Britain, but there is enough grain for Britain in Australia and Canada. The idea of applying this thumbscrew to one Soviet thumb and the credit thumbscrew to the other thumb is one that appeals just now to the Conservatives. Under the Labor Government the British Treasury, like the treasuries of Italy and Germany, guarantees up to 60 per cent of the face value of the Soviet bills of exchange drawn to favor British sellers. If the Conservatives came in they could threaten to withdraw the credit guarantee, offer to extend it, threaten to decrease the Soviet share of it, threaten to decrease the Soviet share of the wheat quota, offer to buy more wheat and in the long run if they were favored by fortune, they might get some more Soviet orders.

CHAPTER XVII

Copenhagen:

Economics, like politics, makes strange bedfellows, and here in this cheerful North Sea capital one may observe how economics has made of tiny Denmark an ally, even though an unwilling one, of the giant Communist empire on the east; while economics again, though perhaps misunderstood economics, has aroused in Denmark a strange antagonism to commerce with the United States.

"The Red Trade Menace" is not regarded here with apprehension. The "menace," if there is one, exists here in the minds of an exceptionally vocal if not nationally representative group of large landowners as an American menace—"the Red, White and Blue menace," if Danish landlords were given to headline phrases.

On this entire all-European survey there has appeared no more interesting if complicated example of the effect of economic forces upon the relationship of Europe to America and Europe to the Soviet Union than here in Denmark. The "melancholy science" of Adam Smith, dreariest of studies, becomes alive and fascinating in Copenhagen.

Here today spring sunshine lights a city, smiling people populate the public gardens, the Tivoli is crowded with animated coffee drinkers and in the streets a throng of automobiles gives evidence that somewhere in the world the "crisis" has held its hand. Hotels are full, dance music issues from a dozen doorways and theatre advertisements bear out the city's fame as the Paris of the North.

Denmark, in short, is the happiest country in Europe, least troubled by the world depression. Just six flight hours away lies England, gloomy, black browed. Just two flight hours away lies Germany, worried, despondent. In England one in fifteen inhabitants is jobless, in Germany, one in twelve. In Denmark one in sixty-six is unemployed and many of these temporarily.

Danish critics may object, and point a score of instances where Denmark, too, begins to feel the pinch. But to one who has just flown here from London, a short twenty-four hours from the dark perspectives of Manchester and Liverpool, the contrast is great. It demands explanation, and as all economic forces operate interdependently it happens, too, that this attempt at explanation, may do its share to clarify comprehension of the three-way traffic tangle of Europe, America and Russia.

Before the effort at explanation, however, one must lay the phenomena upon the table and, first of all, the strangest of them, the anti-American boycott movement. This is not the first time nor the first country in which resentment against the American tariff has been observed, nor is it the first instance in which the thesis has been borne out that if Europe were ever able to combine commercially against the Soviet Union it would direct that combination equally against the United States. But nowhere has the thesis been so clearly confirmed as here in Denmark.

Not sentiment but economics determine trade. Thus argue Marxists and a good many non-Marxist hardheaded business men of the capitalist world too. At any rate here in Denmark, where Americans are received with a kindness and hospitality that leaves one unwilling to speak critically, there are a sufficient number of persons who believe that economics dictate against acceptance of American wares to have given rise to a regular boycott movement. Boycott of all American wares is the goal of an association of 500 of the largest landowners of the country, an association that calls itself "The Twelve Men." Its printed appeal to the Danish public deserves citation.

"The commercial policy of the United States against us is of such a character that no consideration of them on our part is warranted." This the thesis.

The appeal then sets forth that the United States' yearly purchases of Danish goods amount only to

18,000,000 crowns, (about $4,680,000), while Denmark buys 239,000,000 crowns (about $62,140,000) of American goods yearly. It stresses that on a per capita basis every Dane buys about $17 worth of American goods yearly while Americans buy only about 4 cents worth of Danish goods apiece a year. each month the "Twelve Men's Association" announces they are going to issue a manifesto appealing for a boycott of American goods and each month are going to point out some particular item of American imports that ought not to be bought. They will watch import returns, they announce, and as each new packet of American wares arrives will warn the Danish public not to buy it.

Thus in one month the "Twelve Men" warned against buying American kerosene. "No American kerosene on our farms. We have no use for American kerosene. We are able to change our consumption from American to British kerosene without a single penny's expense and without the least trouble. Do what you are able to do to shift importation from America, to whom we are indifferent, to our big customer on the west—England."

In another month it was flour. "It should be plain to everybody that there is no sense in giving work to American mills when our own are idle. During 1930 Denmark imported about 700,000 sacks of wheat flour. The United States supplied about 500,000 of these sacks, which might as well have been manufactured in our own mills."

Again it was binder twine. "A few days ago a shipment of 300 tons of American binder twine arrived. Don't buy American binder twine."

Ekstrabladet, excellent afternoon newspaper of the "Politiken group" interviewed the director of the anti-American campaign, V. Kronman, and obtained an illuminating statement.

"Yes, this is the beginning of a real campaign against American goods," declared Kronman. "We look upon America as a country being the least friendly to us from a commercial point of view. America is so big that it won't make any special impression upon America if we react, but despite that fact we do it. Even if we are small we still have the opinion that in all commerce there ought to be a spirit of reciprocity."

"Americans flood us with their goods without reciprocating in the least and every time we have worked up a sale of a special kind of goods in America they run over us with a tariff increase, closing the market for our goods.

"We have therefore started on a systematic survey to determine where our members can assist us in shifting purchases from the United States to Danish industry or to England or, alternatively, Germany, both of which are our customers.

"It is our intention every month to draw the attention of our members to new fields, for example rubber, transmission belting, typewriters, rubber footwear, agricultural machines, etc."

The spokesman was asked if as a matter of fact imports from the United States were actually declining. His answer is interesting: "At any rate it has declined substantially in cattle feed. America on account of the heavy drought has not been able to export cottonseed cakes, but this fact has not bettered our trade balance, as Americans only have been replaced by Russians."

There is the phenomenon. If it were really true that this anti-American campaign were based only upon the simple theory that international trade should be done on a two-way barter system, "You take a ton of goods from me and I take a ton of goods from you," one might counter it effectively by asking if a landowning member of the "Twelve Men's Association" expects his tailor to take a dozen firkins of butter in exchange for a suit of clothes. As a matter of fact this sort of kindergarten economics is applied by a good many European nations in their attitude toward trade with the Soviet Union as well as with the United States, and the greatest single objection to Soviet trade encountered in France, Belgium and even England was that the Soviets sold more in those countries than they bought.

But it will be noted that in the Danish movement against American goods the argument constantly is to shift Danish purchases from America to Britain. There is a very good reason for this and behind the reason are factors that have made Denmark an ally, even though an unconscious ally, of the Soviet Union.

Secure though she is for the present and still comparatively prosperous in a situation that has given her cheaper food for her cattle while her chief exports, animal products, have fallen off less in price than have the raw materials that go to make them, Denmark has one large shadow on her economic horizon. That shadow is the possibility that Great Britain may adopt the long-discussed system of Empire preference, that England may agree with her dominions and colonies to establish a tariff favoring an exchange of goods among members of the British commonwealth to the disadvantage of imports from countries outside the commonwealth.

It is, of course, still uncertain what form the Empire preference system would take. It is uncertain whether it would be effectuated under a Labor government; it is uncertain whether it will come to pass at all. But it is clear that if it does come to pass it will bring about a substantial price difference in

England in favor of Empire products and especially of Empire agricultural products—grain, butter, bacon, eggs, etc.

Denmark is not concerned about grain, but Denmark is most concerned about the British butter, egg and bacon market. Denmark is the big butter and egg man of Europe. Her exports to England make her so. Denmark literally lives from butter, eggs and bacon. Eighty per cent of her entire exports last year was agricultural and of this 80 per cent, 42 per cent was of milk products, 51 per cent was of meat and slaughter products and 7 per cent was of eggs. And of this majority portion of the total Danish exports, Great Britain took 68 per cent of all Danish butter exported, $99^{9}/_{10}$ per cent of all Danish bacon exported and 85 per cent of all Danish eggs exported.

It is plain why for Denmark the British market is of paramount importance. It is plain why Denmark should be nervous about England's Empire preference scheme, for even if New Zealand butter does lie six weeks steamship travel away from England it is even now being sold there and Danes argue that if Empire preference is to mean anything at all it will mean that preferential customs must be fixed high enough to give New Zealand butter a perceptible advantage over Danish butter.

Free traders, of course, have here a striking example of the effect of an economic nationalism that would send a man to a grocery store half way around the world to buy a pound of butter rather than to the grocery store next door because the grocery store dealer half way around the world was related to the wife of the man that wanted a pound of butter.

The Danes, however, are not interested in the theoretical economics of the Empire preference. They are interested in its practical effect on them and they are practically interested in trying to head it off. Therefore they wish to encourage Danes to buy more British goods, hoping against hope that this demonstration of Danish good will will soften Tory hearts in England. But to buy more from Britain, Danes must buy less from some one else. In itself and quite independent of the Danish fear of Empire preference, the American tariff is an annoyance; so what could be more logical than a campaign to buy less American goods and buy more British goods?

But it so happens that the one other country in the world that could be most injured by Britain's proposed Empire preference system is the Soviet Union. Of all the projects encountered on this trip for checking Soviet exports the British Empire preference scheme seems to hold a more genuine threat to Soviet trade than any other. As Denmark sends two-thirds of her exports to Britain, so the

Soviet Union sends one-third of hers to Britain. In this involved and roundabout way Denmark, less than life-sized model of an efficient bourgeois agricultural country, has been ranged on the same side of the world economic fence as the anti-capitalist colossus.

It will not help to clarify this picture but should be noted that on the other hand the Soviet Union's existence is one of the reasons for the movement in England to favor Empire preference, so that if it were not for Soviet exports to Britain, Danish exports to Britain might not be threatened.

Probably few Danes have taken the trouble to consider these aspects of their role in the four-cornered foreign trade bridge game among Denmark, England, the United States, and Russia, nor is it clear why they should or what they could do about it if they did. About all that occurs to Denmark to consider in respect to its direct trade with the Soviet Union is the fact that the Soviet Union sells to Denmark about $10,000,000 worth of products a year and buys only about $3,000,000 worth of Danish goods and that this is undesirable and ought to be corrected, but that of all Denmark's purchases from the Soviet Union last year more than three-fourths were of grain and cattle feed and that cheap grain can do little harm to a country that depends for its prosperity upon selling no grain but products of animals that live on grain.

Like Germany, Italy and England, Denmark, too, wishes the Soviet Union to increase its purchases and, like those countries, Denmark puts its Government credit back of the industrialists who wish to sell to the Soviet Union. The Danish export credit system, like most of its counterparts in Europe, was a post-war development established in 1922, to encourage foreign trade by relieving the exporter of credit risks. Beginning modestly, the system has been developed until now Government funds for insuring exports amount to $18,200,000.

During nine years of operation, the Credit Board reports, it lost but $120,000 on dishonored bills, none of which were Soviet bills. Having been established before Denmark's resumption of trade relations with the Soviet Union April 23, 1923, it cannot be said to have been intended primarily as an instrument to promote trade with the Soviet Union. Nevertheless, although no official statement could be obtained, it is presumed that most, if not all, of Denmark's exports to the Soviet Union are covered by Government guarantee. This guarantee in the case of other countries is sometimes as high as 85 per cent, but in the case of the Soviet Union is limited to 60 per cent. That is to say, the Government guarantees the exporter to the Soviet Union payment of 60 per cent of the amount of the Soviet's promissory note. For this guarantee the Government charges a commission of 3 per cent of the guaranteed portion of the bill.

With this guarantee the exporter can then discount his bill at a Danish bank at a rate corresponding to the prevailing discount rate for the guaranteed portion of the bill and at a rate that was reported to me from authoritative sources as not more than 5 per cent for the unguaranteed portion of the bill. These charges would total about 8 or 9 per cent for the whole bill and would thus mean that Soviet bills in Denmark are discounted cheaper than in any country yet visited in Europe.

A necessary qualification to this statement, however, is that the Government limits the amount of Soviet bills it will guarantee and that without Government indorsement Soviet paper here would be charged as high discount rates as prevail for unguaranteed Soviet bills in Berlin, Paris, London and New York, where "the Black brokers" do a thriving business in lending money on Soviet notes at 20 or 30 per cent.

In conclusion one cannot help but revert to the objective fact that as far as could be ascertained during a very short time in Denmark there is no trace of a movement to discourage trade with the

Soviet Union, but that in that very short time the existence of a movement to check trade with the United States became apparent. And this despite the fact that Denmark has as little friendliness for Communism as any non-Communist state and that Denmark has no discoverable inclination to be antagonistic to Americans as Americans. Nevertheless here are the same arguments used against America that are used in France, Belgium and England against the Soviet Union. It is some satisfaction that nobody claims American workmen produce more cheaply because they are slaves.

CHAPTER XVIII

Oslo:

The Five-Year Plan for whales has made its début and the unwitting beasts, happy today in the security afforded them by Norway's decision to cease whaling for a whole year, are living in a fool's paradise. For the Soviet Union has just ordered three whaling vessels from Norwegian shipyards.

Were whales skilled in Five-Year Plan perspectives they might realize that it is only a matter of time when Moby Dick's last descendant may surrender to a red-flagged ship and slip down the maw of a Soviet refinery.

Lacking the capacity to visualize this melancholy prospect, unmindful as are many European nations of "The Red Trade Menace," and perhaps with as much and as little reason, the world of whales may celebrate now while the celebrating is good. This year for the first time in fifty years they may increase and multiply, safe from Norway's eager hunters, not yet victims of the Five-Year Plan.

For Norway's whaling fleet of thirty giant "floating cookeries," 166 hunting ships and 10,000 men, is staying at home this season. Not a ship will sail.

There is Ross Sea where in 1923 the first Norwegian whaler broke its way through the pack-ice barrier and where in 1929 Admiral Byrd won fame, Norway for the last seven years has won whale oil. It has won so much from the Antarctic that in 1929 the catch of 1,210,235 barrels, double the world catch of 1922, made whale oil a drug on the market.

So the most romantic business left on earth, a business that sent each year a whole armada of Norsemen 12,000 miles away to the nether side of the globe to spend our winter hunting whales under the steady lights of the Antarctic summer, has been suspended. There is too much whale oil in the world. But it is in the non-Soviet world that there is too much whale oil. In the Soviet world they need whale oil and intend to have their own supply.

There is too much wheat they say, but the Soviet plans more wheat this year than ever in Russia's history; there is too much petroleum, they say, but the Soviet wells have doubled their production since 1928 and will double it again by 1933 if the Five-Year Plan is followed; there is too much timber, they say, but the Soviet planners for 1932 will lay the axe to 109,000,000,000 board feet, three times the total cut in the United States, if the Five-Year goal is reached.

Now whales are next in line. Three whaling vessels of course are only a beginning and a small one. And too much need not be made of it, but if anything were needed to emphasize once more the all-inclusive character of the Soviet's Five-Year Plan, the plan for whales provides the emphasis. From whale oil to Chakwa tea the Soviet Union proposes to make itself utterly independent of the outside world if necessary, with a strong line under the qualifying clause, "if necessary."

In another respect too this curious discovery in Norway of a fresh example of Five-Year Plan ambition deserves attention. Manchester men who make textile machinery sold quantities of it to the Soviet Union. Today Manchester men who make textiles are complaining of Soviet competition. Swedish men who make saws sold scores of modern gang frames to the Soviet Union. Today Swedish men who make sawn timber complain of Soviet competition. Now Norwegian men who make whaling ships are selling them to the Soviet Union. One wonders if their colleagues who catch whales will ever join the chorus of complainers. The Russians whaled before the war off the Korean and Murmansk coasts. They say they want these whaling ships to resume operations in the east Asiatic waters and probably it will be some time before the Ross Sea feels a Soviet keel.

Oslo has other things to think about than "The Red Trade Menace." This city of 260,000 has the prettiest girls, the best whale meat, the biggest labor lockout, the most rhythmic jazz bands, the largest number of ships laid up and the most liberal interest rates on Soviet credits of any city yet visited.

It has a surprising capacity to fill its excellent hotels with diners and dancers after two months of a nationwide lockout that has thrown two-thirds of the workers in key industries out of work and closed most of the nation's factories and mills. Only this lockout has halted temporarily the profitable process of buying pulpwood from the Soviet Union, grinding it here and selling the wood pulp to America.

Moscow may and doubtless does appreciate this item on its Five-Year Plan, but more fundamentally important for the Marxist observers of capitalist dissension is the Nationalist spirit now rife in Norway. It may be recalled that it is the profound belief of many party leaders in the Kremlin that the non-Soviet world is going to assemble its forces to attack the Soviet State before Communism has consolidated its strength. It may also be recalled that in opposition to these Communist Jeremiahs there is a little group of cheerful spirits who claim that Nationalist rivalries, capitalist competition will save the Soviet Union from assault.

Scandinavia affords good arguments for the second group. Here in Norway public opinion is excited or disturbed or merely interested over two principal questions, leaving out of account for the moment the now chronic lockout and the now historical decision to take a whaling holiday. One is the question, "Shall Norway permit foreign capital to gain a foothold in the country, or shall she not?" The "shall nots" have won the day and John Ludwig Mowinckel's Cabinet was overthrown because it granted a concession to the British soap and margarine trust to acquire an interest in a Norwegian concern.

Even more indicative and typical of Europe's nationalistic trend is the fraternal dispute now going on between Norway and Denmark over Greenland, a dispute that has reached the point where imaginative persons even in this city, where the Nobel Peace Prize is awarded, think back to days when such disputes were settled by Norsemen's strong right arms and not by The Hague Court that probably will be called upon to settle it in the end.

Since 1814 when Norway broke away from Denmark this country has remembered with none too friendly feelings the 364 years of its unwilling union with that state. Today the two nations, speaking a language that differs chiefly in pronunciation, sharing centuries of common history, are again at odds and the feeling between them recalls the mutual affection of the Belgians and the Dutch.

Denmark owns Greenland. Norway hunts on Greenland. With that imposing spirit of adventure that has sent her pioneers to do the world's most perilous jobs, the Norwegian hunters have established themselves on Greenland's east coast, have set up eighty base huts and carry on in their customary way the business of hunting and fishing in places where citizens of other nations would only venture with an exploring expedition. Likewise Norsemen, the Danes, not less venturesome, for years have preëmpted Greenland's west coast for their own. Norwegians and other hunters were forbidden to make camp on the west coast and could only land for food and water.

This differentiation between Denmark's administration of the west and east coasts led Norway to claim that the east coast did not belong under Danish sovereignity at all, but really should be Norway's, and at any rate was a no man's land. The Danes replied by obtaining from twenty-three Governments recognition of Danish sovereignty over all Greenland. Norway alone denied this recognition. In retort to this denial, the Danes organized an expedition to visit the east coast of Greenland in the summer of 1931. Norway is sure that the expedition intends to establish police authority over Norwegian hunters. The Danes hint darkly that the Norwegians have been poisoning fur animals, spoiling the stock. Incensed, the Norwegians, speaking through their "Arctic Council," a semi-official advisory commission of prominent citizens and patriotic organizations, have publicly demanded of Parliament that Norway proclaim the east coast of Greenland Norwegian territory, plant the Norwegian flag upon it and "occupy" the disputed land. Meanwhile the Danes are hastening to get there first and The Hague Court may be prepared for another knotty case.

More weighty in its effects upon this country's economic life is the lockout. It is strange that so little should have been published abroad of this worst labor conflict that any country in Europe has experienced since the British general strike. It virtually amounts to a general strike, and although Norway's 2,821,000 inhabitants class her numerically as one of the smallest nations, in point of world importance she occupies a much greater place than her numbers would indicate, and a practical paralysis of her entire industry cannot be a matter of indifference to Europe or America.

The lockout is based in the last analysis on the Norwegian's character. They have more of that commodity than most. Their workmen are the best paid in Europe, and are likewise the best organized and the most stubborn, and when last April employers proposed a cut in wages of 15 per cent, the trade unions replied by demanding a 10 per cent increase and a reduction in the working day from eight to seven hours. They agreed to disagree and since that time Norway's leather, tobacco, paper, pulp, electro chemical, rubber, soap, electrical, clothing, chocolate, shipyard, shoe, textile, sawmill, building trades and printing industries have been as good as hermetically sealed. The unions are air tight, dock workers and transport men refuse to handle any wares from locked-out plants and the net balance of the first two months of the conflict was estimated at $9,000,000 in lost wages and a $32,000,000 loss to industry. The trade unions paid out to the unemployed $6,000,000 from the war chest. With all this labor trouble, there is not a single Communist in Parliament. And with all its internecine wrangles within its own household and within the broader household of Scandinavia, wrangles that divert attention from the problem of relationships between the Soviet and the non-Soviet worlds, Norway has nevertheless taken several important measures that bear on those relationships. For Norway already has moved so far in the direction of state monopolies that it is possible to draw a certain comparison between her system and that of the Soviet Union.

In four important commodities the state in a different degree and in a different form is in control: in grain and flour, in herrings and in wine. The wine and spirits monopoly is an expression of the Norwegian attempt at prohibition dictated more by sociological than by economic considerations. The herring monopoly, semi-private but under governmental supervision, is for export alone. The grain and flour monopoly, the most interesting of all, is a straight state organ monopolizing all export and import buying and selling.

Norway has to import grain. She wishes however to encourage as much as possible local production. For Norway remembers her slim rations of wartime when German submarines sank nearly one-half of her merchant fleet.

With this in mind and only incidentally in a year when the Soviet's Five-Year Plan began,—in 1928, the Government established a "state grain monopoly." The essential task of the monopoly is to buy all home grown grain produced at a price above the price of imported grain. The price differential is very large. It amounts to about 30 cents per bushel on wheat, rye, barley and to a fraction less on oats.

The important point is that the monopoly always pays home growers more than it pays for foreign grain and that the home growers is always sure of disposing of all of his crop. Of course, if foreign grain prices fall, so do the prices for home-grown grain, but never below those of foreign grain and the home grower is never in danger of having his crop rot on his hands while foreign grain, be it Russian or otherwise, floods the market. Having bought all the grain produced at home and sufficient more from abroad to fill out the country's needs, the monopoly then sells it at a price that will enable just enough profit to meet the overhead—the same price for similar qualities whether domestic or foreign and the same price to all buyers.

This obviously is one way of meeting "dumping." It is a system that is said to have worked well during the initial three years of its operation under the energetic management of Oscar Jahnsen, who, as the managing director with an advisory council of seven members, by reason of this office is the chief of Norway's largest business enterprise.

In one respect it worked a hardship on the American exporters of flour to Norway, for the monopoly decreed all trade marked flour should have the trade mark removed, be classified and branded with the monopoly's own brands. In this way the American millers, who had spent large sums in advertising, lost sales appeal to the Norwegian public. In another and more important respect the monopoly, however, certainly has not been disadvantageous to the American producers, for in 1930 when Russian wheat was avalanching down on Europe, the Norwegian monopoly, it is true, bought 150,000 tons from the Soviets against none in 1929, but it continued to buy in 1930 more from America than it bought in 1929. The record of Norway's wheat purchases for those two years shows again that it was the Argentine that suffered most from Soviet competition and that Canada lost some, but much less than the South American producer, handicapped by a long freight haul. In 1929 Argentina sold to Norway 137,157 tons and in 1930 under the pressure of Russian wheat, Argentina sold only 16,380 tons. Canada in 1929 sold to Norway 82,864 tons and in 1930 sold 69,000 tons. But the American exports to Norway in 1929 were 28,968 tons and in 1930 were 35,846.

Several Central European countries have been watching this Norwegian experiment with interest and already Sweden has adopted it. The Norwegians themselves on the whole are satisfied with it, even though the consumers have complained that grain and flour cost more under the monopoly than under free trade. It is obvious, however, that if the Norwegian farmers are to make more money somebody has to pay for it and the final payer is always the consumer.

The Norwegians as a matter of fact liked the monopoly idea so well that important groups in Parliament that were behind the late Mowinckel Government have brought forth a serious proposal for a general State monopoly for export. For Americans it is especially interesting to observe that the purpose of the state export monopoly scheme is to promote the formation of syndicates and trusts exactly contrary to the efforts of the American Government to prevent their formation. Price fixing is held in Norway to be beneficial to the national economy and under the state export monopoly as projected in the bill only those persons or corporations would be permitted to export what belonged to an export association.

This idea developed from the herring trade export syndicate, which, by reason of the fact that it controls the entire herring output of Norway is able to determine the extent of the catch, limiting it to a figure calculated to give a maximum profit, is able to limit and direct exports and is able to present a united front to purchasers abroad. The clear advantages of such an organization, proved in practice in the herring trade, gave rise to the suggestion that it be extended to all branches of export trade, although it has been suggested that the wood pulp manufacturers' syndicate, desiring to force several strong outsiders to join the combination, have been chiefly instrumental in promoting the project.

Whatever special interests may be concerned, it will strike the observer at once that such export organizations are effective counterparts to the Soviet Foreign Trade Monopoly. They are able to equalize the advantage the Soviet monopoly has in its commercial dealings with the unorganized, mutually competitive bourgeois concerns and are equivalent to the sort of organization the Germans tried to bring to life three years ago with their Russian committee of the Reich's Manufacturers' Association. The decisive difference is that the German committee, formed to unify

German industrialists for trading with the Soviet Union, but only with the Soviet Union, was killed by the Soviet objection that this was discrimination, whereas the Soviets cannot oppose or refuse to deal with an export monopoly that is intended to deal with all countries.

In the same way that the Norwegian state grain and flour monopoly is an effective instrument of defense against "dumping," so the Norwegian export monopoly would be especially useful for sales to the Soviet Union. These sales as far as Norway is concerned have been profitable, for the Five-Year Plan has put the Russian population on the cheapest fish diet possible and Norway supplied in the second year of the plan in 1929, 50,000 tons of salt herring. She also has supplied to the Soviet Union aluminum and ferro-alloys in such volume that in that year her foreign trade balance was strongly active, showing about $4,500,000 in exports to the Soviet Union against $1,800,000 in imports from the Soviet Union. Lumber was Norway's chief import from the Soviet Union until 1930, when the Russian grain came forward. It needs to be emphasized that Norway is one Scandinavian country that suffered but little if anything from Soviet timber exports. Norway exports chiefly finished, planed, sawn timber or wood pulp, while the Soviet exports so far chiefly have been rough products. So that the Norwegian mills actually profited from the import of Russian wood to finish here and re-export. In this, however, as in most countries, there is a conflict of interests and the forest owners here protest against Russian imports while the mill owners defend them.

Meanwhile the Norwegian Government does its share to promote the Soviet trade by the export credit system, guaranteeing 75 per cent of the face value of Soviet bills. The fund available has just been raised from $3,900,000 to $5,200,000 and the terms of interest are even more reasonable than Denmark's. The payments on Soviet purchases of herring afford a good illustration. Against the presentation of a bill of lading for purchased herrings, the Soviet commercial representative gives the exporter two twelve-months promissory notes dated the day of shipment for 25 per cent and 75 per cent of the invoice value in Norwegian crowns, plus the current discount rate and an additional 1¾ per cent. In other words, if the invoice f.o.b. port is 100 crowns, the notes would be for 105.75 crowns, the difference being the Norges bank discount rate of 4 per cent plus a 1¾ per cent additional charge. Having obtained the Government's export credits guarantee on the 75 per cent bill, the exporter can then present his notes to the Norges Bank and receive 75 per cent in cash against the normal discount rate and the other 25 per cent if he wants it at a rate that would bring the total cost to the exporter up to around 6 or 7 per cent. The law, however, only provides for twelve months' credit and notes may not be renewed except for ships under construction by Norwegian yards for the Soviets.

At no discoverable point has Soviet competition touched American trade with Norway, although the American and other foreign oil companies are nervous. A Soviet delegation just came here to choose and buy sites for gasoline and kerosene tanks. The Norwegians are willing to do business. It is only now and then that the Norwegian gazing at the map of this part of the world looks at that 600 mile long imaginary line separating Finland from the Soviet Union and exclaims, "The poor Finns!"

CHAPTER XIX

Stockholm:

Standing in the center of Kungstraed Garden in Stockholm, Charles XII, heroic figure of Sweden's brilliant military period, stretches a bronze left arm eastward, holds in his right hand an unsheathed sword. Russia is the target of his pointing forefinger.

Danger lies in the East for the Sweden of Charles XII. It lies in the East for Sweden now, but Sweden holds no sword in her right hand today. Not war but peace with the Soviets is the hope of Sweden's key industry, the timber trade. "Fight" has been the slogan of this industry and the struggle has been bitter, costing each side more than either can afford. "Pact" is today the talk in Stockholm, and although the war may go much further there are many signs that on this particular sector of the conflict of the non-Soviet with the Soviet world an armistice is in sight.

This country is the one European land where the Soviet Five-Year Plan has struck harder than in any other, with the possible exception of Finland. Sweden is feeling Soviet competition in timber more painfully than any other country save Finland. And for Sweden timber is a matter of economic life or death. Half her exports are timber and timber products.

Chief timber exporter of the world, Sweden is proud of that title. Sweden now is about to relinquish it. The same power that 200 years ago crushed Sweden's great military king under the sheer weight of numbers today is bringing an unbearable pressure on Sweden's primary industry and by sheer weight of timber is forcing a decision. One does not have to have a keen appetite for economics to be interested in this conflict. Here are all the elements of a drama, of warfare, even of a great sporting event, though of a sporting event that has a good deal more significance for the world than the mere totaling up of scores. And it is a game in which no one can prophesy when the whistle will blow to end it.

Stockholm itself, one must observe, shows no outward sign of injury in this timber-war, though this is a "timber-minded" city, where every one knows and talks timber and where in the last analysis of a very large section of the population is dependent on timber for a living. Stockholm's famous standard of living is still very high, her waterways are full of ships, her streets of American automobiles, her hotels of fashionable folk, and one of the first stories one hears is the perhaps misleading tale that the Swedish bricklayers are better paid than Cabinet Ministers. Specifically, it is related that there have been times when bricklayers working on piece work toward the end of a job that must be finished, are able, by holding up a contractor, to get as much as $25 a day, while a Cabinet Minister receives but $15 a day. This, it must be admitted, is a record worthy of a place beside some exploits of the American building trades unions.

Whether it is typical of Swedish wages may be doubted, but those wages still are generous and Sweden as a whole has suffered, according to the reports of its own citizens, less than most European countries from the world economic crisis. Some even deny that Denmark deserves the title of the most prosperous country in Europe, pointing out that Sweden, too, has but one unemployed in every sixty inhabitants. These optimists are not, however, to be found in the timber trade itself. In this trade there is one dominating thought: Russia. And here in this trade may be found the most sharply outlined and clearly defined sector of the broader economic conflict now going on between the Soviet and non-Soviet world.

In most sectors of this world-wide front the factors are too complicated and the contestants too widely separated to permit a comprehensive view. Here the lineup is in sight of every one. On one side the "Swedish Wood Exporters' Association" and the "Finnish Sawmill Owners' Association"; on the other side the "Exportles," the Soviet timber export syndicate.

Here, too, the battlefield is limited. England, the world's best timber market for exporters, is the site where the contest will be decided.

The timber war began in 1928, the first year of the Five-Year Plan. Until that year England's imports of softwood from the Soviet Union amounted to but 17 per cent of the total of her softwood timber imports, while Sweden's share was 20 per cent, and Finland's 27 per cent. Canada sent 5 per cent. Back in 1921 the Soviet Union had only 5 per cent of England's total imports. It was a long jump for the Soviet Union to climb from 5 per cent to 17 per cent, but Sweden and Finland still had so much of the market that no particular anxiety was felt about the Soviet competition. Russia, it was believed, would scarcely do more since for the four years from 1924 to 1927 her timber exports had remained about the same. The Five-Year Plan was the occasion at first for sniffs, next for doubts, then for alarm, now for something approaching panic, though of course no combatant will admit defeat. The comparative record of the Russian, Swedish and Finnish exports to Great Britain since the Five-Year Plan began tells the story. The Soviet's share of England's total softwood imports leaped by 1930 to 32 per cent, Finland's fell to 22 per cent; Sweden's to 19 per cent and in 1931 the share of the Soviet Union will probably be more than 50 per cent.

This would be bad enough from the Swedish and Finnish standpoint, if the situation rested there. Pre-war Russia also supplied 51 per cent of the British softwood timber requirements. But the Five-Year Plan foresees exports that far surpass anything that Czarist Russia did. Pre-war Russia exported from the territory occupied by the Soviet Union about 800,000 standards of sawn and planed timber. In 1926 the Soviet Union exported 320,000; in 1928, 560,000; in 1930, 965,000 and in 1931 the Swedish exporters estimate the Soviet export will be more than 1,000,000 standards, although they hope it won't reach the 1,300,000 called for by the plan. In 1932 the plan calls for the export of 1,500,000; in 1933, 1,800,000, although one of the maximum variations of the plan fixes even 3,000,000 as the goal for 1933. That is as much as the total exports of the Soviet Union, Sweden and Finland put together in 1930. Meanwhile, the Swedish total exports of sawn and planed timber decreased from 1,200,000 standards in 1929 to 996,000 in 1930 and an estimated 850,000 in 1931, and Finland's exports decreased from 1,200,000 in 1929 to 899,000 in 1930 and an estimated 750,000 in 1931. These are statistics sent by the Swedish and Finnish exporters to the British Members of Parliament after the Soviets last autumn disposed of from 600,000 to 750,000 standards of timber in their famous deal with the British Softwood Buyers Corporation. The statistics meant, said the Swedish and Finnish representatives, that the producers in their two countries had been forced to agree to reduce their exports next year to 80 per cent of the 1929 exports. I asked authoritative sources in Stockholm, "Does that mean you surrender 20 per cent of your market to the Soviets?" "It does," was the reply.

"And if the Five-Year Plan is fulfilled?"

"It means the Swedes and Finns will have to give up 50 per cent of their exports."

"And what is there to be done about it?"

Then followed a reasoned statement that deserves the attention of anybody who is interested in knowing what Europe is doing or thinking of doing to protect itself against "The Red Trade Menace," a phrase that may or may not be justified as the description of the effect of the Soviet exports upon some countries and upon some industries, but that would be admitted even by Soviet partisans to be thoroughly applicable in the case of the Swedish and Finnish timber industry.

"There are three conceivable ways to check the Soviet competition, or to ameliorate its effects upon us. One is war. One is an international boycott. One is an agreement. War," continued the speaker, "is absolutely out of the question. An international boycott is impossible. There remains agreement. This forced export of the Soviet Union is hurting her as much as it hurts us, if not more. It is a question whether she will be able to carry out her Plan in full, since she has cut a good deal of the most conveniently situated timber and from now on the problem of transporting felled trees to waterways will become increasingly difficult. The average distance the Soviets have to carry their logs to water now is about five miles, compared to half that distance in Sweden.

"From month to month this distance will increase for the Soviets. In watching the Five-Year Plan results you must pay attention now to the timber transported, not the timber cut. Up to April 10 of this year that had cut 118,000,000 cubic meters of timber, 77.6 per cent of the amount called for by the plan. True that is an enormous lot of timber, but of it they transported in that time only 81,000,000 cubic meters, or 61.3 per cent of the timber transport called for by the plan. We can afford to wait until they come to us with a proposal for an arrangement or some kind of export quota system. The position of the three countries, Sweden, Finland and Russia, is favorable for such an agreement. Among the three of us we produce half of the world's sawn and planed timber for export. Our normal production for export should be about the same, each turning out about 1,000,000 standards. We can afford to wait."

But from the Soviet side comes precisely the same statement: "We can afford to wait."

And here the matter stands today. Both sides beyond doubt want a truce. Allowance has been made for any statement made by one side about the other side, yet the burden of evidence seems in favor of the correctness of the Swedish and Finnish allegations that some of the Soviet export is too costly to be worth while, even under the peculiar economic conditions of the Five-Year Plan. They cite, for example, an instance of how expensive the Soviet's loading difficulties are in Leningrad, where one ship is said to have waited so long for her cargo that after it had been loaded the demurrage charges when added to the freight exceeded the value of the cargo, and this loss was not in paper troubles, but in precious foreign currency.

This cannot be typical, but in timber as in other exports it is plain that the Soviet Union has everything to gain and nothing to lose by entering into an export quota pool that would insure as large returns from the smaller quantity of exports as could be obtained outside the pool by a greater quantity of exports. Yet in the opinion of the timber trade the Soviets, for the sake of obtaining a still better tactical position, probably will continue for some time, perhaps a year, perhaps two, to strain every nerve to accomplish the extreme limits of the Five-

Year Plan for her timber exports. The bigger the share of the world market they can seize, the bigger share they can claim when the time comes to talk of export quotas.

Meanwhile, in the timber trade the period has arrived resembling the year 1917 in the World War when both sides were weary and wishing peace, but neither side willing to take the first step for fear of showing weakness.

If there is any lesson to be drawn by the outside world from this experience of the Swedes and Finns, one lesson would seem to be that the non-Soviet exporters have little hope of sympathy from the importers. The Swedes and Finns took much pains to lay their case before the British importers, appealing to them not to ruin Swedish and Finnish business and not to forsake old trade friends. But the British, who could become quite excited about the possibility of Soviet manufactured articles competing with the British products, showed but faint traces of interest in the effect of Soviet timber on the Swedish and Finnish trade.

All this is highly instructive to the student of Soviet commercial relations with the outside world, but Americans probably will be more interested in the developments in the oil business in Sweden, where two American companies, the Standard and the Texaco, are keenly concerned. The war on this sector is, if anything, more ferocious than it has been in the timber trade. Here conflicting statements render judgment of the immediate balance of forces difficult, but the trend toward an ultimate Soviet victory appears clear and is even partly admitted by their opponents.

While there is constant talk of the chances of a great capitalist oil trust coming to some agreement with the Soviet Oil trust, few persons have realized how far along toward obtaining and insuring its share of the world oil market the Soviet Oil Trust already has gone in the form of regional agreements. Under such agreements, the Soviet Oil Trust already has 35 per cent of the German market, 22 per cent of the English market and, without any agreement, more than 25 per cent of the Italian market and a certain 10 per cent, but estimated 15 to 20 per cent, of the French market, counting the French navy's imports.

For a concern so rankly outside, this is a fairly large share of Continental imports, but the Soviet Oil Trust appears to be only gathering speed. Until two years ago it virtually ignored the Scandinavian market. Today it is putting direct sales organizations into Denmark and Norway and here in Sweden, through the "Naphtha Syndicate," selling directly, it has 25 per cent of the market and is holding out for 40 per cent when and if the Standard, Texaco, Shell and Anglo-Persian are willing to make an agreement.

While the Soviets' competitors refuse to admit that the Naphtha Syndicate has more than 15 per cent of the trade, they grant that the Soviet share probably will climb to 20 per cent this year. Meanwhile the price war is vicious and admittedly unprofitable to anybody except the Swedish consumers, who are buying gasoline cheaper than ever in their history.

In 1926 gasoline here was forty cents a gallon; in 1927, thirty cents; January, 1930, twenty-seven cents; October, 1930, twenty-two cents; April, 1931, twenty cents and today with rebates of one kind and another consumers are getting gasoline as cheap as fifteen cents a gallon. With a tax of eight cents a gallon, transport costs of one cent a gallon and estimated overhead and distributing costs of six cents a gallon, the price of fifteen cents a gallon would leave precisely nothing.

Earning nothing, each party at the moment is waiting for the other to weaken, but the Soviet share of the market, whether 15 or 25 per cent, is admittedly growing and an appreciative public is keeping in touch with the Naphtha Syndicate's progress through half page advertisements in newspapers announcing that Soviet oil imports climbed to second place among all the oil companies the first quarter of 1931. This touch of American publicity sense, unusual in a Soviet enterprise, may have been due to the fact that the manager of the Soviet Oil Company here is American; probably the only American employed anywhere in the world is a responsible position in the sales organization of the Soviet Foreign Trade Monopoly.

Excited as are the Swedish timber exporters over the purchases by other nations of Soviet exports of timber, the Swedish public maintains a grateful calm in the face of Soviet exports of oil to Sweden, and while Soviet competition in timber has evoked prolonged Swedish protests, the only voices audible in Sweden against Soviet competition in oil are American and British voices. Sweden, it may be recalled, produces no oil.

Sweden does produce wheat and rye. Not enough for the whole consumption, but enough to be heavily affected by the Russian grain if it were permitted to come unchecked into the country. It is not surprising, therefore, that now just before the Soviet grain export season gets under way, Sweden has established a state grain and flour monopoly, the "Swedish Grain Association," for the import and sale of wheat, rye, grain and flour. On the lines of the Norwegian system, the Swedish monopoly has the same purpose to protect domestic growers and to that end has announced it will buy all the wheat and rye offered by the Swedish producers at prices averaging from forty to fifty cents a bushel more than the market price for foreign grain. This is an even greater price differential than that paid by the Norwegian monopoly, and the Swedish farmers are happy at the genuine protection against the Soviet, American and Canadian competition.

Of any other move directly or indirectly to check or control the Swedish trade with the Soviet Union there were no indications discoverable in a short visit. Sweden has an active trade balance with the Soviet Union showing about $3,000,000 on the plus side in 1927–1928, nearly $4,000,000 in 1928–1929, and $7,000,000 in 1929–1930. She sells chiefly cream separators, boring machines, turbines and saws—the saws used to cut the timber the Soviet Union now is exporting at the expense of the Swedish sawmill owners.

But the men who make the saws are not the same men who run sawmills, so the record shows that while the Swedish timber exporters were growing more vehement in their protests against the Soviet timber, the Swedish saw manufacturers were selling more saws with which to cut that timber. In 1927–1928 they sold saws to the value of $650,000; in 1928–1929, to the value of $700,000, in 1929–1930 to the value of $1,300,000. Sweden's total exports to the Soviet Union in 1929–1930, counting the imports into the Soviet Union by the Swedish concessions operating there, amounted to nearly $11,000,000 while the total Swedish purchases from the Soviet Union, chiefly of oil and grain, amounted to about $4,000,000.

All the Swedish sales to the Soviet Union are made without a Government guarantee and I was assured that several of the largest Swedish export firms carry their own Soviet notes. The average credit time granted to the Soviet trade representatives here is thirteen months. Those concerns that wish to discount their Soviet notes will be refused by the Swedish banks if they wish to discount without recourse. They may, however, discount at the Soviet Bank here. This Soviet financial practice is worth attention. For example: A Swedish manufacturer sells a bill of goods for $100,000 to the Soviet commercial representative, who gives a promissory note for $106,000, payable in thirteen months.

Unable to discount the bill without recourse to the Swedish Bank, the manufacturer may, however, take it to the Soviet Bank here and receive for the bill around $90,000 to $95,000 cash. The Soviets thus have bought back their own bill at a discount of 11 to 16 per cent and have in effect merely obtained a rebate of that much for cash payment on the goods they purchased. Such are the pecularities of finance, however, that the Soviets find this method gives them more leeway than the payment direct in cash, as their bank here can borrow from Swedish sources up to a certain amount to use for discounting bills. When that sum is exceeded, however, and the Soviet Bank has no more funds for discounting then the Swedish manufacturer who wants to discount without recourse must take his bill to Paris or elsewhere, where "black brokers" will favor him with cash at 27 per cent.

All these other features of Swedish-Soviet commercial relationships, oil, saws, active trade balance, are important to recollect in judging the great timber war that dominates the picture. In that war the Swedish and Finnish timber trade appears to be losing faith in the effectiveness of the forced labor issue. They have observed that prices, not pathos, have decided the business in England, and when the British Parliament turned down the bill to forbid the import of products of forced labor, interest in the "Russian conscripts" flagged. Swedish and Finnish exporters have not entirely abandoned the hope of affecting the hearts of the British and other consumers, but the attention of the trade now is directed largely toward the hopes of affecting the pocketbook of their competitor.

An agreement to divide the market with the Soviet Union seems the only solution to many who have seen how difficult it is to keep the Soviet Union out of the market. Sentiment has been retired to reserve stations and "sound business sense" brought up to the front line. With these troops the Soviet forces are accustomed to deal and signs are not lacking that the timber war may end in "peace without victory."

CHAPTER XX

Helsingfors:

On the hotel tables of Helsinfors stand round green boxes for the reception of coins. On each box is the inscription: "Give your bit for gas defense."

Many builders in Helsingfors and other Finnish cities have included in the specifications for their homes and factories gas-proof rooms. The Red Cross Hospital now being erected here, to be the largest hospital in Helsingfors, has one gas-proof ward.

Most striking of many manifestations of anxiety in this country, the agitation for gas defense is only one evidence of the feeling that Finland's three million folk harbor for their huge neighbor on the east, the land that for a hundred years held Finland subject and that today, with its 150,000,000 mobilized behind its Five-Year Plan, seems to Finland much more than a mere trade menace.

Soviet exports of timber have cut more deeply into this country's economic life than Soviet exports of any other commodity have affected any other country, here much more than in Sweden, yet Finland is not thinking primarily of timber. She is thinking of gas.

Before the nation looms a nightmare: On one white night like tonight, when one can read a newspaper without artificial light at 11 in the evening, a swarm of Red army airplanes rises from the Leningrad airdrome, just a step across the Finnish border. High above the Gulf of Finland fly the Red planes. One short hour from their base they circle. Below them sleeps Helsingfors.

Now Helsingfors has been taught that such a fleet of airplanes could discharge enough gas bombs at one visit to exterminate the population of a community much larger than this city of 230,000. On land the Finnish army believes that it is good enough to hold back the Red army. In the air the Finns know that they are virtually helpless, with a maximum of 300 planes to the Red army's estimated 1,500.

Hence gas masks on hotel tables, gas-proof rooms, and public agitation to instruct the nation in defense. It may be fantastic, it may be quite unnecessary, it may be futile, but whatever justification or lack of justification there is for this fear, the fear exists. It is real enough to the Finns to make them spend money, and one doesn't spend money on measures to meet a danger one only faintly fears.

Finland, with its recollections of the war of independence against the Reds just thirteen years ago, is like a property owner who once suffered a disastrous fire. Finland is taking out fire insurance.

And Finland fears fire more than any country could that has not experienced it. This is the first nation encountered among nine already visited on this strip where deep-seated and ever-present apprehension exists as to what the Five-Year Plan may mean for its own people.

It is necessary to record these facts to complete the picture of Europe's attitude toward the Five-Year Plan. It is equally necessary, however, to put these facts into perspective and to balance them with the opinions of many students of the Five-Year Plan in other countries besides those bordering on the Soviet Union. Many of these students without any political purpose to serve and conversant with the program of the Soviet authorities for the Soviet Union and with the program of the Communist International for a world revolution, do not credit Moscow with aggressive military intentions today. To this school of observers belongs the present writer.

Those acquainted with the change in tactics of the world revolution adopted by Moscow since the Five-Year Plan went into effect are aware that today the plan is first to make the Soviet Union strong, economically independent, militarily powerful and to elevate, if possible, the standard of living of the Russian worker to such a level that the proletariat of Western Europe will find in the existence of the Soviet system the greatest incentive to emulate it.

When this hypothetical condition arises and the Communist Party of some European nation seizes power and the Soviet Union at the same time has become strong, the Russian Communist Party, as every reader of its proclamations must admit, would be untrue to its own avowed principles if it did not promote by every means in its possession the effort to establish also in other countries a dictatorship of the proletariat.

First of all, though, the Soviet Union must have become strong and must have gone considerably further than it has toward presenting the European working class with an enviable example of proletarian comfort. And that, if it is to happen will take time.

So to this school of observers it appears plain that the Soviet Union now has more reason to wish peace and more reason to desire stability in the world markets, where it sells its commodities in order to achieve the Five-Year Plan, than have any of its neighbors, lacking such a plan, anxious though they, too, are for peace and hard-pressed though they, too, are by the world economic depression.

For to the Soviet Union peace today is a means to an end. To other nations it is an end in itself. And if war tomorrow is to be necessary for the sake of world revolution it can only be successful, according to this program, if the Soviet Union today is permitted the years of peace required to establish its economic independence and to elevate if possible the standard of living of Soviet workers above that of their Western neighbors.

This analysis appears to impartial observers to explain equally well the present comparative quiescence of the Communist International, the shifting of emphasis in Moscow for the moment from the world revolution to the national constructive effort of the Five-Year Plan and the obviously genuine fear of war expressed almost daily by the Kremlin. But just as Moscow cannot conceive that the bourgeois world is going to permit the Soviet Union to attain its strength undisturbed, so Helsingfors cannot conceive that Moscow wants at this moment nothing so much as to be let alone.

To all Finns save that 10 per cent of the population which voted Communist before the Communist Party was outlawed, the Five-Year Plan is a very black cloud on this nation's horizon. The view that the Five-Year Plan is going to succeed is gaining ground rapidly here and only a few Finnish leaders venture to express the hope that it may be true that when the Five-Year Plan is achieved the Soviet Union will divert some part of its export to domestic consumption and thus will relieve the world markets of the excess of Russian products. It was curious to hear this view advanced by a man prominent in the anti-Soviet movement.

Most curious, however, was another view outlined by a leading citizen of Helsingfors who declared that it was his belief that the breakdown of the Five-Year Plan would be the worst thing for Finnland, since Moscow would then seek an outlet for the disappointment of its people and would send Red hordes across the Finnish border to loot and plunder.

Thus Finland expresses its fundamental conviction that nothing good can come out of Russia. Failure or success, the Five-Year Plan is bound to be bad for Finland.

This anti-Russian feeling, based at least as much on the resentment at the century of Russian oppression under the Czars as at apprehension of Soviet aggression, reaches deep into Finnish hearts. I offered a Finnish girl a cigarette and said the Russian word for "please." She rejected it and said: "I had to study Russian four years when our country was under Russia and our schools under Russia. I never want to hear the word Russia again. We hate the Russians."

These old historical grievances are enough to warrant the assumption that Finland would be on bad terms with Russia under any Government. But to them has been added a very real fresh grievance in the form of the Soviet Union's competition in the timber market. For Finland this market is much more important than for Sweden. Of Finland's total exports 85 per cent are wood or things that come from wood.

The progress of the timber war between the Soviet "Exportles" on the one hand and the Swedish Wood Exporters' Association and the Finnish Sawmill Owner's Association on the other hand, has been told from Stockholm.

There it appeared that an armistice was in sight and that an agreement to divide the market with the Russians might eventually come. That still appears a possibility even a probability in Helsingfors, but not so probable as in Stockholm. For the Finns have lived for the last hundred years on the principle that the only way to get along with the Russians is to fight them. And fighting a price war is the method recommended by Risto Ryti, governor of the Bank of Finland, in an address that has had sufficient resonance in the timber world to have evoked already complaints from London that not the Russians, but the Finns, were upsetting the market by offering their timber at dumping prices.

Mr. Ryti's speech was a most refreshing document after two months' experience of listening to the plaints and pleas of business men in other parts of Europe for government protection and international protection, but above all for protection by somebody else against Russian dumping. Mr. Ryti's advice was: "Protect yourselves. Undersell the Russians."

It was typical of Finland that while European nations twenty times the size of this tiny land have quivered before the "Red Trade Menace," it remained for a Finnish banker to launch the slogan, "Fight," and to get an immediate response. Mr. Ryti by this speech became a financial Paavo Nurmi. For without employing the word, Mr. Ryti called, in substance, for the Finns to use "seesoo," and it is with "seesoo," that Nurmi wins his races and makes his records.

This strange word rendered here phonetically was the object of much curiosity at the Amsterdam Olympic games, where Nurmi proved again his title as the greatest runner of all time. Nurmi, it was said, used "seesoo." He went into a trance before each race, contemplated his navel and gained superhuman strength therefrom. "Seesoo" was conceived to be a Finnish form of Yogi. "Seesoo," however, it was explained to me by a Finnish scholar, is simply Finnish for that quality which the English call "intestinal fortitude" and Americans call "guts." In the Finnish scholar's terms it is "the unconscious capital of a man after he has exhausted his conscious resources." This capital is what Mr. Ryti told the Finnish saw-mill owners to draw upon.

After analyzing the various reasons why it appeared improbable that the Five-Year Plan could succeed Mr. Ryti proceeded to make some remarks that undoubtedly should be interesting to other than Finnish competitors with Soviet exports.

"If we were to assume, however, that the Five-Year Plan succeeds it would theoretically only be to the advantage of world economy, for the greater the production the more complete the satisfaction of demand for commodities," he said, "and even though Russia were to continue to export at low prices, world economy would still theoretically be the gainer. For why does Russia export? Naturally in order to be able to import goods and pay for them."

"So that," continued Mr. Ryti, "if they sell cheaply and buy dear the result is that Russia must slave for the benefit of the rest of the world. In practice, however, the drawback to this system is that those who export the same commodities as Russia, lose, and if their economy is brought into disorder, others lose indirectly by it. We, and in particular our saw-mill industry, belong to those fated to lose."

The banker went on to admit that Finland had greatly increased her timber export by reason of Russia's decade of absence from the market and said that the Soviet Union had now attained Russia's 1913 average export and that Finland's had correspondingly declined also to her 1913 average, and that this was tolerable, but that any more losses would be intolerable.

"We cannot withdraw from the market. We must fight for it. But people say that we cannot compete with Russia owing to the economic methods employed by that country. We must, however, do so, and we can do so with hopes of success. Our forests are better situated, our waterways are better and shorter, our men and horses are better provisioned, and the skill and efficiency of our workers are higher than those of the conscripted workers of Russia.

"Our organization is more elastic and has a greater sense of responsibility, our saw-mills are more efficient, our shipping conditions are better and our freights are lower. We can offer specifications more satisfactory to buyers and guarantee prompter and more regular shipments than can Russia.

"Even Russia does not get her timber for nothing, and the deeper they cut the further they must go for their timber, and even if Russia cared nothing for making profit the fall in the price of timber comes at a very inconvenient time for her. Its effect on the success or non-success of the Five-Year Plan can be great.

"Every fall in timber prices," the banker finished, "will affect Russia's trade balance and hinder the realization of the Five-Year Plan. In our case competition for the markets will demand great efforts—close coöperation between shippers, and temporary contentment with low forest prices. It demands also, regrettably enough, the maintenance of wages at levels lower than before. All this, however, is essential if we are to retain our markets, for if we lose them we will have to fight hard to get them back. We must fight to keep them now."

Mr. Ryti's recommendations were delivered against a background that made the possibility of their being carried successfully into operation appear good. After all one had heard of the terrific slice Russia had taken out of Finland's export trade it was natural to expect to see something like destitution in Helsingfors, to see mobs of unemployed, to observe, in short, a country flat on its back.

Nothing of the sort. Helsingfors, like all Northern cities, has an air of asceticism but in a short sojourn here, I could discover no signs of real poverty, and I was credibly informed that there are none who hunger. The so-called "sum" sections consist of houses much better than those in Berlin's famous model tenement district. And in Helsingfors I saw more new apartment houses than I have ever seen since Baku, where the Soviet oil trust covered several square miles with homes for workers.

The American Legation, commercial attaché and consular officers are housed in a new office building that "towers" seven stories and justifies its name of skyscraper by possessing all the finish and equipment of the most up-to-date structures of that type in America. Its lower floors are occupied by a department store that would do credit to an American city three times the size of Helsingfors. One department especially is a real cause for civic pride. It is a book store "The Academic," said to be the third largest in the world, and with an English section larger than many good-sized New York book stores. It has twelve miles of shelf space, stocks volumes enough to fill a National Library, and is only one of thousands of book stores in this land of 1 per cent illiteracy.

Most of the astonishing number of new houses in Helsingfors were built since the Finns' war of liberation in 1918, and a good many of them were built on surplus profits earned when Finland was able to sell timber to the customers Russia used to have and has now regained. In part these buildings, too, were erected on some eighty to ninety millions of dollars in foreign loans, chiefly from American banks that, to judge by their long term confidence in Finland, do not take "the Red Menace" here as seriously as do the Finns.

The Finns belabored the British market with the argument that if the Britons bought Russian timber tens of thousands of Finnish lumbermen would join the jobless. But the Ministry of Social Affairs reports that in April 11,584 unemployed registered at the labor exchanges, or about one in 300 population, and the highest figures quoted of all jobless, registered and unregistered is 60,000, or one in every fifty of the population.

Soviet competition, however, explain the Finnish saw-mill owners, resulted in more part-time employment than in actual dismissals.

The Lappo League, that super-Fascist organization named for the first battleground of the war of independence, virtually has eliminated strikes as it also eliminated the Communist Party, and now would like to eliminate trade with Russia. The Government was willing to suppress the Communist Party, but not trade, and another surprise of this investigation not lacking in surprises was to find that Finland, bitterest of all the anti-Soviet front, furnishes governmental guarantees for sales to the Soviet Union with 75 per cent insurance in a general scheme of export credits similar to England's and Germany's.

Finland has an active trade balance with the Soviet Union and last year sold $6,000,000 worth to her best disliked neighbor and bought $3,000,000 worth from her. And Finland, who claimed that Great Britain was betraying her principles by buying timber from the Soviet Union, herself bought nearly $2,000,000 worth last year, and in the first quarter of this year, $50,000 worth. This, it was explained to me, was nearly all bought by one man, who has been severely criticized for doing so.

To most Finns, though, the Russian menace is not commercial. It is military. Finland has 32,000 regular troops under arms, one-third as many as the United States, with a population forty times as large. Besides these, Finland has a Civic Guard of 100,000 men and 30,000 volunteer women for service of supply nurses and sanitary corps.

"Mussolini," said one of these women volunteers, "is no good. He trades with Russia. He is a Red."

Out on the street a regiment marched past. I asked her who they were.

"White Guards," was the reply.

"And will they suffice to defend Finland?"

"They and Finnish 'seesoo!' "

CHAPTER XXI

Riga:

Out of the loft of the blue Baltic sky the Helsingfors express plane wings down over the roofs of Riga and follows the winding Dvina. Along its banks one gazes down on lumber yards, their stacked planks like innumerable decks of cards ready to be played in the international game of commerce. Over the fields beyond the city the plots of green and dark brown earth alternate beneath one's eyes like patterns on Scotch tartan. Smoke from a score of factories streak the landscape and tells of industry in this tiny chip off the massive block of Russia.

So unpretentious is this little land that the outside world has often forgotten that Riga is the capital of an independent state and letters come addressed to "Riga, Russia." Latvia, though, has not forgotten that she used to be a Russian province. She has not forgotten that her whole economic existence is dependent upon commercial contact with the vast hinterland that now is Soviet, and in this country may be found a most perfect microcosm of the non-Soviet world's relations with the strange new state to the east.

How Latvia suffers and how she profits from Soviet trade is interesting enough, and her flax warehouses, lumber yards, her rubber factories, car barns and paper mills are rich sources for an investigator of the influence of the Five-Year Plan on European trade. But all these places have not a fraction of the interest and significance of No. 20 Elizabeth Street.

No. 20 Elizabeth Street has a wide show window. In that show window stands a tractor. Heaped around it and back of it are a dozen other varieties of agricultural implements. Surely, not a very exciting sight.

Nevertheless, to anyone who has asked himself the question whether the Soviet Union under the Five-Year Plan or after the Five-Year Plan can produce manufactured articles for competition with the non-Soviet world would hardly have been able to restrain an exclamation of surprise upon entering the agricultural implement store at No. 20 Elizabeth Street. I paused long enough outside to read on the radiator of a tractor in Russian "Fordson, Krasnaya Putilovetz Leningrad."

Inside, before I could ask about the tractor, a sign on the side of a trim, red threshing machine caught my eye. "Made in U. S. S. R." The same sign was on a broad horse rake in another corner, on a reaping machine, on a row of milk separators, on a bundle of pitchforks and of scythes, on two kinds of flax breakers, on disc harrows and tooth harrows, on a grain sorter, on ten varieties of plows all neatly ranged in rows, on several kinds of pumps and churns, on a series of implements whose use I did not know, and, finally on a twelve-horsepower fuel oil engine. Back in the dim recesses of the store, handles stuck out of wrappings on indiscernible machines and light glinted from rows of metal receptacles.

"You only sell Soviet products here?" I queried the salesman.

"Oh, yes," he replied, "they make a pretty complete line."

"How's business?" I asked.

"Fair and getting better," was the answer.

When I told the salesman that I had been in the Soviet Union and seen a good many of the factories whence came the implements he was selling, the man became cordial. "But I must admit," I said, "that I didn't expect to find them exporting agricultural implements abroad. Are you really selling them? How do your prices compare?"

"Really selling them! Of course we are. We've been selling them now for a couple of years, though this year is the first that we've done real business. See that big horse-drawn rake there? We've sold 1,000 of them already. And the prices? Well, nobody can touch us there."

We began with the tractor, an exact model of

Ford's ten to twenty horse-power wheel tractor, turned out by his Cork plant for the European market.

"This tractor," said the salesman, who was a Lett, "is really good. I think it is better than the original. It stands up better. It is built out of stronger materials."

"That's probably a matter of speculation, isn't it?" I said, "but how much do you want for it?"

The price he said, was $900. "But we only ask 20 per cent down and give the buyer thirty months in which to pay the balance. The original Fordson costs $1,000 and you only get eighteen months' credit."

We went from one machine to another. The price differential on all other implements was much greater. The thresher, bearing the mark of the Elizavetgrad factory, formerly Ellworthy works, a British concern, was priced $300, against the price for a similar thresher by the International Harvester Company of $700. A flaxbreaking machine from the Pskov factory, "Metallist," was priced $40, against $90 for a similar machine of German make. A seeder from the Petrovskovo factory in Kherson was priced $74, against $96 for a German or Czechoslovakian machine of the same kind. Another flaxbreaking machine of a different model was priced $20, against $40 for a German make.

The horse rake of which the salesman said he had sold 1,000 was priced $34, against $46 for German and Swedish rakes. This rake came from the Soviet's prize new implement factory, "Selmashstroi," that I had visited six months ago in Rostov-on-the-Don. When I was there last October they told me they had produced 4,000 such rakes, but were scheduled to turn out 100,000 in 1931.

Many of the implements on sale here in Riga were produced in pre-revolutionary factories renovated under the Five-Year Plan, but the horse rakes, of which they had sold the most, came from the one implement manufactory that has been erected since the Five-Year Plan without the help of foreign engineers.

A grain sorter from the factory, "Trier," at Voronezh, was priced $64, against $110 for a German make. Finally, the stationary fuel oil engine, trademark "Vozrozhdenie," from Markstadt on the Volga, was priced $320, against the $540 of a German competing brand.

The salesman presented me with two catalogues in Lettish, one containing pictures and description of fifty varieties of agricultural implements, the other describing four types of heavy oil stationary and portable engines as well as one for motor-boats. All these Soviet products the salesman assured me, could be obtained on order, and only lack of space prevented him from showing them in stock.

The Lett salesman explained that his company, "Standartlini," had exclusive rights for the sale of Soviet agricultural implements in Latvia. I asked if Soviet implements were being sold elsewhere. "Oh, yes," he replied, "all through the border states, Esthonia, Latvia and Lithuania, and I understand they are also being sold in Persia and Turkey."

All this provided a large, substantial mass of material upon which to ruminate. It was not possible, however, so quickly to digest a phenomenon that was the most surprising discovery of a tour that has not been lacking in new views of Soviet economy. For, despite the anxiety of Manchester textile manufacturers and of other makers of fabricated goods about Soviet competition, it has not seemed likely to many observers of the Five-Year Plan that any serious export of manufactured products from the Soviet Union could be expected in some time. At any rate, not the export of comparatively complicated products such as agricultural machinery.

It was, therefore, natural that one should view even this display of implements with considerable skepticism and the remark of an American, who has lived long in Latvia and studied the ways of the Russian trade representatives with care, sounded plausible. "This is all window dressing, I think," he said. "Just window dressing. It makes a good impression on the Latvian public. It is fine propaganda for the Soviets here, but that's all."

Prepared to have this impression confirmed, I visited the head of the Baltic agency of one of the largest agricultural implement concerns in the world and asked him what it all meant.

Before replying he pressed a button and ordered files. A clerk brought a thick bundle of papers. Thumbing them he began, "This is what it means. Two years ago they began this. We all thought it was a bluff. Last year they had sold, however, 10 to 12 per cent of the total market. Not much, but enough to make us sit up and take notice.

"This year," he continued, "they plan to sell in Latvia alone to the value of $400,000, which would be equal to our total sales and would be about 40 per cent of the market. And that is only in Latvia. They are operating on the same scale in Esthonia and Lithuania."

"And how much do you think they actually will sell?"

"Maybe $200,000 worth. If they do, they will be doing well. But," he exclaimed, "how can you meet this sort of thing?"

He turned a sheaf of pages, paused at one and began to read:

"On spring-tooth harrows, five teeth, they ask $3. We ask $5. On seven-tooth harrows they ask $3.60. We ask $7. On nine-tooth harrows they ask $4.20. We ask $8.

"On disc harrows, eight discs, they ask $26. We ask $44. On disc harrows, ten discs, they ask $29. We ask $48. On seven-tooth one-horse cultivators they ask $9. We ask $18. For a nine-tooth cultivator they ask $9. We ask $23. On a five-foot reaper they ask $50. We ask $96. On a four-and-one-half-foot mower they ask $33. We ask $66. On horse rakes they ask $20. We ask $36. And so on. All along the line just about 50 per cent less.

"But that is not the worst. What really cuts us down are the terms they offer. On nearly all their sales they let the farmer take the machines with no cash payment and only ask for a first payment after six months. On small machines they give from six to eighteen months' credit, while we can only afford to give from six to nine. On machines like reapers, mowers and rakes they give up to twenty-four months' credit. We give six to nine. On tractors they give thirty months' credit. We give eighteen."

The gentleman spoke without agitation. His tone was reflective.

"Well, you can't offer the peasant any better terms than that. All he has to do is come in the store, pick out the machine and walk off with it. He doesn't have to pay a cent of money."

Hopefully, he continued. "But what will that peasant do after six months when he is called upon to pay? I think a lot of them will use their reaper to harvest their crops and after six months bring it back, say it is no good and refuse to pay."

This note of optimism disappeared when I asked, "How about the quality of Soviet implements?"

"Last year they looked so rough and unfinished that I think that was one reason they did not sell many. That and the fact that they actually could not deliver. This year, though they are delivering and—well, here is the report on two machines my agent observed."

He read. The machines in question, according to the report, were so brightly painted, varnished, polished, nickled, so gleaming spick and span, that the agent had written he was almost sure they must be machines for a special exhibition. Also there was the fact that these machines had been packed so carefully, with so much extra boarding, that it seemed incredible that they should have been intended for the regular market.

"And so," he said, "I figure in the first place that they will lose 25 per cent of their turnover from the machines the peasants return in order to avoid paying at all. And then I don't think they can afford to put out a fancy product like those we've seen. As to their durability and real efficiency, we haven't had time to judge. We can tell after this season. But as to sales. Well, all over this country and in Esthonia and Lithuania they keep turning up, here, one carload, there one carload. It is hard to keep track of them."

He paused. "At any rate," he finished, "It's no joke."

It is just because this topic of the Soviet Union's sale abroad of manufactured articles is so hotly debated and because the evidence upon it is so likely to be called in question that the writer has put this particular report in quotation form and attempted to render as nearly as possible, a dictaphone account of these first-hand findings. From another source, but not first-hand, were obtained more data of interest.

In the first place, as to tractor sales. As far as could be ascertained only one has been sold. And this, apparently, will be the only one sold for awhile. Not, however, because the Latvians did not want to buy Soviet tractors, nor because they could not be delivered, but because Ford has protested against the sale abroad of a tractor made on his blueprints and his patents that had been licensed for use in the Red Putilov factory at Leningrad for the manufacture of tractors for Soviet domestic consumption, but not for export. While Ford is still coöperating with the Soviets under a $30,000,000 contract to supply plans, engineers and automobile parts for the Nijny Novgorod plant, it appears unlikely that the Soviets should ignore his protest against the sale abroad of Soviet model Fordsons.

Very interesting in this respect was the statement of the salesman in the "Standartlini" store that "we expect in six months to be selling Soviet automobiles."

I asked, "Where from?"

"From Nijny Novgorod."

I objected that the Nijny plant was apparently so far behind schedule that it was hard to conceive that they would be producing so soon, much less exporting Soviet Ford cars abroad.

"Well," said the salesman, "that's what we've been told. We've been told to get ready to push Soviet automobile sales here this coming autumn. Anyway, we are already selling Soviet sewing machines."

"Standartlini," the implement sales concern, it appears, has been granted the territory in the three border states, Lithuania, Latvia and Esthonia, by the Soviet Foreign Trade Monopoly for the sale of Soviet implements. Prices, it is said, shall be fixed at about 25 per cent below rival prices, but prices at which the Soviet factories sell to the agents shall be such that agents will still have a profit of at least 25 per cent.

These items of information came at second hand. Data on turnover and actual prices charged do not admit of doubt, coming, as they do, from both the Soviet and their competitors. More difficult, but not insoluble, is the problem of why the Soviet Union, that is working so hard to supply its farms with implements and is still spending considerable sums on the importation of implements, and especially of tractors, should be exporting these products.

If one wishes to understand this situation and not merely to dismiss it as too infernally paradoxical, it is necessary to observe first, that all implements on sale, despite their number and variety, are comparatively small implements suitable for use by individual farmers on small or moderate sized farms. Even the tractor and thresher are the smallest types of these machines.

Now the Soviet Union has gone over definitely to big-scale farming and on the state and collective farms tractors of the Fordson size already are being discarded as too small. On Gigant and Verblud, the two huge state farms in the Northern Caucasus, they were even complaining last autumn that ten-ton caterpillar tractors were scarcely up to the job of hauling the batteries of plows or of seeders that they wanted to use in plowing or seeding as fast as possible, on fields comprising an area equal to the state of Rhode Island. But the Red Putilov factory at Leningrad is geared to turn out only the Fordson type of ten to twenty horse-power wheel tractors. And the Lujbertsky factory, employing 3,600 men and geared for small reapers and mowers, turned out 100,000 of each last year.

From these considerations alone it is conceivable that the Soviet authorities might consider it more economical to sell abroad their small implements than either to use them at home on farms that need larger implements or to close the factories that make them or to remodel those factories for manufacturing the larger implements suitable for the state collective farms. From another standpoint also, however, the Soviet sale abroad of agricultural implements does not appear so puzzling as at first.

The one big aim of the Five-Year Plan, beside which all other aims sink into insignificance, is to introduce into the country sufficient of the instruments of production to be able, after the plan is completed, to continue the process of industrialization, even if the outside world should impose a boycott and cut off the Soviet Union from its present sources of the indispensable, fundamental, first tools of production. Until these tools are present in sufficient quantity within the Soviet Union, no consideration, or little consideration, will be paid to the production of consumption goods. Tractors and agricultural implements are instruments of production. They are not, however, the sort of fundamental instruments of production, that is, machines that make machines, that are of most importance in the Five-Year-Plan. As long, though, as tractors help produce grain that may be sold abroad to buy the machines that make machines, tractors are entitled to be regarded as primary tools of production and, hence, should not be exported under the Five-Year Plan.

Now, however, the grain market is so depressed that it appears plausible to reckon the more cash might be obtained from direct sale of agricultural implements abroad than could be obtained by the sale abroad of the grain produced by those agricultural implements. Nor does any of this argument disturb the indubitable fact that the sale of these Soviet agricultural implements in Latvia, Esthonia and Lithuania is good propaganda and that, even if there is something back of the window dressing, it is effective window dressing.

For American, German and Swedish manufacturers of agricultural implements it does not make much difference what motives lie back of the Soviet campaign to sell implements abroad. That campaign has ceased to be a mere curiosity to the representatives of those non-Soviet concerns in this country and it is just as difficult to try to get one of them to "laugh off" the Five-Year Plan for Agricultural Implements as it is to try to get an oilman to dismiss the Five-Year Plan for Oil or a grain man to take the Five-Year Plan for Grain on the light shoulder.

None of this should be interpreted to mean that it is the writer's opinion or the opinion of the non-Soviet agricultural implement agents here that the

Soviet Union in the near future is going to flood the world with manufactured products.

It does appear, however, that anyone interested in knowing what the Soviet Union is doing, and not in mere ejaculations of approval or of disapproval, may find something valuable in this view of the activities in one small corner in Europe of one branch of the Soviet economy.

CHAPTER XXII

Berlin:

Canada, Rumania, Hungary, Jugoslavia, Bulgaria and Albania have all put down the equivalent of absolute bans on the importing of Soviet goods. Crying protests against Soviet "dumping," protests that crescendoed to a world-wide chorus last autumn, these six nations took the most rigorous measures that nations can take. They closed their borders hermetically against anything from Russia, and the world, checking off, one by one, their entrance into the "anti-Soviet front," exclaimed that this was a doughty blow to the economic expansion of the dangerous new competitor state.

Moscow was once more aroused from chronic to acute alarm. Fanfares of warning were blown in every Soviet newspaper, and the proletariat of Russia and the world was called upon to make ready to defend "the first workers' and peasants' republic."

Newspapers elsewhere published headlines "Europe checks Soviet dumping." Bankers thought it a good time to put up the rates of interest on Soviet notes, and the gentlemen of the "black bourse" added a modest 5 or 10 per cent to their exactions from frightened sellers of goods to the Soviet Union. If

Soviet exports were blocked by six nations, it meant, did it not, that Soviet trade was in a fair way of running on the rocks, that Soviet economic expansion was suffering a check?

It did not.

What it meant was that the Soviet Union, out of its total exports of $500,000,000 had to find a new outlet for $1,050,000 worth of goods, that the Soviet Union had lost one-fifth of 1 per cent of its exports. To Canada, the Soviet Union, in 1930, sent $500,000 worth of goods; to Rumania, $400,000; to Jugoslavia, $50,000; to Bulgaria, $130,000; to Hungary and Albania, nothing. These, at any rate, were the official exports of the Soviet Union, officially listed and entering the country of destination with the Soviet Union as the country of origin. Indirect Soviet exports via other countries and the Soviet exports under false certificates of origin cannot be counted and would probably continue in an equal quantity also under embargo bans.

But these were only the actual sales lost by the Soviet Union to the six nations in question. What were the potential sales that might have been made; what proportion of the world's buying power was lost by the Soviet Union through the determined measures taken by Canada, Rumania, Hungary, Jugoslavia, Bulgaria and Albania? Their total buying power, as represented by their share of world imports in 1929, was 5 per cent of the world's total buying power. The six countries in question imported in 1929 $1,854,000,000 in goods, but the total world imports were $35,361,000,000. The Soviet Union, knocking on 100 doors of 100 possible customers, found but five shut in its face.

Nevertheless, the list of six nations was long enough to be impressive, and when France and Belgium were added, with their license systems imposing not embargoes but certain restraints on Soviet imports, again the world exclaimed that something serious was being done about Soviet "dumping." The results of the French and Belgian license systems and their almost complete failure to exercise even a check on Soviet imports have already been pointed out, but the total effect of these measures on Soviet exports has not yet been computed.

This computation, however, shows that if French and Belgian purchases from the Soviet Union continue during the whole year under their license systems as they have developed in the first five months of those systems the total Soviet exports to those countries will have fallen off in the case of France by $5,000,000; in the case of Belgium, by $2,000,000. Which means that the Soviet Union, losing $7,000,000 in exports, will have lost, by reason of the restrictions placed by these two countries upon Soviet trade, a total of 1.4 per cent of its total exports. These losses from France and Belgium added to those from the six countries that laid down complete embargoes would mean that the Soviet Union had lost a grand total of 1.6 per cent of all its exports, unless it found other takers for this amount of goods.

Furthermore, in suffering even a partial restriction on its sales to France and Belgium, the Soviet Union has suffered a partial restriction on sales to countries that, important as they are in world trade, represented only 9 per cent of the world's purchasing power, or imports of $3,268,000,000 in 1929 out of a world total of $35,000,000,000. If the Soviet Union, however, were disconsolate over even so infinitesimal a setback in its opportunities of trade, the prospect would appear much more cheerful upon contemplation of England, Germany, Italy, Austria, Denmark, Norway, Finland, Latvia and Esthonia.

These nine countries present 31 per cent of the total buying power of the world. In 1929 they imported $11,769,000,000. And these nine countries not only have not done anything, and are not doing anything, and most probably will not do anything to check Soviet imports, but, by putting the financial guarantees of their Governments back of trade with the Soviets, are doing, and probably will continue to do, everything possible to encourage trade with the Soviets.

While headlines were large over every accession to the ranks of those countries that had embargoed Soviet trade, few, even among those most interested in Soviet affairs, noted that from year to year, almost from month to month, the number increased of those countries which were guaranteeing Soviet credit and thus not only expressing governmental belief that trade with the Soviet Union was a profitable affair good for national economy but expressing, in a certain sense, their official belief in the solvency of the Soviet Government and their official faith in its capacity and willingness to meet its obligations.

Every one of the nine countries named have systems of export credits, in some cases intended to insure trade with any foreign country, and in some cases intended to insure trade only with the Soviet Union, but in all cases operating chiefly to insure trade with the Soviet Union. These credit guarantees usually cover 75 per cent of the total amount of Soviet obligations, insuring sellers of goods to the Soviet Union that the Government will pay three-fourths of a bill owed by the Soviet Union if the Soviet Union were to fail to pay. From these nine countries the Soviet Union bought in 1930 39 per cent of its total purchases abroad.

This is a generous percentage, it would seem, yet, curiously enough, the export credit systems of these nine countries have been accompanied by a much greater import of Soviet goods into their territories than an export of their goods into Soviet territory. Whether there is any causal connection or not may be difficult to establish, but it is interesting to observe that, whereas these nine countries sold $193,000,000 worth of goods to the Soviet Union in 1930, they bought from the Soviet Union $340,000,000 worth. The Soviet Union spent 39 per cent of its total funds available for purchases abroad on purchases from these nine countries, but of all the Soviet Union's sales abroad 67 per cent went to these countries.

An export credit system, granting government guarantees on the sales by its citizens to the Soviet Union, may be interpreted in a way as an expression of good will toward the Soviet Union, or, at any rate, as an expression of a desire to improve trade relations. Curiously enough, however, those countries, that grant such governmental guarantees, enjoy but 39 per cent of the Soviet Union's total purchases and buy from the Soviet Union two-thirds of all Soviet Union exports.

However that may be, a more important conclusion from this analysis of Soviet foreign trade is that, while cries against "Soviet dumping" were making the World's economic welkin ring and while some observers noted with satisfaction that Europe was taking adequate measures, these measures, when added up, result in the following balance: The Soviet Union lost 1.6 per cent of its total exports.

It was effectively debarred from submitting its goods to 5 per cent of the world's purchasing power. It was ineffectively debarred from presenting its goods to another 9 per cent of the world's purchasing power. It was encouraged to present its goods to 31 per cent of the world's purchasing power, while nations representing 55 per cent of the world's purchasing power did nothing one way or another officially to influence Soviet trade, but continued privately to do normal business.

All of the countries that put effective embargoes on Soviet goods were countries with no diplomatic relations with the Soviet Union, most of them were countries with long standing political grudges against the Soviet Union, and all were countries that really suffered from Soviet exports, not in their home markets to any important extent, but in their foreign markets. Special political differences and historical reasons made it easy for Rumania, Hungary, Bulgaria, Jugoslavia and Albania to cut off Soviet trade.

In Rumania, the question of Bessarabia has resulted in a permanent state of latent war between the two nations. One of the world's great rivers, the Dniester, separates Rumania from Russia. It is not so wide but that a row boat can cross it in half an hour. But so wide are the political differences of the two countries that a Rumanian citizen who wishes to visit a relative just across the river, five miles away, has to travel about four thousand miles to reach his relative's home. Quick-triggered sentries guard the river on both sides and hardly a week passes without report of some incautious citizen meeting death in an attempt to slip across. This risk leads most Rumanians to prefer to travel to Berlin and wait there weeks or months on the improbable chance of getting a Soviet visum which, when obtained, will permit them to enter Russia by way of Nigorelye, thence to Moscow and down to the Soviet side of the Dniester River.

The Soviet Union still claims Bessarabia and has repeatedly declared it will never relinquish the claim. It was Rumanian until 1812, when Czar Alexander I seized it for Russia. The Rumanians, therefore, argued in 1918 that they were only reoccupying Rumanian territory when their troops took possession of Bessarabia. In 1924 a Russian-Rumanian conference was held in Vienna in an attempt to come to some agreement, but after sharp conflicts the conference broke up without results. The two countries living now on the worst possible terms have never had any trade save that of smugglers. The Rumanian Government's decree last year against imports of Russian goods was merely a gesture emphasizing this long established fact.

More threatening to Soviet trade was Rumania's recent attempt to bar the Danube to Soviet cargoes. The Soviet Union, however, appealing to the European Danube Commission, established to guarantee freedom of navigation on that river, obtained a verdict ordering Rumania to open traffic to Soviet boats. With this decision Rumania lost her only chance effectively to influence Soviet trade.

Rumania has as many reasons to wish to retaliate against the Soviet Union as any other country, for in addition to her territorial quarrel and historical differences, she has suffered from Soviet competition in three categories: oil, lumber and grain, the three largest Soviet exports and the three largest Rumanian exports. All this competition, however, takes place in foreign markets over which Rumania has no control, so that her efforts at reprisal remain futile.

Hungary's quarrel with the Soviet Union is essentially based on international political reasons in a country that will never forget during this generation the five months of its own Soviet régime under Bela Kun. The so-called "white terror," that for two years took the place of Kun's red variety, left a habit of mind that still governs Hungarian views of the Soviet Union. Hungary went on the principle that the Bolsheviks had at least taught their opponents one thing: that by far the most effective method of disposing of one's enemies is physically to destroy them. This system effectually removed most of Hungary's domestic "red menace" during the first years of the "white terror" and, while now there are few death sentences passed on Communists, hundreds have been sent to prison for long terms during the last few years. Fear of Bolshevism, and not of Bolshevik trade, has been dominant in Hungary's attitude toward the Soviet Union, and the Government's decree last March requiring licenses for the import of Soviet goods was also only a gesture confirming the fact that Soviet trade is virtually non-existent.

Unlike the case in France and Belgium, the Hungarian license system operated as a real embargo, for the Government reports that, since its inauguration, not a single application has been received for a license to import Soviet goods. With its license system Hungary, too, had hoped to do what it could to strike a blow at the Soviet Union out of resentment at Soviet competition in grain in Hungary's markets abroad.

The sole effect of the license system, however, has been to eliminate the Soviet purchases of Hungarian livestock that, in 1930, amounted to $125,000. Meanwhile, Italy, the great patron of Soviet trade and the patron, too, of Hungary, has been bringing pressure on Budapest, not only to withdraw the restrictions on Soviet imports, but to establish good commercial relations with Moscow. While these efforts have been going on, Italian dealers manage to ship a considerable quantity of Soviet products into Hungary under false certificates of origin.

For Jugoslavia, too, it cost no heart searching to cut off Soviet trade. Historically, Jugoslavia, a devoted protégé of the Russian Czars, is no friend of the Soviets. Czarist Russia always backed the Serbs, backed them, indeed, into the great war. A common religion ties the Serbians with the orthodox Russians, but not with the atheist Russian Bolsheviks. These sentiments rendered Jugoslavia hospitable to Czarist émigrés and Wrangel's army was for a long time quartered there.

With no official relations of any kind between the two countries and with almost no trade, it was again rather a futile gesture when Jugoslavia decreed a ban on Soviet products. The ban stopped official Soviet exports to Jugoslavia of $50,000 yearly, but reports from Susak, the Jugoslav half of Fiume, have it that, through Fiume, Italian merchants send Soviet goods to at least that value into Jugoslavia, also under false certificates of origin.

The fourth of the Balkan quintet against Soviet trade is little Bulgaria, too poor to have much trade in any case, but too thoroughly frightened of the Communists within her borders to permit any sort of contact with the Soviet Union. Albania, included for the sake of completeness, has an odd reason for not doing business with the Soviet Union.

Indirectly, the present King Zog owes his crown to Moscow. Zog's predecessor, pious, pink Bishop Fan Noli, was about to recognize the Soviet Government and the great Powers looked with much disfavor upon what they thought would be equivalent to Moscow's gaining a foothold on the Adriatic. Out of these considerations the Powers gave their permission to Zog to make a "revolution," overthrow Fan Noli and set up a kingdom. There is, therefore, no perceptible inclination on the part of Zog to do business with the Soviets.

This completes the roster of European nations that have taken any effective measures to keep out Soviet imports. But in the Balkans alone the loss of the Soviet Union in these five nations of $1,050,000 in goods is more than compensated by the Soviet trade with Greece. The only Balkan nation that has given diplomatic recognition to the Soviet Union, Greece, buys an average of $2,000,000 worth of Soviet goods a year and, lacking within her own territory the goods the Soviet Union has to offer, Greece takes the attitude toward Soviet "dumping" that the lower the prices, the better for Greek consumers. Her imports from the Soviet Union are chiefly grain and she is so glad to get that cheaply, that she raises no protest at the fact she sells to the Soviet Union only a yearly bill of around $30,000 worth of miscellaneous products.

When Austria, Czecho-Slovakia and Poland are taken into consideration, the Soviet trade with these countries is so large and is growing so rapidly that the importance of anti-Soviet embargoes in the outspokenly unfriendly Balkan states becomes nil. Austria is one of the governments that guarantee Soviet credit. Her trade balance with the Soviets is active. In 1930 she sold $3,000,000 worth of goods to the Soviet Union and bought $2,000,000 in goods from the Soviet Union.

Once, and only once, did Austria make a motion toward restraining Soviet trade. It supplied in miniature a perfect example of the sort of thing that has constantly recurred in the Soviet Union's commercial relationships with other and larger countries. Under the influence of the clerical journals of Vienna, which in turn, had been impressed by the Vatican's manifestoes against the Godless Muscovites, the Austrian Minister of Agriculture, a young, enthusiastic man, suddenly issued a decree forbidding the import of Russian eggs. The poultrymen and clericals applauded, but the Soviet foreign trade representative countered with telephone messages to all Austrian industrialists, to whom the Soviet Union had given orders for machines, telling them that their orders were canceled.

Dumbfounded, they asked why. The Soviet representative replied, "You don't take our eggs, we don't take your machines." In precisely twenty-four hours the Minister of Agriculture withdrew his ban on Russian eggs and nothing has since occurred to mar the Austro-Soviet commercial harmony. With full diplomatic relations, the two countries look back upon their egg quarrel as one of the most serious of their differences.

Between the Soviet Union and Czecho-Slovakia exist formally cool de facto but not de jure relations, but, commercially, very lively connections. No protest against Soviet "dumping" has been raised in Czecho-Slovakia because the chief Czecho-Slovakian imports from the Soviet Union are petroleum products, which compete not with Czecho-Slovakian products but with those of foreign oil countries.

It is worth noting that the Czech friendship for her Little Entente ally, Rumania, has not prevented her from buying Soviet petroleum in preference to that of her political friend. The Czechs are also grateful for the fact that the Soviet Union buys about $9,500,000 worth of her products, while the Soviet Union sells about $1,000,000 less per year to Czecho-Slovakia.

Poland, most important of all the countries under consideration here and quite unique in her relationship to the Soviet Union, deserves a whole chapter. Suffice it is to say, Poland is the one country in Europe which, even more than Rumania, is under permanent Soviet suspicion and is constantly being charged by Moscow with plotting war.

Poland ended its last war with the Soviet Union just ten years ago and the Kremlin has lain awake at the dawn of every spring, listening to Pilsudski sharpening his saber. Yet Poland today is discussing a bill to follow the example of so many European governments and guarantee Soviet credits, and Polish industrialists are vying with their German colleagues in singing the praises of a Five-Year Plan that bring such welcome orders.

These orders have wrought a marvelous change in Warsaw's attitude. Since they began, two years ago, border incidents have ceased and quiet has settled on the Pripet marshes. Last year Poland sold Russia $15,000,000 in goods and bought only $5,000,000 in goods and cheered the active balance.

This year a group of Polish industrialists visited the Soviet Union and returned with promises of more orders. Details for the realization of these promises are being worked out. Meanwhile, cynical Berlin newspapers, which are not, however, cynical when the same observations might be made of Germans take pleasure in relating an illuminating tale concerning Pan Wierzbicki, director of the Federation of Polish Industry, Finance and Commerce and leader of the Polish delegation to view the Five-Year Plan. Pan Wierzbicki, magnate of parts and a conservative Pole and with all of a conservative Pole's profound distrust of the Soviet Union, experienced a conversion when he arrived in Moscow and found Soviet orders waiting in profusion for his factories. Full of enthusiasm, he visited a small Russian village where, incognito, he attended a conference of peasants discussing the necessity of ordering machines. Wierzbicki, master of the Russian language, joined in the discussion eloquently. Whereupon as he finished his speech, the peasants rose as one man and cried, "Let's elect this comrade chairman." "Comrade Wierzbicki" and his colleagues report that the Soviet Union will buy $20,000,000 worth from Poland by the end of this year.

CHAPTER XXIII

Berlin:

A race, a sweepstakes, is deciding today the destiny of Europe. The race is between the "tempo" of the Soviet Union's Five-Year Plan and the "tempo" of this continent's efforts to organize a United States of Europe. The Five-Year Plan so far is a length ahead.

This is the German formulation of the meaning of the Five-Year Plan for Europe. It is of course not every German's formulation. It is only one German's formulation, printed in the most remarkable series of articles on the Five-Year Plan that has appeared in the German press since the plan passed its two-year mark, a series printed in the Berliner Tageblatt under the pseudonym "Z."

Herr "Z" whoever he may be, while retaining his anonymity has achieved among informed circles in this country an influence that justifies calling his opinion "the German formulation."

His anonymity is worth pausing to consider for it throws a most instructive light upon the German attitude toward the Soviet Union. For the fact of the matter is that no "bourgeois" German can yet afford to write under his own name in the non-Communist press of Germany that the Five-Year Plan is succeeding. That bare admission with no conclusions and no prophecies is much too great a risk in a country that has seventy-seven Communists in a Reichstag of 589 members.

It is much too great a risk in a country whose industrialists believe they may safely deliver machines to Russians because Russians won't know how to use them. It is much too great a risk for a country whose government since 1922 has based its entire foreign policy upon the hope that the Soviet Union may grow strong enough to frighten France but not so strong that it may injure Germany.

In Italy, in France and in England they all say today, "Germany is next in line. Let Germany worry." Prime Minister MacDonald put it crystal clear in his recent address to Parliament: "If there were any trouble Germany would be in trouble, would be involved and whirling in the maelstrom long before we either at home or abroad would be involved."

This Germany knows better than England, France or Italy, but, as one observer of this country's foreign policy has said, Germany's answer is, "If my house catches fire so will that of my neighbor, France. I want to make friends with my neighbor and go into partnership with him. But my neighbor is afraid of me and won't take me into partnership on my terms. Therefore I will feed this fire on the other side of me until my neighbor becomes so frightened of the fire reaching his house that he will make friends with me and take me into partnership on my terms. I hope this will happen before the fire really sets my own house ablaze."

This simile has flaws and is too simple to fit all the facts, especially since there are economists, businessmen and statesmen beyond reproach of Bolshevism who declare that the fire is not a fire to burn down houses but one to warm world trade. Nevertheless, it is a simile as good as any other for an explanation of the intricate relationship between Germany and the Soviet Union on one hand, and Germany and France on the other hand. It explains why Germany watches the progress of the Five-Year Plan more closely than any other country in Europe does. It also explains why Germany does not want to admit that the Five-Year Plan is going ahead too fast and hopes that France will see the light before the paint on Germany's house begins to scorch.

Finally, it explains why the leaders of German foreign policy are more disturbed today at the recent French overtures to Moscow than at all of France's protests against the Austro-German customs union. For if France too begins to feed the fire what becomes of the chance that France may eventually, from fear of the Soviet Union capitulate to German terms?

Today, too, Germany has an added anxiety. She sees Poland sending industrialists to the Soviet Union, accepting joyfully Soviet orders and discussing now the establishment of a system of government guarantees for Polish credits to the Soviet Union. And Germany remembers the statement of one Polish Government spokesman that, "Rather than give two villages to Germany we will invite the Bolsheviks into Poland."

Down the map a little further southeast lies Czecho-Slovakia, like Poland, for a long time at outs with the Soviet Union; like Poland one of Germany's least well disposed neighbors, and like Poland, allied to France. In Czecho-Slovakia, too, the atmosphere has turned pro-Soviet, the Government is said to be contemplating de jure recognition of Moscow and also to be planning a system of government guarantees on credits to the Soviet Union.

With France talking of a trade treaty with the Soviet Union, and Poland and Czecho-Slovakia making unmistakably friendly overtures toward Moscow, Germany's former monopoly on good relations with the Soviet appears threatened. And Germany is frankly worried.

Recent developments between the Soviet Union on the one hand and Germany, France, Poland, Czecho-Slovakia and Austria on the other hand, afford a classic example of the beneficial effect upon the Soviet Union of every quarrel that arises among non-Soviet European nations. For it is not merely the growth of

Soviet trade that has attracted France and her allies to Moscow. A large role was played by the Austro-German customs union. That issue will be settled juridically before The Hague Court. But before the court's decision comes, France and her allies, who objected most strongly to Germany's step toward amalgamation with Austria, intended to take practical measures against Germany's "active foreign policy." In other words, it appears and, Germany believes, that France, Poland and Czecho-Slovakia today are trying to drive a wedge between Germany and the Soviet Union and Germany's hope, though a faint one, is that the French, however, don't really mean it.

If they do mean it—and to one outside observer it looks as though they do—its significance for the Soviet Union is that the last possible hindrance to Soviet economic expansion on the Continent has disappeared. To Germany it would mean that her French neighbor had turned the tables. With the Bolshevik fire, France, it may transpire, intends to scorch Germany into submission to France's terms for that famous Franco-German "understanding" upon which it is admitted rests the future of Europe.

In any case, Moscow has profited. How much she has done so economically is shown by examination of the recent transaction whereby Germany was said to be going to receive an "extra" $75,000,000 worth of orders from the Soviet Union "over and above the orders the Soviet Union would normally have placed in Germany in a year."

This transaction has been the object of considerable misunderstanding both abroad and here. It was popularly believed to mean that Germany at the end of the year would show exports to the Soviet Union of at least $75,000,000 more than last year when Germany sent into Russia $107,000,000 worth of goods. This was hailed in Germany as a stroke of great good fortune and abroad was variously but chiefly estimated as an example of the Soviet Union's commercial friendliness to this country. In America it was taken for granted that it meant the Soviet Union had switched most of those new orders from the United States to Germany.

It now appears, however, that the transaction must be judged as better proof of Germany's commercial friendliness to the Soviet Union than vice-versa. For, as now transpires, it meant not that the Soviet Union would purchase in Germany goods to the value of $75,000,000 more than she purchased last year, but it meant that the German Government had extended its guarantees to cover $75,000,000 of Soviet purchases more than the Reich already had insured, and that was quite another thing.

Germany was the initiator of the now widespread system of Government guarantees on Russian credits. Eight other countries have now adopted that system and France, Poland and Czecho-Slovakia are said to be about to follow suit. This country guarantees 70 per cent of the face value of Soviet notes, 40 per cent of the guarantee being taken over by the Reich, 30 per cent by the German states.

By April 1, 1931, these guarantees on Soviet business totaled coverage of $125,000,000. That was the sum the Soviet Union owed German manufacturers. And that was the sum the German Government was inclined to believe should be the limit beyond which it should not go. It was willing to keep up to that limit and use its funds to guarantee new Soviet purchases as fast as old ones were paid for, but it did not wish to pledge any more guarantees than on a total of $125,000,000.

Early this spring, however, Moscow invited a delegation of German industrialists to visit the Soviet Union. There the prospect was held out that if they offered sufficiently good credit terms they would receive $75,000,000 worth of new orders. The industrialists returned to Germany enthusiastic, pressed the Government to extend its credit guarantees to include new orders and finally succeeded. Some apprehension was felt, however, as to public opinion on the advisability of the Government extending its credit guarantees to cover what would then amount to $200,000,000 worth of Soviet notes.

It may not have been calculated, but nevertheless the impression certainly was allowed to prevail at that time that the $75,000,000 of "new" orders were to be "over and above the normal amount of Soviet purchases in Germany," "normal" being taken to mean the amount purchased last year. Under the influence partly of this belief the German public was agreeable to the Government's action and only one man raised his voice in the Reichstag to warn that Germany "should not sell her political birthright for a tip."

Supported by public opinion, the Government advanced the necessary funds, so that when all the Soviet orders are placed by August 31, 1931, as required by the agreement entered into between the Germans and the Russians, the Soviet Union will owe German firms a total of $200,000,000 secured to 70 per cent by German Government guarantee.

It now appears, however, that the transaction's chief effect was to extend the length of credit time granted by Germany to the Soviet Union by from two to five months and that while this extension of credit will, it is true, increase German exports to the Soviet Union probably by $15,000,000 to $20,000,000 in 1931, it will not mean the increase of $75,000,000 which had been anticipated by an ill-informed public.

In the case of orders on which up to now twelve months' credit had been granted the Soviet Union an average time credit of fourteen months was established: in the case of orders on which eighteen months' credit previously was granted an average of twenty-one now is granted, and in the case of orders on which twenty-four months hitherto was granted an average of twenty-eight now is granted. Twenty per cent of each order must be pledged by the Soviet Union by bill of exchange with the order, payable, however, thirteen months after delivery running up to a maximum of thirty-three months. In other words the Soviet Union pays no cash down and makes the first payment thirteen months after delivery.

Obviously this would provide German industrialists few funds with which to run their plants on Soviet orders if they were unable to discount Soviet bills and for all except the very largest and most responsible German firms it was necessary to have the Government's guarantee in order to borrow on Soviet business. It was equally obvious that these were exceptionally good credit terms for the Soviet Union and that credit guarantees to cover $200,000,000 worth of trade with the Soviet Union represented a large sum for the Government to invest in any single foreign trade enterprise.

It was therefore plain that there was a certain advantage to a government desirous both of serving its own political interests with the Soviet Union and of serving what it believed to be economic interests of the country and of aiding legitimate industrial enterprise if public opinion at the moment was under the impression that the total German sales to the Soviet Union were immediately to rise by $75,000,000. Actual German exports this year, however, are expected on an authoritative estimate to equal no more than $115,000,000 to $120,000,000 or considerably less than the $140,000,000 that the United States exported to the Soviet Union last year.

It must, however, be mentioned that had the German Government been willing to extend its credit guarantees to cover another $50,000,000, or, rather, if German banks had been willing to discount that much more of Soviet bills, the Germans would have received another $50,000,000 more of Soviet orders. But the German banks declared they could spare funds for no more than the $75,000,000 and when the Germans applied to the Basle Bank for International Settlements to rediscount some of their Russian paper they were not satisfied with the reception they received.

This German attempt to rediscount Russian notes at the Bank for International Settlements deserves more than passing notice. In it is contained an epitome of Franco-German-Soviet relations and a portent, perhaps, for the future of Soviet relations with Europe.

In the normal course of affairs the German industrialist who sells 100,000 marks' worth of goods to the Soviet Union receives from the Soviet trade representative two promissory notes, one for 70,000 marks and one for 30,000. With the Reich's guarantee on the 70,000-mark note, the industrialist takes it to the so-called Gold Diskont Bank, which will advance him the total amount of the face value of the note, less the Reichsbank discount rate and 2 per cent and about 1 per cent commission, making a total of about 7 per cent. The 30,000-mark note that does not bear the Government guarantee must either be bucked away in the industrialist's strong box to be carried until maturity or else must be submitted for discount with the industrialist's own indorsement.

If the concern in question possesses good credit and the bank is possessed of sufficient funds the bank may discount even this unguaranteed 30,000-mark bill for only slightly more than the Government guaranteed bill. If, however, the industrialist either is not strong enough for the credit or wishes to obtain discount without recourse on himself he must peddle his bill on the "Black Exchange" at the usual discount of 20 to 30 per cent. Here, in other words, one meets again the odd situation that banks will not advance money at normal discount rates on the Soviet Union's unsupported promise to pay, although eight governments in Europe are willing to guarantee the Soviet

Union's promise to pay up to 70 per cent of its obligations.

At any rate, in the course of its business of discounting Soviet notes on these terms the Gold Diskont Bank exhausted the funds it had available for that particular branch of its activities. It applied to the Bank for International Settlements, the bank that had been founded to promote international commerce, and asked the Basle directors to rediscount some of the Soviet notes. It is important to emphasize that these notes were guaranteed by the German Government. At the time this occurred it was announced at Basle that the notes in question were not notes that had been guaranteed by the German Government, but the writer was authoritatively informed that every one of them was indorsed by the Reich.

The Bank of International Settlements refused to rediscount the notes. Its French members explained to Reich Bank President Luther that the Basle Bank that had for one of its duties the task of encouraging all countries to stabilize their currencies could not afford to rediscount bills of a country such as the Soviet Union, whose currency was not "regulated." What Soviet currency has to do with payment of Soviet bills that are always paid in foreign currency obtained by the sale of Soviet exports and never paid in Soviet rubles remained unexplained.

The Germans, however, were convinced that the real reason the Bank for International Settlements did not want to rediscount the Soviet bills was because they were Soviet bills issued to Germans and the Basle Bank, under French influence, did not want to promote German-Soviet trade. The Germans are equally convinced that if France really reaches an understanding with the Soviet Union, negotiates a trade treaty and establishes perhaps its own Government guarantees for Soviet credits, the Bank for International Settlements will change its mind and accept Soviet notes for rediscount.

What this would mean for Soviet credit and for Soviet trade may be estimated from the fact that if the Basle Bank had been willing now to rediscount Soviet bills Germany would have been able to take that extra $50,000,000 worth of orders offered her by Moscow. Even as it is, the Basle Bank, it is reliably reported, was forced to yield to German pressure to the extent of granting the Gold Diskont Bank a short-term loan said to have totaled around $25,000,000. The Gold Diskont Bank then used this loan to rediscount Soviet bills itself, so that the Basle Bank's principles were saved and no precedent established for its rediscounting Soviet bills while in effect Germany obtained in part and by indirection what she wanted.

More interesting than all these evidences of Germany's resolute intention to pursue to the end the path of coöperation with the Soviet Union upon which she entered in the Treaty of Rapallo in 1922 is the appearance in this country of a small but growing group that, while admitting that progress of the Five-Year Plan means fire in Europe, contends that fire can only be fought with fire. Leading the prophets who foresee the possible adoption by Germany of a state economic form similar to that of the Soviet Union, these men declare the only salvation of the present non-proletarian classes is to see to it that the change comes about from the top and not from the bottom.

The initial impulse to this movement, which it must be admitted has not yet penetrated to governmental circles, was observation of the great tactical advantages possessed by the Soviet Union in its Foreign Trade Monopoly. Adoption by private capitalist states of foreign trade monopolies will become a more pressing necessity, it is argued, as the Soviet Union expands economically, but this adoption, they say, will necessarily bring about within the domestic economy of the countries in question a gradual concentration of industry into the hands of the state, with a corresponding concentration of banking and commerce.

The net result will be, they believe, a transition from private to state capitalism with the same sort of planned national economy now being attempted by the Soviet Union. If the Soviet Union fails with its planned national economy, if the Five-Year Plan fails, then it is argued, there will be no necessity for other states to adopt state capitalism. If the Soviet Union succeeds, however, it will have provided such a powerful argument for the superiority of the state capitalist system as an instrument of production and of trade if not as an instrument for the achievement of human happiness that other states will be forced to follow suit or be crushed by the juggernaut from the East. And, they say, it will be much better for this generation if this transition, granted it has to come, should come from above than from below. For the Soviet Union has provided a sufficient example of what happens to a governing class when the transition comes from below to make the governing class chary of achieving state capitalism under the Marxist banner of "class struggle." This movement's principal significance lies in the fact that its proponents form the intellectual fringe of the National Socialist Party, exercise a constantly growing influence upon that party and conceivably may make their ideas decisive for that party's program should it advance to the position of power it hopes for itself.

Thinking Germans are profoundly and sincerely pessimistic over the future of their country and over the future of Europe. I asked one of them for whose knowledge and insight into this continent's affairs I have great respect to tell me what he would advise America to do in view of the findings made on this trip of investigation into the prospects of Soviet success in Europe.

"I would advise America to cancel the interallied debts on condition Europe disarms," he said. "Make cancellation conditional upon disarmament and you will save Germany from Bolshevism."

"But you are speaking as a German," I objected, "What would you say if you were an American?"

"Tell America to get out of Europe and stay out," he laughed.

French fear of Germany prevent France and Germany from reaching an understanding. Germany seeks by coöperation with the Soviet Union to enhance French fear until France will accede to an understanding with Germany. Germany now believes France is about to seize the same weapon this country has hoped would be an effective threat to France and by Franco-Soviet coöperation to checkmate Germany. Either way, any way, the Soviet Union wins and the formula "pan-Europe or Soviet Europe" has become Germany's definition of this continent's alternatives.

CHAPTER XXIV

Berlin:

Between the upper and nether millstones of America and Russia all the important nations of Europe, as nearly as one can determine from a visit to eleven of them and after a long-distance survey of ten more, have embraced "The Red Trade Menace."

If the Five-Year Plan is succeeding at home it is succeeding in equal degree abroad, irrespective of what Soviet exports may mean to the undernourished, ill-clad Russian population. America is scarcely more popular as a commercial force in Europe than is the Soviet Union, and if Europe were to achieve the incredible and unite it would unite as well against the United States as against the U. S. S. R.

This is the balance sheet, unpleasant though it may be to America, that one is forced to present at the end of a two-month investigation in the principal capitals and ports of this continent. Itemized, the sheet shows the following:

Italy takes 5 per cent of the Soviet exports, asks for more, encourages sales to the Soviet Union by Government credit guarantees, is politically determined to maintain cordial relations with Moscow, resents deeply the American tariff and American immigration laws.

Germany takes 22 per cent of the Soviet exports, welcomes them, encourages sales to the Soviet Union by Government credit guarantees, is politically determined to maintain the best possible relations with Moscow, resents the American tariff and American financial "penetration" of Germany and the American refusal to cancel the inter-Allied debts and thus alleviate reparations.

If all the other nations in Europe were to unite against the Soviet Union, these two would hold out and prevent any effectual blockade.

England takes nearly 30 per cent of the Soviet exports, wages an audible but futile campaign against Soviet trade on other than economic grounds but complains that Soviet orders are not larger and encourages them with Government credit guarantees; resents American competition all over the world and resents intensely America's refusal to cancel or reduce the inter-Allied debts.

France takes 4.5 per cent of the Soviet exports, has tried by reducing them with a license system to achieve an increase of Soviet orders, has failed in this attempt and is now seeking to better her trade relations with the Soviet Union and may introduce a system of Government credit guarantees to stimulate Soviet purchases. France hotly resents our tariff, publicly resents our refusal to cancel inter-Allied money debts, privately resents her debt of gratitude for America's part in the war.

Belgium takes 2.5 per cent of the Soviet exports, has had the identical experience of France with Soviet trade, probably will follow the French example in her further relationships with the Soviet Union and shares French feelings toward America.

Holland takes 3.4 per cent of the Soviet exports, is eager to take more and is glad when bad Belgian-Soviet relations improve Dutch-Soviet trade.

Denmark takes nearly 2 per cent of the Soviet exports, has factually the same interests as the Soviet Union in her apprehension of the British Empire preference system and encourages Soviet purchases by government credit guarantee. Her big land owners lead a campaign to boycott American wares.

Norway takes less than 1 per cent of the Soviet exports, sells the Soviet Union three times as much as she buys, encourages these sales with government credit guarantees, protects itself against all grain producing countries by a government grain monopoly, resents any foreign financial penetration and just threw out a government that permitted it.

Sweden feels Soviet competition in timber but believes an agreement may correct it; meanwhile takes one-half of 1 per cent of the Soviet exports but sells five times more. Despite her suffering from Russian "dumping," she harbors no movement to embargo Russian products.

Finland fears the Soviet Union militarily and suffers worse than any other country from Soviet competition in foreign timber markets, but takes one-half of 1 per cent of the Soviet exports, sells the Soviet Union more than twice as much and encourages these sales with government credit guarantees.

Latvia takes 7 per cent of the Soviet exports for consumption and for transit and profits greatly thereby, suffers greatly through Soviet competition in the flax market abroad and various enterprises at home but enjoys a contingent agreement to guarantee a certain amount of Latvian sales to the Soviet Union yearly and encourages these sales by government credit guarantees.

Esthonia, Lithuania, Poland, Austria, Czecho-Slovakia and Greece, with a varying but almost uniformly increasing interest for Soviet trade, are, in varying degree, promoting it. To a varying but always perceptible extent they resent American commercial penetration of Europe and the American tariff policy at home.

There remain the five nations that have put down embargoes—Hungary, Rumania, Jugoslavia, Bulgaria and Albania. Their total share of Soviet exports, as has been pointed out, was one-fifth of 1 per cent. Not one great European nation or important taker of Soviet goods has put down an embargo, nor has this investigation revealed the slightest likelihood that they will do so, though to this statement must be added the qualification that the Tory temperament in Britain has sometimes upset all likelihoods.

They have not put down embargoes because the majority interests and majority population of Europe have not suffered but benefited by cheap Soviet grain, oil and timber. They have not done so because Soviet exports hit almost no country in its home markets but only in its foreign markets, over which it has no control and upon which its own embargo could have no effect. Those small European agricultural countries which have put down embargoes have done so in the hope of setting an example and from political, moral or sentimental reasons but never under the illusion that an embargo at home would prevent directly Soviet competition abroad.

Finally, the European nations of any significance in the question of Soviet trade have not put down embargoes because the products they take from the Soviet Union compete not at all, or to a very limited degree, with their own, but with products of the United States, Canada, Argentina, Venezuela, the Scandinavian and Baltic countries and with the five Balkan countries which tried to "lead the way" against Soviet grain, oil and timber.

Of all these countries the United States comes into closer commercial competition with Soviet exports in foreign markets than almost any other country. The size and power of America makes her feel Soviet competition much less than, say, Sweden or Finland, but neither Sweden nor Finland nor any other country competes with the Soviet Union on as many fronts and in as many articles as does America.

For America, like Russia, produces grain, timber, oil, cotton, coal, manganese and fish. There is no question but that American wheat growers have suffered considerably from Russian competition in foreign markets notwithstanding the obvious fact that there would have been too much wheat or too few takers of wheat whether Russian wheat had been on the market or not. It appears, moreover, that Russian wheat competition will not diminish but increase.

It is equally beyond doubt that American oil companies have suffered, are suffering and probably will continue even more to suffer from the competition of the rising river of Soviet oil pouring from the Caucasian wells. Though the only really significant part of this competition is in foreign markets, the latest development in the Soviet oil campaign to force agreements with Standard and Shell is of exceptional interest. It may or may not be common knowledge at home that the Soviet Union shipped 52,000 tons of gasoline and allied products to Baltimore in the period from October, 1930 to May 15, 1931, according to Soviet official statistics, and that the Soviet Union intends to erect there a storage station for 35,000 tons of Soviet oil products.

This audacious move, invasion of the American domestic oil market from a source 6,000 miles away, may be taken as an evidence of the determined strategy of the Soviet Foreign Trade Monopoly in its ambition to obtain the markets it needs for a production of oil that one day may rival that of the United States. But this strategy may be easily misinterpreted. In the judgment of European oil men with whom the writer discussed this curious item of Soviet commercial news, the Soviet Union does not intend seriously to attempt to compete in the American domestic market. It does, however, in the opinion of these expert observers, intend, by shipping oil to Baltimore, to say to American oil companies, "I know this is your natural market. But Europe is our natural market. You fight me in Europe, I fight you there and in America. You pact with me in Europe, I may get out of America."

American coal producers have suffered perhaps a little, and fear they may suffer more. American timber producers view with little anxiety the immediate competition of Soviet timber, but look with apprehension on the immense strides contemplated by the Five-Year Plan for Soviet timber exports. American cotton growers have scarcely felt Soviet competition and have in the past profited largely by Soviet purchases of cotton, but they, too, are uneasy at the immense additions of acreage to the Turkestan bearing areas. American manganese producers are among the few who actually keenly feel Soviet competition in the American domestic market. American salmon canneries have lost half their British market to Soviet canneries. A few more items might be added, but not many nor of much significance.

It is plain that Soviet competition with America is not to be measured by the fact that Soviet imports into the United States itself make up but eight-tenths of 1 per cent of the total United States imports. These American present or prospective sufferers from Soviet competition are numerous and diverse and include large groups, such as grain farmers, cotton growers and timber producers who, being dependent upon the sale of raw materials for their livelihood, have suffered more than most in the economic depression wherein raw materials have sunk lower on the price scale than any other articles of commerce.

On the other hand if one lists those who gain from Soviet imports into America, obviously consumers gain immediately, else they would not purchase Soviet goods. They include the great steel corporations which require high grade Chiaturi manganese, wearers of Russian furs, eaters of Russian caviar, consumers of the small quantities of Russian anthracite, pulpwood, fish, sausage casings, lumber, licorice, rags, bristles and flax that together made up $24,000,000 worth of Soviet products we purchased last year. To these consumer gainers from Soviet trade must be added our exporters, whose machines, automobile trucks, agricultural implements, electrical equipment and metals made up our sales of $114,500,000 to the Soviet Union last year.

It is impossible to estimate numerically how many Americans lose, how many gain and to what extent from the forced Soviet exports under its Five-Year Plan and from the forced Soviet imports under the Five-Year Plan. It is even more difficult to estimate to what degree Soviet trade may touch America in the future, though it appears from this survey of the European markets, following last year's survey of the Soviet sources of production, that America will, at any rate, feel the Soviet economic expansion for good or for ill as much as any other country, if not more.

Our trade balance with the Soviet Union has been strongly active, and this is supposed to represent a gain in a nation's economy. It has become abruptly less active recently under the influence of American moves toward barring Soviet products and reported restrictions on credits to Amtorg.

Let these factors, however, be ignored for the moment and let it be granted that from a coldly commercial point of view America's ledger in account with the Soviet Union shows a debit. Let it be admitted that many more Americans lose than gain by Soviet trade.

If it is then desired that the results of this investigation of Europe's attitude toward the Soviet Union be submitted for reference in our attempt to answer the question, "What shall we do about it?" the following data, gathered in twenty-one industrial, commercial and political centers of Europe, may be pertinent. In most of the countries of Europe where thought has been devoted to the question of how the non-Soviet world is to meet, greet or combat Soviet economic expansion, five alternatives have been listed as comprising about all the measures conceivable. They are (1) war, (2) embargo, (3) import license system, (4) a foreign trade monopoly and (5) unrestricted trade.

This list leaves out of account the ordinary instruments of customs tariffs and of such regulations as those adopted by many European countries requiring domestic millers to use a certain percentage of domestic grain, requiring domestic movie theatres to show a certain percentage of domestic films, etc. For these instruments are usually applicable to all foreign trade. In Europe they have been used with perceptible effect to check American as well as Soviet imports.

Here, however, the question at issue is what has been Europe's experience in facing the specific and unique problem of Soviet economic expansion.

No. 1—War. Coldbloodedly Europe has considered it. There's no shirking the fact that it has been considered. Moscow believes it is still being considered. But if there is one unquestionable conclusion from this survey of Europe it is that Moscow errs profoundly in this fear. None but "the lunatic fringe" of Europeans want war with the Soviet Union. Others beside lunatics have weighted the idea but found it distinctly wanting. No European nation could afford to go to war today and least of all with the Soviet Union.

For the existence of the Soviet Union has had this curious influence upon Europe: It has increased profoundly the fear that war must some day inevitably come between the Soviet and non-Soviet worlds, but it has diminished considerably the appetite of non-Soviet nations to war either among themselves or with the Soviet Union. And from the Soviet standpoint there ensues the anomaly that whereas orthodox Communist doctrine teaches that world revolution will follow the next war of "capitalist" nations among themselves, the fact that the capitalist nations indubitably, fear this result exercises a restraining influence upon their belligerence. Thus the Bolsheviks have to put up with the melancholy reflection that perhaps if there were no Soviet Union the world revolution might get along faster than it does.

At any rate the war alternative has been rejected by Europe for about the following reasons, leaving entirely out of account any humanitarian, pacifistic or moral considerations that may or may not have played a role: Present war has many certain dangers. Future war may be probable, but is not certain. Presumptive dangers are preferable to certain dangers. Hence no war.

Solution No. 2—Embargoes on Soviet imports. Five Balkan countries have imposed them in the vain hope that their example might move the hearts of world consumers to reject Soviet goods. They argued, "You may profit immediately by buying cheap Soviet products in preference to our dearer ones, but you will lose indirectly when Soviet competition reduces our capacity to buy your goods."

But in this, as in every instance among the many that have been subjected to observation, the indirect future presumptive loss failed to impress the recipient of a direct present real gain, and the consumer nations refused to be disturbed at the plight of the non-Soviet producer nations. Even France, who listened sympathetically for a moment to her ally, Jugoslavia, and reflected upon the possibility of winning from Italy political territory in the Balkans by helping Hungary, Rumania, Bulgaria, Albania, concluded her sympathetic interlude with the negotiations now going on for improvement of Franco-Soviet trade relations.

An American embargo on Soviet imports, it may safely be hazarded, would exercise hardly more effective influence on the nations of Europe which now profit by receiving Soviet exports than did the example of those nations which, up to now, have hopefully held out with their embargoes—all of them, be it noted nations that consumed next to no Soviet wares.

Europe has found that exemplary embargoes, intended to work by indirection, have failed. The direct effect of an American embargo on Soviet wares would be to cut off 4.46 per cent of the total Soviet exports. Stoppage of all American exports to the Soviet Union, which include a good many machines and other articles nearly indispensable to the execution of the Five-Year Plan, probably would have a more serious effect upon the Soviet Union. The possibility of such a check on exports may be judged in the light of a statement of the American representative to the London wheat conference, that America could enter into no export quota agreement due to constitutional limitations, a remark presumably having reference to Article I, Section 9, Paragraph 5, of the United States Constitution: "No tax or duty shall be laid on articles exported from any State."

Solution No. 3—A license system to control Soviet imports has been tried by France and Belgium and found to have had an effect directly opposite to the desired effect of obtaining more Soviet purchases and lessening French and Belgian purchases from the Soviet Union. The effect of these two attempts at license restriction upon Soviet exports has been inconsiderable and both countries admit failure. Consumer interest was too strong, bootlegging of staple commodities was too easy and Soviet retaliation in withdrawal of orders was too painful for these two pioneers in the use of the license weapon against the Soviet Union to plan its retention.

Solution No. 4—The foreign trade monopoly system has been adopted fully only by Persia. Her experience is too brief to afford conclusions as to the system's practicability or efficacy in a non-Soviet state. Norway's Government that recently resigned had planned to experiment with a foreign trade monopoly. It is regarded by many Europeans as the only logical and effective reply to the Soviet Foreign Trade Monopoly, with all its advantages of concentrated buying and selling and all its imposition of disadvantages upon the Soviet's competitors.

It may be noted, in addition to those other characteristics of the Soviet Foreign Trade Monopoly, that already have been described, that under it no foreign tradesmen may submit their wares in the Soviet Union unhindered to Soviet consumers, while the Soviet Foreign Trade representatives abroad enjoy the customary freedom of trade, ability to lay their goods before the world of customers and to use the competitive habits of non-Soviet businessmen to their own advantage. As one German put it, the Soviet Foreign Trade Monopoly was at one time regarded by the outside world as a nuisance but as a nuisance operative chiefly within the Soviet Union, whereas today it is being realized more and more that the Soviet Foreign Trade Monopoly reaches far beyond the confines of the Soviet Union with an effect upon trade that tends from year to year to become more world-wide.

Nevertheless, objections in any "private capitalistic state" to a foreign trade monopoly are too numerous to make this solution more than the subject of interesting speculation on the part of most countries, and the difficulties of putting such a system into effect in a democratic land would appear almost insuperable.

There remains Solution No. 5: unrestricted trade with the Soviet Union. This, in substance, is Europe's choice. It must be fairly plain by now that it was as much involuntary as voluntary choice on the part of the Continent, that has far more reason to shiver before "the Red Menace" (nota bene, not "the Red trade menace") than has America. America's geographical position, if nothing else, gives us a comfortable, if selfish, right, whether we exercise it or not, to look upon Europe much as MacDonald said England might look upon Germany. But Europe has chosen quite voluntarily to add to "unrestricted trade" with the Soviet Union encouragements of trade in the shape of government credit guarantees, that, in the last analysis, operate as export subsidies.

So that if America should attempt to learn from the example of Europe's experience with the Soviet Union, and if America should arrive at the conclusion that, however unpalatable it may be, the only practicable way to recover losses from Soviet competition in markets unreachable by American Governmental measures is to make up the losses from the sale of goods to the Soviet Union, America would be faced in this, as in many other respects by European state competition.

All these solutions that have been under discussion have concerned measures by governments. In the sphere of private business European concerns have found it helpful to unite as far as possible in syndicates and trusts in their dealings with the biggest trust of all, the Soviet Foreign Trade Monopoly. Nor do European governments put any hindrances in the way of this concentration of resources. They rather encourage the process and regard our Sherman law as a curiosity.

International coöperation of the states of Europe in any effective form to meet the Soviet economic expansion has been excluded from discussion in this summary not because its primary importance has not been realized, but because the component parts of this Continent as a whole have provided as yet no example of coöperation to achieve any major end. The Soviet Union's Five-Year Plan has been mentioned as a possible incentive for non-Soviet Europe to consolidate. European nations, indeed, have achieved a certain harmony in their common desire to enjoy the benefits of Soviet orders. So far these have outweighed in European estimation the deficits of "Soviet dumping."

Though the Five-Year Plan has warmed the apprehensions of most countries, one observation by a British student of Soviet progress is worth nothing. "We have never experienced a five-year plan before. We have never witnessed the effect upon ourselves of a nation, Communist or otherwise, operating under a planned national economy. It seems to be getting warm for us now, and that before long it may become very hot. But perhaps we are in the position of the man who, being born full-grown in June and alone in the world, with no one to tell him of the seasons, notes the temperature rising. In July it is very warm; in August, almost unbearable, and the mercury goes steadily upward. So he says to himself, in a panic of fear: 'By Christmas I shall be fried to a crisp.' "

Whether amenable to effective external control or not, the Five-Year Plan may be subject to certain internal correctives.

If this is cryptic it is because the Five-Year Plan is cryptic and only Marxists claim the future can be mapped.

THE END