

Extension of Credit to Russia and Settlement of Outstanding Debts

An extension of \$250 million credit to Russia could accomplish three main things:

- (1) Make substantial contributions to the solution of our surplus cotton problem.
- (2) Be an important factor in helping recovery in the United States.
- (3) Settle the outstanding debts between Russia and the United States, and clear the decks for future economic collaboration between the two most powerful countries in the world which, irrespective of their political differences, constitutes for the United States an important factor for economic improvement.

The proposal in outline is as follows:

(a) Negotiate for a settlement of the intergovernmental and private debts. A settlement can probably be reached at this time which would involve payments amounting to \$15 to \$20 million a year by Russia.

(b) The extension of a \$250 million credit to Russia to be used exclusively for the following purposes and under the following conditions:

- (1) \$150 million to be expended within the next two years on products made chiefly of cotton, which are processed in the United States. This should absorb from one to two million bales of our surplus stocks.
- (2) \$50 million to be expended in the United States on machinery.
- (3) \$25 million to be expended on goods consisting chiefly of leather.
- (4) \$25 million to be expended on miscellaneous manufactured items.
- (5) All imports to be shipped only on United States or Russian boats.

(6) Russia to agree not to reexport any of the material she purchases in the United States and not to export any raw cotton or textiles in excess of the value of exports of the three preceding years.

Terms of the loan: Ten year loan, amortized monthly at the rate of 10 percent a year and interest payments payable quarterly at 8 percent a year, and the difference between the cost to the government of borrowing and the 8 percent to be applied towards the settlement of their public and private debt to the United States.

The loan can be financed by special government guaranteed serial notes and hence not appear in the budget. Or it could be financed out of silver seigniorage at no cost. If it were financed out of silver seigniorage, it would help get the support of the silver interests who are eager to have the government make some use of the silver seigniorage.

(It may be worth considering that both the Russian loan and the Chinese loan, as well as the Latin American loans, may be all financed by special government guaranteed serial notes and hence not appear in the budget, or out of silver seigniorage at no cost.)

The effects of such a loan on (a) the current business situation and (b) the international political situation, would be startling.

(a) The cotton textile industry in the United States would have the biggest boom that it has experienced in many years. (The New England and Southeastern States would benefit very substantially and their representatives in Congress would be keenly aware of such benefits.)

(b) We would sell one to two million bales of cotton, which, I believe, is more cotton than the export subsidy scheme will dispose of. Moreover, the sale to Russia will not depress the price of the other cotton we sell, nor will it supply cotton at low prices to the aggressor nations, nor will it injure Brazil as will other plans for increasing cotton exports. Russia is probably the only market

in the world where we can sell cotton goods without interfering with world markets. Russia has an adequate supply of raw cotton but has inadequate means for processing that cotton.

Likewise, machine goods and leather industries would benefit which would give some added legislative support from the cattle states and industrial states.

From the point of view of Russia, the loan would probably be eagerly welcomed for the following reasons:

- (1) Russia would be so anxious to improve her relations with the United States, for political as well as economic reasons, that she probably would consider this plan a small cost for such a purpose.
- (2) Russia is badly in need of finished commodities, particularly of the character indicated above.
- (3) Russia has ample supplies of raw cotton, but reports indicate that there is a shortage of processing equipment and a shortage of finished goods.
- (4) Russia is probably eager to build up stocks of finished goods in preparation for international emergencies.
- (5) Russia has adequate supplies of gold to easily take care of the current payments the loan would require. Russia is probably a good risk since she has met all of the obligations contracted for under the new regime.