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## ARTICLES

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### *Aspects of Foreign Investment in Tsarist Russia*

Malcolm Falkus  
London School of Economics

By 1914 Russia was the world's largest net debtor nation. The importance of foreign capital in bolstering the Tsarist government's finances and in stimulating Russia's industrialization drive after 1885 is well known, and a number of recent studies have developed various aspects of the subject.<sup>1</sup> However, nearly all studies and interpretations of the inflow of foreign capital rest on what may be called a "national" basis; their viewpoint focuses essentially on Tsarist policy decisions and to an extent on the political framework within which these decisions operated. Such an approach tends to overlook the fact that the process of investment in Russia was one element in the general development of the international economy, and this paper argues that such investment should properly be seen as part of the general movement of funds from advanced to developing economies which took place in the latter part of the nineteenth century.

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<sup>1</sup> See, for example, J. P. MCKAY, *Pioneers for Profit: Foreign Entrepreneurship and Russian Industrialization, 1885-1913* (Chicago and London, 1970); O. CRISP, *Studies in the Russian Economy Before 1914* (1976); T. H. VON LAUE, *Sergei Witte and the Industrialization of Russia* (1963).

The paper deals with three different, though related, aspects of Russia's foreign borrowing. In the first place, attention is given to the overall impact of foreign investment in the light of Russia's backwardness. The issue here is not so much the "cost" of foreign capital and of the Witte system in general - points which have been emphasized recently by Kahan and Barkai.<sup>2</sup> Rather, the problem is why the demand for foreign capital was so large, and to what extent this demand sheds light on the role of capital in Russia's industrialization.

Second, the paper argues that, viewed in the perspective of the development of the international economy after the 1870's, the specific Russian policies connected with the Witte system and the geographic sources of foreign investments were part of more general forces operating within the international economy.

The final sections of the paper look more narrowly at some of the particular issues raised in the quantification of foreign investment, above all the investment from France. It is suggested that the role of French capital in Russia's industrialization may need some reassessment, and that this reassessment supports the view that Russian borrowing is best seen as part of a wider movement of international capital flows.

## I

The overall question of the role of capital formation in economic growth has undergone profound mutations in recent years. In contrast to Lewis, Rostow, and others who have suggested that a certain critical savings ratio was fundamental for

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<sup>2</sup> A. KAHAN, "Government Policies and the Industrialization of Russia," *Journal of Economic History* (December 1967) pp. 460-77; H. BARKAI, "The Macro-Economics of Tsarist Russia in the Industrialization Era: Monetary Developments, the Balance of Payments and the Gold Standard," *Journal of Economic History* (June, 1973), pp. 339-371.

See, however, P. R. GREGORY & J. W. SAILORS, "Russian Monetary Policy and Industrialization, 1861-1913," *Journal of Economic History*, (December 1976), pp. 836-851.

sustained economic growth, empirical studies of the experience of Britain, France, and elsewhere suggest a lesser role for capital. The rate of capital formation in Britain, for example, may have been no more than 6 per cent. at the beginning of the nineteenth century, and in other nations too significant levels of growth were achieved with investment ratios well below 10 per cent.<sup>3</sup>

The example of Russia in this respect is instructive. In the decades before the First World War Russia combined a large net inflow of foreign capital with a relatively high *domestic* savings ratio. Data compiled by Gregory show that combined foreign and domestically financed capital formation as a proportion of national income in 1913 was 11.6 per cent, a ratio higher than that of Italy, Denmark, Norway, Canada and Australia, and more than twice that of Japan among the 'developing countries' before 1914. The ratio of 'net national capital formation' alone was 9.3 per cent. in 1913. As Gregory and Sailors remark, "The truly unique feature of the composition of Russian national income was its combination of high domestic and foreign savings proportions to yield an exceptionally high rate of net domestic capital formation ... for a low income country."<sup>4</sup> Although statistics are lacking for similar ratios to be calculated for earlier periods, it seems probable that investment proportions were relatively high in the 1890's also.<sup>5</sup>

Yet Russia, as is well known, remained firmly placed among the most backward countries in Europe in terms of per capita national income, and certainly experienced only moderate growth

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<sup>3</sup> See for example A. K. CAIRNCROSS, "The Place of Capital in Economic Progress" and H. J. HABAKKUK, "The Historical Experience on the Basic Conditions of Economic Progress," in *Economic Progress*, IEA (1953), (ed.) L. H. DUPRIEZ; P. DEANE & H. J. HABAKKUK, "The Take-off in Britain," in W. W. ROSTOW (ed.) *The Economics of Take-Off into Sustained Growth* (1963), pp. 74-77; S. KUZNETS, "Long-Term Trends in Capital Formation Proportions," *Economic Development and Cultural Change* (July, 1961), pp. 10-11.

<sup>4</sup> P. R. GREGORY & J. W. SAILORS, *op. cit.*, p. 851.

<sup>5</sup> P. R. GREGORY, "Russian National Income in 1913 — Some Insights into Russian Economic Development," *Quarterly Journal of Economics* (August 1976), p. 448.

rates of per capita incomes in comparison with many other developing countries. Industry, to be sure, did achieve impressive growth rates after 1885, but the slow progress of agriculture coupled with the rapid rate of population growth meant that total production in per capita terms made only modest advances before 1914. Over the period 1860-1914 national output per head in Russia probably grew at an annual rate of no more than 1 per cent;<sup>6</sup> in Japan, by contrast, the years 1898-1912 saw an average growth rate of just over 3 per cent.<sup>7</sup> Russian development, in consequence, adds an interesting perspective to the question of the historical role of capital formation in the early phases of modern economic growth. Relatively low rates may be associated with significant development, as in the cases of Britain and Japan. But relatively high rates do not necessarily lead to an impressive growth performance.

Did the supply of other productive factors counterbalance the effects of high capital accumulation? Notwithstanding the institutional limitations on labour mobility imposed by the village communal system, rapid population growth and severe rural underemployment (especially after the 1870's) provided a growing potential pool of industrial labour. Though the quality of labour was low, the widespread existence of rural handicrafts, which may have occupied some five million in 1900 — twice the existing factory labour force — ensured a certain level of native skills. Moreover the import of skilled labour entrepreneurs from abroad helped ease the problems of an inadequate technical and managerial class. Coupled with this was the opportunity of adopting advanced western technology, an advantage of Russia's backwardness stressed by Gerschenkron. At the same time improved communications and the advance of techniques such as

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<sup>6</sup> R. GOLDSMITH, "The Economic Growth of Tsarist Russia, 1860-1913," *Economic Development and Cultural Change*. April 1961, pp. 472-3.

<sup>7</sup> K. OHKAWA & others, *The Growth Rate of the Japanese Economy Since 1878* (Tokyo, 1957), p. 21.

geological surveying were enabling the opening up of Russia's rich and varied natural resources.

Russia, then, remained backward in 1914 despite a high ratio of domestic investment and sizeable inflows of foreign capital. In the absence of obvious constraints on growth from the inadequacy of labour and land, this suggests the existence of factors which limited the impact of capital formation on growth rates. It suggests also that domestic supplies of capital to overcome these factors were limited, and that the role of foreign capital should be viewed in this perspective.

On the supply side the problem of domestic capital accumulation stemmed naturally from the reinforcing effects of low per capita incomes, which meant that for the mass of the population voluntary savings were bound to be low. Russia's national income was unevenly distributed, but any positive impact of this on capital accumulation was offset in part by the fact that many of the wealthier classes had high consumption expenditures, especially the aristocratic and gentry families who often kept residences both in town and country, who frequently spent part of the year in fashionable European resorts, and who were often heavily in debt. Unequal distribution of income did not necessarily mean, therefore, a large investing class. Habits of savings and investment traditions in Russia (except investment in land, and, before 1861, in serfs) were very limited. Only a rudimentary commercial banking structure existed prior to the 1880's. The State Bank was founded only in 1860, and the first joint-stock commercial bank in 1864. There had been little growth of industrial and commercial corporations, and insurance and land mortgage markets remained undeveloped. Dr. Crisp writes of "the stagnation of business life and the inertia of the business community" before 1860.<sup>6</sup> Currency instability from the time

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<sup>6</sup> O. CRISP, "Russia, 1860-1914," in R. CAMERON & Others, *Banking in the Early Stages of Industrialization* (1967), p. 189.

of the Crimean War added to the premium placed on liquidity or on investment in land (which carried social as well as economic advantages). One may add the general point that in Russia, as in other poor agrarian societies, where harvest failures and other natural disasters were an ever-present threat, there was an aversion to tying up such savings as existed in long-term illiquid forms: short-term investment in trade and commerce, or money-lending, were preferred.

If we turn to the investment demands made by modernizing Russia, the problems of capital accumulation are clearly highlighted. The mass of the population endured heavy "forced savings" as a result of government fiscal policies. Yet, due in large measure to Russia's military preoccupations connected with her great power status, a high proportion of budgetary expenditure went on nonproductive outlays. Even in Witte's time, as Kahan has shown, the estimates for productive investment claimed by von Laue are much too high.<sup>9</sup> Not only did administrative, court, and defence expenditures cut deep into revenue, but a significant share of railway investment also was less productive than it might have been because of the construction of militarily strategic lines. Primarily military and political objectives, rather than economic, may have been the dominant factor in the construction of more than one-third of Russia's railways according to Witte<sup>10</sup>. Insofar as "forced savings" channelled investment away from productive to non-productive sectors the impact of domestic savings on growth rates was lessened. At the same time there were a number of economic factors in late nineteenth century Russia which doubtless resulted in a high capital-output ratio. The very size of the country and dispersion of centres of raw material resources from centres of production, consumption, foreign markets and domestic seaports meant the burden of a

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<sup>9</sup> A. KAHAN, *op. cit.*, p. 466.

<sup>10</sup> Quoted in H. FEIS, *Europe the World's Banker 1870-1914* (1930), p. 211.

large development infrastructure. By 1900, for example, Russia had the second largest railway network in the world, yet it remained woefully inadequate relative to the vast land area and enormous population. The need for investment in railways, roads, port facilities, and many other forms of infrastructural outlays, necessarily made heavy capital expenditure prior to significant economic growth essential. A case in point, though exceptional in scale, was the construction of the Trans-Siberian Railway during the 1890's. Witte hoped that this line would open Russia's eastern lands in a similar fashion to that achieved in America's West subsequent to the construction of the trans-continents. By 1900 some 4300 miles of track were completed at a cost of 489 million roubles (excluding a further 375 million roubles expended by the Chinese Eastern Railway), but the economic returns of this investment were scarcely felt before the outbreak of the First World War.<sup>11</sup>

Russia's problems in the late nineteenth century were of course compounded by the low levels of development and investment achieved earlier. Before the emancipation of the serfs investment in railways, navigable waterways, roads, ports, and postal facilities had been minimal, while potentially rich mineral regions in the Ukraine and Caucasus lay unexploited. The numberless small improvements made in, say, pre-industrial England which had probably raised significantly the marginal productivity of capital both in agriculture and industry by the middle of the eighteenth century, were lacking in mid-nineteenth century Russia. Lacking too was "human capital" in the form of a literate, market-oriented population with "modern" attitudes towards commercial activity and industrial labour.

And Russia was, of course, a late-comer to modernization. The cheap, labour-intensive pioneer technology of the earlier

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<sup>11</sup> P. LYASHCHENKO, *A History of the National Economy of Russia to the 1917 Revolution* (New York, 1949), p. 585.

industrial revolution was increasingly replaced by new technology more demanding both of capital and of skilled labour.<sup>12</sup> The sectors which were expanding most rapidly in Russia too — dictated partly by government policy, partly by resource endowment — were above all those connected with mining and metallurgy where heavy investment, often unproductive for long periods, was required.

For a number of reasons, therefore, the ratio of capital to output tended to be high in late nineteenth century. Moreover this ratio was probably increasing over the period 1885-1914 as a whole.<sup>13</sup> The term "high" is a relative one, and Russia may be usefully compared with Japan, a nation experiencing early steps in modern economic growth at much the same period as Russia.<sup>14</sup> Japan's ratio of net capital formation to national income in the period 1897-1916 was about 6.8 per cent, half that of Russia. The Japanese ratio net of foreign capital was only 5.1 per cent.<sup>15</sup> Compared with Russia's experience, there is no doubt that the small size of the country, the abundance of maritime ports, the relatively low defence expenditures (except in times of war), the composition of the industrial structure, the limited investment in residential construction and the technological and institutional features of Japanese agriculture all contributed towards a low capital output ratio for the economy as a whole. Many other factors, of course, would be needed to explain at all satisfactorily the different growth performances of the two economies, but the contrast between Russia and Japan

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<sup>12</sup> This is not to deny the advantages of backwardness stressed by Gerschenkron, but simply to note the heavy capital requirements of much modern technology. A. GERSCHENKRON, *Economic Backwardness in Historical Perspective* (Cambridge, Mass., 1966), pp. 353-364.

<sup>13</sup> A preliminary estimate by the author suggests that net capital formation may have increased some 150-170 per cent. in the period 1894-1913, while the net national output roughly doubled.

<sup>14</sup> The comparison of Russia with Japan is often made. See C. E. BLACK & others, *The Modernization of Japan and Russia: A Comparative Study* (New York, 1975).

<sup>15</sup> P. GREGORY, *op. cit.*, p. 448. S. KUZNETS, *op. cit.*, pp. 10-11.

in respect of the problems of capital formation and of the extent of total output relative to capital formation is a striking one.

## II

Investment capital may therefore be regarded as a major limiting factor in Russia's growth, and this conclusion highlights therefore, the significance of the availability of foreign capital imports on a large scale before 1914. Statistical deficiencies make it difficult to indicate other than very approximately the role of foreign investment in aggregate capital formation. It appears, however, that foreign investment was substantial throughout the thirty years or so before 1914. Net foreign investment may have formed about 20 per cent. of domestic capital formation in the 1880's and in 1913, while it was nearer one-third in 1906.<sup>16</sup> The impact of foreign capital was broad, influencing the introduction of modern industrial technology and commercial practice, and the supply of skilled labour and managers. Much foreign investment in Russia, from France especially, was direct; it involved the setting up of foreign firms and subsidiaries of foreign firms in Russia, and such concerns often directly imported western equipment and personnel. The foreign element in industrial investment was considerable. By 1900 roughly 45 per cent. of the capital of industrial corporations was foreign owned; the proportion had been only 26 per cent. in 1890, and about 17 per cent. in 1880.<sup>17</sup> But it must be emphasized that statistics of incorporated capital underrate total investment, and that noncorporate investment was relatively more important before the 1890's.

That the advantages of foreign capital imports may have been offset by the high costs involved, both direct and in terms of the policies adopted by Witte to encourage the inflow, has

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<sup>16</sup> P. GREGORY & J. W. SAILORS, *op. cit.*, p. 847.

<sup>17</sup> See J. P. MCKAY, *op. cit.*, pp. 380-384; "Foreign Enterprise in Russian and Soviet Industry" *Business History Review*, III, 1974, p. 340.

been emphasized recently by Kahan and Barkai.<sup>18</sup> A particular burden was the heavy dependence of Russia on world financial markets for constant further borrowing in order to service existing debts, and it seems important to enquire whether imports of foreign capital were adding to this burden, or reducing it through the overall stimulation of the Russian economy.

The issue is best seen in aggregate terms in the light of Russia's overall balance of payments position. There has been no satisfactory reconstruction of Russia's annual balance of payments, but a few general observations may be made. First, from 1880 until 1914 Russia normally had a balance of trade surplus, a surplus which was substantial in the 1880's but which tended to decline in the 1890's as rapid industrial development raised demand for imports. Secondly, throughout the period before 1914 Russia had a deficit on current invisible items such shipping, insurance, and tourist expenditures; but this deficit was almost always lower than the merchandise trade surplus. Thirdly, from the early 1890's at least, interest payments on foreign borrowing were considerably greater than the positive balance on other current items, making an overall deficit in the current account balance of payments. Under these circumstances, especially in view of the need to harbour reserves to stabilise the currency and protect the gold standard, constant further borrowing was essential.

Table 1 summarizes some of the balance of payments estimates that exist:

TABLE I

RUSSIA'S BALANCE OF PAYMENTS (million roubles)

|  | 1892-5  | 1911-13 |
|--|---------|---------|
| Net Trade Balance                        | + 80.3  | + 291.1 |
| Net Interest Payments Abroad             | — 106.3 | — 338.4 |
| Net Payments for Shipping, Tourism, etc. | — 47.1  | — 176.7 |

Source: R. GIRAULT, *Emprunts Russes et Investissements Français en Russie, 1887-1914* (Paris, 1973), pp. 95, 132.

<sup>18</sup> A. KAHAN, *op. cit.*; H. BARKAI, *op. cit.*

The figures show clearly the dilemma facing Russia, and the crucial importance of capital imports. It could be argued that as a successful strategy for economic growth, imports of capital ought to be translated into increased exports or into import substitution. Otherwise the danger of constraints imposed by a weak balance of payments, such as high interest rates and deflation, would remain, while the domestic economy would continue to be highly vulnerable to the ebbs and flows of the world economy. Yet the statistics of Russian foreign trade show that the inflow of foreign capital had produced remarkably little structural change in the pattern before 1914.

Russian industry was the major recipient of foreign corporate investment, yet imports of foreign capital by Russia did little directly to give Russia the material basis for servicing the debts through the provision of what Keynes termed a "sinking fund" in the form of industrial exports and import substitutes. Certainly by 1913 Russia was virtually self-sufficient in coal and iron, and was a major exporter of petroleum. But in 1913 imports were more than five times greater than exports by value in the category of "manufactured goods", and the gap was widening.<sup>19</sup> Thus while exports of manufactures grew by 60 million roubles over the period 1894-1913, imports grew by more than 300 million roubles. In the category "raw materials and semi-manufactures", imports grew by over 360 million roubles in the twenty years before the outbreak of war, while exports grew by just over 300 million roubles (and in the period 1903-13 imports increased by no less than 310 million roubles compared with a growth of 142 million roubles in export values). Russia remained in 1913, as in the 1880's, overwhelmingly an exporter of foodstuffs and an importer of finished and semi-finished goods. Not only had industrial exports made little headway, but import

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<sup>19</sup> Foreign trade statistics are calculated from *Obzor vneshnei torgovli Rossii*, Departament Tamozhennykh Sborov (St. Petersburg).

substitution showed little impact on the trade structure. Thus in 1913 manufactured goods were no more than 5.5 per cent. of total exports (compared with 3.6 per cent in 1894), while the share of manufactures in imports had actually grown, from 26.5 per cent. in 1894 to 33.0 per cent in 1913. Throughout the period it remained the case that in periods of rapid industrial growth rising imports of raw materials, semi-manufactures, and capital equipment ate quickly into the trade surplus. Between 1887 and 1891 Russia had an average balance of payments surplus of 321 million roubles, whereas between 1892 and 1900 the surplus dropped to 102 million roubles. At the beginning of the pre-war boom in 1909 the positive balance stood at 522 million roubles; by 1913 it had fallen to only 146 million roubles. Over the period 1909-13 export values remained almost constant, and the declining surplus was due to rising imports of industrial raw materials, semi-manufactures, and finished goods.

### III

It was remarked earlier that many studies of late nineteenth century Russian development focus rather narrowly on the national and political framework within which capital flowed into Russia. On the one hand the attraction of foreign capital was a consequence of deliberate state action. On the other, political considerations help explain the magnitude and direction of the resulting flows. In very general terms, the "Witte system" stood on the triple supports of foreign capital inflows, currency stability and ultimate adoption of the gold standard, and tariff and other measures to promote and sustain an active balance of trade. To this extent the foreign capital which flowed into Russia is seen as having its origin in direct government policy. Thus as von Laue puts it, "in order to facilitate the influx of foreign loans into Russia and to promote international trade in general [the Minister of Finance] had to provide a stable currency

— a freely convertible currency based on gold.”<sup>20</sup> And until Witte, no Minister of Finance since the Crimean War had “dared to undertake” convertibility. As for the adoption of the gold standard “Witte had originally given no thought to the matter until persuaded by Bunge.”<sup>21</sup> High protective tariffs similarly formed a critical element in Witte’s strategy for attracting foreign capital.

Clearly the capital flows resulting from Russian government policy were influenced strongly by political factors. When Bismarck effectively blocked Russian borrowing in Germany in 1887, Russia turned towards France. The subsequent entente and formal alliance in 1894 led to a huge influx of capital from France into Russia. Similarly, Russia’s rapprochement with England in 1907 also spurred a large flow of capital. To quote von Laue again, “Russian foreign loans had assumed from an early moment an unusually political character... Between 1887 and 1917 Russian policy was tied to French policy”, and he writes also of Russia “exchanging French for German creditors.”<sup>22</sup> As Russia’s Foreign Minister is supposed to have said, “Bismarck drove us into the arms of France.”<sup>23</sup>

Several points can be made about the approach outlined above. Of course there can be no question that Russia’s finance ministers, Witte above all, wanted to attract foreign capital, and pursued policies appropriate to this end. There is no doubt also that wider political considerations did play a part in the determination of the direction of capital flows. But it needs to be emphasized that although the admission of Tsarist government bonds to foreign bourses did involve diplomatic approval by the governments concerned, the flows of private capital were not so

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<sup>20</sup> T. H. VON LAUE, “The State and the Economy,” in C. E. BLACK (ed.) *The Transformation of Russian Society* (Cambridge, Mass., 1960), p. 213.

<sup>21</sup> T. H. VON LAUE, *Sergei Witte and the Industrialization of Russia*, *op. cit.*, p. 112.

<sup>22</sup> *Ibid.*, pp. 25-6 and “The State and the Economy,” *op. cit.*, p. 222.

<sup>23</sup> H. FEIS, *op. cit.*, p. 214.

circumscribed. Certainly the favourable climate for investment produced by the alliance and ententes encouraged French and British investments, but in both these cases significant lending preceded the diplomatic overtures.<sup>24</sup> British investors, for example, had invested heavily in the Russian oil industry during the 1890's, and British investors at this time were buying Russian government bonds floated by French issuing houses.

The 'national' emphasis tends to overlook some of the basic features of the late nineteenth-century international economy. In so doing, such studies miss an important perspective. The vast majority of foreign investors in Russia were, after all, private investors who were interested primarily in profit discounted for risk. Whatever Tsarist government policies, the last twenty years of the nineteenth century was a time of exceptionally low international interest rates, and this clearly encouraged investors in a number of countries to seek more attractive returns abroad. Between 1880 and 1900 the British Bank Rate stood at 2 per cent. for long periods, and the French rate was generally around 2 or 3 per cent. Russian bonds yielded considerably more than this. In the 1880's Russian government borrowing rates were some 1.5 per cent. above the rates paid by the French government, and in the mid-1890's the gap was still about 1 per cent. At the same time the average dividends paid by Russian corporations were relatively high: 6.6 per cent. between 1885 and 1893, rising to 7.4 per cent. in the boom period 1894-9.<sup>25</sup>

It was this period, the last quarter of the nineteenth century, that saw a marked slackening of investment opportunities in some of the main capital exporting countries. The experience of falling profits and prices, and talk of 'depression' was widespread, and industrial growth rates declined in several of Rus-

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<sup>24</sup> This point has been made by a number of writers. See O. CRISP, "French Investment in Russian Joint Stock Companies, 1894-1914," *Business History* (June 1960), p. 75, and J. P. MCKAY, *op. cit.*, p. 385.

<sup>25</sup> J. P. MCKAY, *op. cit.*, pp. 26-7, 73-4.

sia's leading creditor nations. Thus in France in the 1890's the rate of industrial growth is estimated to have slumped to 1.7 per cent. a year from the 2.7 per cent. of the previous decade. According to Crouzet, "It is no exaggeration to speak of a tendency toward stagnation between 1882 and the end of the century, and even beyond," in France.<sup>26</sup> Belgium was another important source of capital for Russia, and here too the closing decades of the century were a period of economic stagnation.<sup>27</sup> In Britain too the rate of industrial growth declined appreciably after 1870, and averaged less than 1 per cent. annually in the years 1900-1910.<sup>28</sup>

The point here is that there were reasons inherent in the general development of the international economy why on the *supply* side flows of foreign capital should increase from the 1880's. The attraction of lending to Russia was a product not only of rising industrial yields there in the 1890's and generous returns on government bonds, but also it was a product of lower profitability of domestic investment in the creditor nations. And, indeed, for Russia's chief creditors, investment in Russia was part of a general expansion of foreign lending in these years. In Britain, as is well known, the period after 1880 — and particularly after 1900 — saw a very rapid increase in overseas investment. Russia played a very minor rôle in this growth, and in 1913 under 3 per cent of Britain total foreign investment of nearly £ 4000 million had been placed in Russia.<sup>29</sup> French investment

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<sup>26</sup> Estimates of French industrial growth rates differ widely, but there is no doubt that the last two decades of the nineteenth century were years of sluggish development. F. CROUZET, "An Annual Index of French Industrial Production in the 19th Century," in R. CAMERON (ed.) *Essays in French Economic History*, AEA, (Illinois, 1970), p. 275; R. CAMERON, *France and the Economic Development of Europe, 1800-1914* (Princeton, 1961), p. 70; Y. BAREL, *Le développement économique de la Russie tsariste* (Paris, 1968), p. 177.

<sup>27</sup> R. CAMERON, *op. cit.*, p. 368.

<sup>28</sup> K. LOMAX, "Production and Productivity Movements in the United Kingdom Since 1900," *Journal of the Royal Statistical Society*, A, Part 2, (1959), p. 192.

<sup>29</sup> Calculated from H. FEIS, *op. cit.*, p. 23.

too grew rapidly after the early 1880's as the figures in Table 2 show:

FRENCH FOREIGN INVESTMENT, 1881-1910  
(million francs)

TABLE 2

|           |        |
|-----------|--------|
| 1881-85   | 52.4   |
| 1886-90   | 683.0  |
| 1891-95   | 537.0  |
| 1896-1900 | 915.8  |
| 1901-05   | 1300.4 |
| 1906-10   | 1578.5 |

Source: A. BLOOMFIELD, *Patterns of Fluctuation in International Investment Before 1914* (Princeton, 1968), pp. 43-4.

French investment, like British, was widespread. The French colonies, Turkey, Spain, Portugal, a number of Latin American countries and various other regions in addition to Russia were recipients. Russia was the leading importer of French capital, but although the proportion of total French investment in Russia rose after 1890, the increase was not overwhelming. The share of Russia was some 17-18 per cent. in 1890 and reached roughly 25 per cent. in 1900; thereafter there was no proportionate rise, and perhaps even a small decline up to 1914.<sup>30</sup> Many French investors turned to Russia when a trade war in 1888-9 closed the French capital market in Italy.<sup>31</sup> Moreover, as will be discussed in a subsequent section, the share of French capital relative to total foreign investment in Russian industry actually fell during the period 1894-1900, a point which further encourages scepticism about an oversimplified 'political' explanation of the link between the French alliance and Russia's industrialization.

<sup>30</sup> Calculated from *Ibid.*, pp. 47, 51; and R. GIRAULT, *Emprunts Russes et Investissements Français en Russie, 1887-1914* (Paris, 1973), pp. 84-5.

<sup>31</sup> O. CRISP, "Russian Financial Policy and the Gold Standard at the End of the Nineteenth Century," *Economic History Review*, 2, 1953, p. 163; W. L. LANGER, *European Alliances and Alignments 1871-1890* (1964 edition), pp. 474-5.

The statistics of German foreign investment illustrate the point in another way:

TABLE 3  
GERMAN FOREIGN INVESTMENT, 1881-1900  
(million marks)

|           |       |
|-----------|-------|
| 1881-5    | 551.2 |
| 1886-90   | 614.2 |
| 1891-5    | 345.2 |
| 1896-1900 | 409.2 |
| 1901-05   | 627.8 |
| 1906-10   | 593.2 |

Source: A. BLOOMFIELD, *Patterns of Fluctuation in International Investment Before 1914* (Princeton, 1968), pp. 43-4.

Not only was there little overall increase in the flow, but during the 1890's, the critical period of Russia's industrialization, the amounts declined substantially. Just as the outflow of French and British capital can be related to declining investment opportunities in those countries, in Germany, by contrast, the period saw rapid growth and general high levels of economic activity. The overall industrial growth rate grew from some 2.4 per cent. annually in the decade of the 1860's, to 3.3 per cent. the following decade, 4.8 per cent. in the 1880's, and 5.0 per cent. in the 1890's.<sup>32</sup> Against this background it seems reasonable to ask from where the German investment for Russia was supposed to come, even had Bismarck not intervened in 1887. Certainly there is no evidence of a large flow of German capital abroad which might have been diverted to Russia. Initially Bismarck may have driven Russia into the arms of France, and political circumstances may have fostered French investment at the expense of German, but there were powerful economic forces supporting such a pattern in any case.

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<sup>32</sup> Y. BAREL, *op. cit.*, p. 177.

#### IV

The argument that investment in Russia should be viewed as part of the general development of the international economy does not imply, as emphasized earlier, that the Russian government did not directly promote the inflow. The currency and tariff measures undertaken by the finance ministers, the government propaganda, legal and institutional reforms and other policies, all contributed to foster the influx of capital from abroad. Yet it is important to place government policy, too, in its international perspective.

The international adoption of the gold standard provides a good illustration of Russia's participation in a wider movement; von Laue's suggestion that Bunge was responsible for persuading Witte to move towards the gold standard overlooks completely the general drift of monetary policies in the late nineteenth century. In 1870 only two nations, Britain and Portugal, were on a full gold standard. At the time the majority of other European countries were on a silver standard, or had linked their currencies to some form of bimetallic standard. A few, Russia and Austria-Hungary among them, had nominal metallic standards, but in fact operated depreciated paper currencies.<sup>33</sup>

The rapid fall of silver prices which set in during the 1870's (due largely to increased American output) led to the depreciation of silver currencies, while in bimetallic countries silver quickly replaced gold and the currencies (effectively now on a silver standard) depreciated too. The problems resulting from this instability encouraged countries to stabilize their currencies by departing from silver and adopting a gold standard. Germany led the way in 1872, followed by Holland and the Scandinavian countries. Gold purchases by these countries, of course,

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<sup>33</sup> For a general account of the adoption of the gold standard see J. B. CONDLIFFE, *The Commerce of Nations* (1951), pp. 360-400; R. G. HAWTREY, *Currency and Credit* (1928), pp. 370-90. See also H. BLOOMFIELD, *Monetary Policy Under the International Gold Standard, 1880-1914* (New York, 1959), pp. 13-22.

further lowered the relative value of silver and so increased pressure on the remaining silver currencies. France and the other members of the Latin Union (Belgium, Switzerland, and Italy) were forced to suspend free silver coinage, and by the end of the 1870's silver had ceased to be a standard throughout Europe (except nominally for countries with depreciated paper), and an effective gold standard was widely in force. As silver prices fell towards the levels of depreciated paper there was a move by these countries also to suspend free coinage of silver. In 1892 Austria-Hungary adopted a gold unit for the currency. In 1893 Russia also suspended silver coinage, and took steps to stabilize the currency in preparation for the adoption of the gold standard, achieved ultimately in 1897.

There were specific domestic reasons influencing Russia's decision to adopt gold, and influencing the timing of the adoption; so there were in the other countries. But the fact remains that there were general international factors affecting Russia in common with other nations: the depreciation of silver brought instability of currencies and rising import costs; stable gold-backed currencies encouraged foreign investment not only in Russia, but in Latin America, India, Japan and elsewhere. Moreover once the movement towards the gold standard was underway it became increasingly difficult for countries to remain outside the system. Foreign investors might look warily at non-gold currencies, while questions of prestige were involved too. Quite simply, a major reason why Russia adopted the gold standard was that other countries did so. Had Russia not joined the general movement, then explanation would indeed be necessary.

Russia's tariff policies, too, have to be seen against a background of rising duties during the last quarter of the nineteenth century. Factors such as raising revenue to cope with expanding state demands (military needs of railway expansion, for example), developing domestic industry, promoting active trade balances to secure gold reserves, copying the evident success of

protectionist United States, and, in the case of food importers, protecting agriculture from American competition — these and other factors led countries throughout Europe and elsewhere to impose new tariffs and raise existing duties. Between 1875 and 1880 former liberal trade policies were reversed in Russia, Austria-Hungary, Spain, Italy, France and Germany.<sup>34</sup> During the 1880's the upward trend of tariff barriers continued and became increasingly widespread, and by the early 1890's the United States, France, Austria, Spain, Italy and a number of other countries in addition to Russia had become highly protectionist. The Russian tariff of 1891 was exceptionally severe, but it operated nonetheless in an environment where protection had a general and increasing momentum.

## V

The final section of the paper examines certain problems arising from the estimation of French investment in Russia in the light of two recent studies of the subject.<sup>35</sup> Not only was France Russia's major creditor, but Russia was the most important recipient of French lending. The extent and timing of such flows is therefore a matter of some significance in the economic history of both countries.

Table 4 shows estimates of French investment in Russian government securities during the period 1889-1914 compiled by Dr. Crisp and Dr. Girault. As can be seen, the two series differ widely for almost the entire period, Girault's estimates being considerably higher. Crisp's own suggestion for the discrepancy is principally that Girault has overestimated the values of earlier French loans prior to 1894, and that his subsequent figures, based on these early estimates, are in consequence swollen.<sup>36</sup>

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<sup>34</sup> For a general account of tariff measures in this period see C. F. BASTABLE, *The Commerce of Nations* (1899), pp. 92-116; J. B. CONDLIFFE, *op. cit.*, pp. 224-237.

<sup>35</sup> O. CRISP, *Studies in the Russian Economy Before 1914*, *op. cit.* R. GIRAULT, *op. cit.*

<sup>36</sup> O. CRISP, *op. cit.*, p. 201.

Dr. Crisp has 'no hesitation' in preferring her own estimates, pointing out that her figures are more in line with certain contemporary estimates; but this is not very convincing since, as Crisp herself points out, other contemporary estimates are closer to Girault.

TABLE 4

ESTIMATES OF FRENCH INVESTMENT IN RUSSIAN GOVERNMENT  
BONDS AND GUARANTEED BONDS, 1889-1914  
(million francs)

| Year<br>(Beg. Jan. 1.) | Crisp | Girault | % Difference | Annual change |         |
|------------------------|-------|---------|--------------|---------------|---------|
|                        |       |         |              | Crisp         | Girault |
| 1889                   | 822   | 1678    | 104.0        | 1633          | 990     |
| 1890                   | 2455  | 2668    | 8.7          | 442           | 831     |
| 1891                   | 2897  | 3499    | 20.8         | 698           | 297     |
| 1892                   | 3595  | 3796    | 5.6          | — 200         | 113     |
| 1893                   | 3396  | 3909    | 15.1         | 209           | 274     |
| 1894                   | 3605  | 4183    | 16.0         | 619           | 920     |
| 1895                   | 4334  | 5153    | 22.0         | —             | 70      |
| 1896                   | 4224  | 5173    | 22.5         | 386           | 531     |
| 1897                   | 4610  | 5710    | 23.9         | —             | 101     |
| 1898                   | 4610  | 5811    | 26.1         | 234           | 187     |
| 1899                   | 4844  | 5998    | 23.8         | —             | 162     |
| 1900                   | 4844  | 6160    | 27.2         | 150           | 135     |
| 1901                   | 4994  | 6295    | 26.1         | 292           | 282     |
| 1902                   | 5286  | 6577    | 24.4         | —             | 50      |
| 1903                   | 5286  | 6627    | 25.4         | —             | 244     |
| 1904                   | 5286  | 6871    | 20.0         | 800           | 790     |
| 1905                   | 6086  | 7661    | 25.9         | —             | —       |
| 1906                   | 6086  | 7661    | 25.9         | 1218          | 986     |
| 1907                   | 7304  | 8647    | 18.4         | —             | —       |
| 1908                   | 7304  | 8647    | 18.4         | —             | 252     |
| 1909                   | 7304  | 8899    | 21.8         | 739           | 382     |
| 1910                   | 8043  | 9281    | 15.4         | —             | 80      |
| 1911                   | 8043  | 9361    | 16.4         | —             | —       |
| 1912                   | 8043  | 361     | 16.4         | 237           | 491     |
| 1913                   | 8280  | 9852    | 19.0         | 977           | 271     |
| 1914                   | 9257  | 10123   | 9.4          | —             | —       |

Sources: O. CRISP, *Studies in the Russian Economy Before 1914* (London, 1976), p. 199; R. GIRAULT, *Emprunts Russes et Investissements Français en Russie, 1887-1914* (Paris, 1973), pp. 84-5.

Notes:

The Public debt includes state loans and loans guaranteed by the state. Girault's series includes municipal loans. Crisp's series includes loans of the Nobles and Peasants Land Banks.

Private investment includes share and loan capital in industrial and commercial undertakings.

A comparison of the two series in Table 4 shows that Dr. Crisp's explanation for the divergence needs qualification. The big discrepancy for the year 1889 is due in large measure to Girault spreading the loans of 1888-9 over several years instead of bunching them into one year. From 1893 the gaps between the series increase fairly steadily, rising to a maximum of 30 per cent. in 1904. Subsequently the differences lessen, and by 1914 the two series are quite close together.

The difference between the series may possibly be exaggerated by slightly different coverage. Crisp's figures exclude, while Girault includes, loans raised in France by Russian municipalities. However, municipal loans were insignificant before 1900, and only became of importance after 1905. Their exclusion does not therefore affect the major divergences between the two series which occur before this period. Unfortunately neither Crisp nor Girault give separately a series for municipal investment so that it is not possible to adjust the two series to allow for this. Crisp gives a figure for the outstanding municipal debt held in France on January 1, 1914 as 583.2 million francs, and this makes her estimate of total French holdings of Russian 'public debt' at that date very close to that of Girault.

But on the other hand Girault does not include the state guaranteed loans of the Nobles and Peasants Land Banks in his series, whereas these are rightly included by Dr. Crisp (and in certain other estimates).<sup>37</sup> Their inclusion raises the Crisp totals by 150 million francs from 1900 and by a further 236.7 million francs after 1912. If we adjust the two series to allow for the municipal and land banks debts, and assume the municipal debt was the same in 1913 as it was in 1914, we still find the series apart in 1913 by as much as 14 per cent.

The two series are calculated by substantially different me-

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<sup>37</sup> O. CRISP, *op. cit.*, p. 200. The guaranteed debt of the two banks is included also in the estimates given by H. FISK, *The Inter-Ally Debts* (New York, 1924), p. 299 and A. CRIHAN, *Le Capital Etranger en Russie* (Paris, 1934), p. 72.

thods. Both authors take as the basis of their calculations the various issues of the Tsarist government floated during the period. Dr. Girault attempts to measure the debt held in France directly. He uses the data of the French issuing houses, chiefly the Crédit Lyonnais and Rothschilds, in order to estimate the proportion of each loan subscribed in France. He then bases his calculations on the nominal value of bonds and on stock exchange quotations. These estimates involve considerable uncertainty, as Girault points out. Loans were usually floated in several countries simultaneously, and it is impossible to know exactly the proportion of the debt actually taken up in each centre. The international character of the loans was shown by the fact that the denominations of the bonds and payment of interest were quoted in various currencies. Bonds might pass from bank to bank in Europe before being finally subscribed. Nationals of one country might well hold bonds in another, possibly for tax reasons. There are, for example, instances of German investors receiving interest on such bonds in Paris. Russian nationals, too, sometimes held Russian debt in foreign centres. Moreover the actual amount of the loans did not match their nominal total. They were issued at varying rates of discount in addition to which the issuing houses received a margin of profit. The French stamp duties are only an approximate guide to the volume of debt since they were not levied on the entire loan issued, and in addition French nationals could evade the tax by purchasing their bonds elsewhere. Once a loan was issued the timing of the resulting flow of funds is not easy to assess, since it often took a lengthy period, sometimes even years, for an entire loan to be placed.

Dr. Crisp bases her calculations on the proportion of the various Tsarist loans estimated to be held in France on the eve of the war. This data comes from a survey of French claims against Russia made immediately after the war.<sup>38</sup> Dr. Crisp mul-

<sup>38</sup> O. CRISP, *op. cit.*, pp. 198-9.

tiplies these proportions by the amount of each loan issued at the time of floatation in order to arrive at her estimate of French lending. She makes no allowances in these calculations for the regular amortization of loans made by the Russian government on the grounds that the sums involved were not large (the loans were generally amortized over a period of 81 years) and that any overestimate from this source is counterbalanced by the under-reporting of French claims after the war. This reasoning involves the assumption that under-reporting, the extent of which is unknown, equalled the amortization of the loans. Even if the assumption is valid for the period immediately before the war it is not valid for the whole period. The further back in time one goes the lower the level of amortization of each particular loan and hence the greater the element of underestimation in the calculations. It is clear from Table 4 that a high proportion of French lending was concentrated in the early years of the period, which would of course increase the level of underestimation in the initial period particularly. Quite possibly the convergence of the Crisp and Girault series after 1904 is partly explained by the neglect of the growing weight of amortization in the Crisp series tending to correct the downward bias from non-registering of claims. Clearly also any *net* movement of French holdings after issue would bias the results. If French claims after the war were by then a lower proportion than originally subscribed in France, Dr. Crisp's estimates would then be too low.

A further possible explanation of the difference between the two series may lie in their coverage quite apart from the municipal and bank loans mentioned already. Both authors give a list of the loans included, and Girault includes two loans which Dr. Crisp does not: the 1882 5 per cent. loan and the 4 per cent. "Rente Intérieure" of 1894.<sup>39</sup> The former was relatively minor, only £ 4.4 million (110 million francs) being outstanding in

<sup>39</sup> R. GIRAULT, *op. cit.*, p. 24.

1898 according to Fenn.<sup>40</sup> The latter had a huge nominal amount (2987 million francs) although how much was actually issued in France is not given by Girault.

The flow of lending shown in Table 4 also differs markedly between the two series. Although Girault's figures are higher overall, the two biggest annual inflows of French investment belong to the Crisp series. In general, Girault's estimates are more evenly spread. According to Crisp, in ten of the sixteen years between 1895 and 1911 there were no French purchases of Russian state or guaranteed debt, whereas Girault records only three years with no flow. For state debt alone Crisp estimates no French purchases in as many as fifteen years out of the nineteen between 1895 and 1914.

On the whole the sequence of investment recorded by Girault seems more acceptable. Dr. Crisp's procedure, applying a ratio for French holdings to the total of a loan floated in a particular year, naturally concentrates the movement of capital into the few years of actual floatation. But we have seen already that there was a time-lag between the issue of a loan and its actual placement, while placement itself could be spread over a lengthy period. For example, some 30 million francs of the 1891 loan issued in Paris was apparently sold only in September 1897.<sup>42</sup> For this reason estimates based directly from the data of issuing houses, and, as far as their deficiencies allow, from the stamp duty returns, showing a greater spread of French purchases of Russian bonds, appear to give a more accurate picture of the annual flow of French investment.

Table 5 divides the Crisp and Girault data into subperiods. Again some significant differences are shown. Dr. Crisp records a quite marked rise in French investment during the depressed years following 1900 in comparison with the flow in the late

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<sup>40</sup> *Fenn on the Funds* (16th edition, London, 1898), p. 454.

<sup>41</sup> R. GIRAULT, *op. cit.*, p. 74.

TABLE 5

## ESTIMATES OF FRENCH INVESTMENT IN RUSSIAN GOVERNMENT BONDS, 1888-1914 (million francs)

| Years     | Crisp | Girault |
|-----------|-------|---------|
| 1888-1894 | 3605  | 4183    |
| 1894-1901 | 1389  | 2112    |
| 1901-1907 | 2310  | 2352    |
| 1907-1914 | 1953  | 1486    |

Source: O. CRISP, *Studies in the Russian Economy Before 1914* (London, 1976), p. 199. R. GIRAULT, *Emprunts Russes et Investissements Français en Russie, 1887-1914* (Paris, 1973), pp. 84-5.

1890's, a change not nearly so evident from Girault's estimates. For Girault the economically bouyant period in Russia after 1907 saw by far the lowest levels of French investment in Russian government bonds, whereas for Dr. Crisp the inflow was in fact greater in this period than in the late 1890's, and not much lower than that recorded during the years 1901-1907. But both estimates show that the major period of inflow of French capital came before the formal political alliance between France and Russia in 1894.

In his recent study Girault also gives new estimates of French investment in Russian industrial and commercial corporations. This is important, since the statistics of foreign corporate investment in Russia rest on slender foundations. Nearly all estimates of corporate investment in Russia derive from the work of Ol, who published his data just after the First World War.<sup>42</sup> Although there have been general criticisms that Ol's estimates are too high there has been no attempt at a substantial revision of his calculations.<sup>43</sup> From Ol's work, Eventov has derived an

<sup>42</sup> O. CRISP, *op. cit.*, p. 196; V. K. YATSUNSKY, "Main Features of Industrialization in Russia before 1917," *First International Conference of Economic History* (Paris, 1960), p. 304.

<sup>43</sup> J. P. MCKAY, *op. cit.*, pp. 30-1. P. Ol, *Innostrannye Kapitaly v Rossii* (Petrograd, 1922); and *Innostrannye Kapitaly v Narodom Khoziastve Dovoennoi Rossii* (Leningrad, 1925). L. EVENTOV, *Innostrannye Kapitaly v Russkoi Promyshlennosti* (Moscow, 1931) gives a number of annual series based on the data and totals from Ol.

TABLE 6

CAPITAL IN RUSSIAN INDUSTRIAL  
AND COMMERCIAL CORPORATIONS, 1880-1915  
(million francs)

| Year | A        |         | B          |            | C    |      | D    |      | Percentages |  |
|------|----------|---------|------------|------------|------|------|------|------|-------------|--|
|      | Total    | Foreign | French (1) | French (2) | B/A  | C/A  | C/B  | D/A  | D/B         |  |
| 1880 | —        | 258.5   | 86.6       | (140.0)    | —    | —    | 33.5 | —    | 54.1        |  |
| 1890 | 2,140.0  | 571.1   | 139.9      | 244.2      | 27.1 | 6.6  | 24.5 | 11.6 | 42.8        |  |
| 1894 | 2,581.8  | 651.7   | (182.2)    | 369.8      | 25.2 | 7.1  | 28.0 | 14.3 | 56.7        |  |
| 1900 | 6,193.0  | 2430.0  | 631.5      | 921.6      | 39.1 | 10.2 | 26.1 | 14.9 | 38.0        |  |
| 1914 | 12,896.8 | 5652.8  | (1806.5)   | 2245.2     | 43.8 | 14.0 | 32.0 | 17.4 | 39.7        |  |
| 1915 | 14,944.4 | 5867.1  | 1919.3     | —          | 39.2 | 12.8 | 32.7 | —    | —           |  |

Source: A and B. Figures from Ol and Eventov quoted in J. P. MCKAY, *Pioneers for Profit* (Chicago, 1970), pp. 26-7.

Column C - based on estimates by Ol from L. EVENTOV, *Innostrannye Kapitaly v Russkoi Promyshlennosti* (Moscow, 1931), p. 35. Figures in brackets calculated on the assumption that 50 per cent. of new capital shown in column B came from France.

Column D - R. GIRAULT, *Emprunts Russes*, p. 85. The estimate for 1880 is by the French Ambassador to St. Petersburg, quoted *Ibid.*, p. 88.

## Notes:

Data covers share and loan capital in industrial and commercial corporations. Rouble converted at rate of 2.66 francs.

annual series for total foreign investment in Tsarist Russia between 1888 and 1914, but no annual series for investment by the individual creditor nations exists.<sup>44</sup> The only estimates for investment by nationality are for certain benchmark years, and Girault's calculations therefore give an opportunity to see the timing and pattern of French investment, and also to compare his totals with the existing estimates.

The most striking feature of Girault's estimates by comparison with the benchmark years given by Ol is their large magnitude, shown in Table 6. Somewhat surprisingly, Girault does not discuss the fact that his series gives results so much higher than the majority of other estimates. He notes simply that although his total for 1914 is higher than that given by Crisp (and Ol), it is lower than that of a contemporary estimate by

<sup>44</sup> L. Eventov, *Innostrannye Kapitaly v Russkoi Promyshlennosti* (Moscow, 1931), p. 25.

the *Crédit Lyonnais*.<sup>45</sup> But this latter figure is unrepresentative, and most of the few independent estimates of *total* foreign capital investment in Russia before 1914 are below the estimates produced by Ol.<sup>46</sup> In any case, as Table 6 shows, the divergencies produced by Girault's estimates are actually at their lowest point in 1914; the greatest discrepancies occur at the beginning of the period. In 1890 Girault's figures are greater by 74 per cent. in 1900 by 46 per cent. and in 1914 by only 24 per cent. At the same time Table 6 shows from Ol's estimates the growing overall importance of foreign corporate investment during the boom of the 1890's. Total foreign investment rose from 27 per cent. of total corporate investment in 1894 to 39 per cent. in 1900; and the share of French capital in total corporate investment also rose steadily throughout the period before 1914 whether we take the estimates of Ol or Girault.

However, if we compare the two series for French investment with that by Ol for total borrowing (Column B), it is apparent that the Girault estimates show a very different pattern. In the early part of the period the share of French investment, according to Girault, was much higher (54.1 per cent. compared with 33.5 per cent. for Ol). But also striking was the sharp decline of this share between 1894 and 1900, from over 56 per cent. to 38 per cent. for this indicates that the share of French investment in Russia was declining at just that period when Russian industrialization was progressing most rapidly, when foreign capital as a whole was playing its leading role, and when the effects of the Franco-Russian alliance of 1894 might be expected to lead to an opposite tendency.

Table 7 confirms not only that considerable French investment had taken place in Russian corporations, as in Tsarist bonds, before 1894, but that much of the investment had taken place

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<sup>45</sup> R. GIRAULT, *op. cit.*, p. 126.

<sup>46</sup> J. P. MCKAY, *op. cit.*, pp. 30-1.

even before 1888. Of the total French capital invested in Russian corporations at the beginning of 1897, some 40 per cent. had been subscribed already prior to 1888. Table 7 demonstrates also the exceptionally high flow of investment taking place in the last three years of the century, a flow which tends to mask the rather surprising continuity of French investment during the boom years of the 1890's and in the depression which stretched from about 1900 until 1907. Thus French corporate investment in Russia in the depressed early years of the twentieth century was actually at a higher annual average rate than in any of the earlier periods except 1897-1900. The sectoral breakdown of investment confirms how concentrated French investment was in mining and metallurgy. These sectors always absorbed one half of French investment before 1914, and the proportion between 1897 and 1900 reached more than 70 per cent. Metallurgy increasingly monopolised the investment, and by the outbreak of the First World War was attracting five times as much capital as the mining sector.

A comparison of French investment in corporations and in Russian government securities (Tables 5 and 7) shows a clear inverse pattern. The sequence is explained to some extent by the economic crises and budgetary problems which sometimes led the Russian government to seek foreign loans at a time when the industrial climate was not conducive to the inflow of private investment. Such periods included the aftermath of the great famine of 1891 and the Japanese War in 1904-5. It must be remembered also that a large segment of Russian state and guaranteed debt was raised for directly economic purposes, above all for railway construction. One estimate puts the proportion of Russia's national debt incurred for railway loans in 1913 (exclusive of the guaranteed debt) at 35 per cent.<sup>47</sup> The inverse

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<sup>47</sup> G. A. PAVLOVSKY, "The Russian National Debt," *The Russian Economist*, 1, 1920, p. 40.

pattern of public and private investment therefore indicates in some measure a continuous flow of *economic* investment by the French into Russia throughout the period. Indeed, the flow of capital into Russian industries in the late 1890's was undoubtedly to some extent a response to the impact of earlier French lending made through the medium of government debt.

TABLE 7  
FRENCH INVESTMENT IN RUSSIAN CORPORATIONS  
(million francs)

| Year<br>(From Jan. 1) | Mining <sup>1</sup> | Annual<br>Average | Metallurgy | Annual<br>Average | Other | Annual<br>Average | Total  | Annual<br>Average |
|-----------------------|---------------------|-------------------|------------|-------------------|-------|-------------------|--------|-------------------|
| Before 1888           | 31.2                | —                 | 70.6       | —                 | 118.0 | —                 | 219.8  | —                 |
| 1888-1894             | 78.6                | 13.1              | 7.0        | 1.1               | 64.4  | 10.7              | 150.0  | 25.0              |
| 1894-1897             | 57.7                | 19.3              | 55.4       | 18.5              | 58.1  | 19.4              | 171.2  | 57.1              |
| 1897-1900             | 106.6               | 35.5              | 165.8      | 55.3              | 108.2 | 36.1              | 380.6  | 126.9             |
| 1900-1907             | 99.2                | 14.1              | 181.3      | 25.9              | 188.7 | 26.9              | 469.2  | 67.0              |
| 1907-1914             | 73.0                | 10.4              | 355.6      | 50.8              | 425.8 | 60.8              | 854.4  | 107.8             |
| Total in 1914         | 446.3               |                   | 835.7      |                   | 963.2 |                   | 2245.2 |                   |

Source: R. GIRAULT, *Emprunts Russes*, p. 85.

Notes:

<sup>1</sup> Excluding oil mining.

Girault's annual estimates of French investments thus present a new source of data and suggest some interesting reassessments of the role of French capital in Russian industry. The question therefore arises of the level of confidence that can be placed in these estimates and their use for comparative purposes.

The principal reason for the high level of Girault's estimates is that, unlike Ol, he does not base his calculations simply on the issued capital of the corporations. Instead, by taking account of the market values of corporate stock, bank data, and by using company balance sheets, he is able to allow for direct investment by French-owned firms from ploughed-back profits and other sources. Since such direct investment was undoubtedly

an important element in French investment, it is not surprising that Girault's figures should be higher than other estimates. After 1900 French investment in Russia increasingly took the form of passive portfolio investment, rather than direct investment;<sup>48</sup> this, no doubt, explains at least in part the narrowing gap between the Ol and Girault estimates noted earlier.

On theoretical grounds direct investment by French firms was certainly a component of French lending to Russia even though no direct monetary flow resulted. To the extent that profits of French companies operating in Russia were not repatriated but were reinvested, the investment represents an increase in French-held assets in Russia, and should be included in total investment. But in treating investment this way, Girault's estimates inevitably lose direct comparability with the totals given by Ol. Consequently the proportions shown in Table 5 exaggerate the role of French investment. Nonetheless, the 'direct' component of French lending to Russia was almost certainly higher than for other creditor nations, so that the general direction of the French share of total investment in Russia shown by Girault would remain. Thus, if we raise Ol's estimates for total investment in Russia by raising his French component to Girault's levels, we still find a sharp drop in the French share between 1894 and 1900 (this time from 44.1 per cent. to 33.8 per cent.) and, of course, somewhat higher overall proportions for French investment throughout.

## VI

The previous section has done no more than make very tentative suggestions drawn from a comparison of Girault's new data with other estimates. Being derived differently, Girault's figures for corporate investment are not strictly comparable

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<sup>48</sup> J. P. MCKAY, *op. cit.*, pp. 384-5.

with the estimates of Ol, nor, in consequence with those of most other historians. Yet, within this limitation, Girault's estimates do suggest at least three major points. First, the widely quoted figures for total foreign investment in Russia before 1914 are probably underestimates rather than overestimates as is usually supposed. Secondly, Girault's estimates confirm the considerable extent of French investment in Russia prior to the formal political alliance. Particularly notable was the magnitude of French investment in Russian corporations even before 1888. Third, Girault's figures suggest that in terms of the proportion of total investment the French share actually fell during during the phase of most rapid industrial growth in the second half of the 1890's.

Finally, it may be noted that the conclusions drawn from Girault's estimates support the approach argued in the first sections of the paper. France had no special 'political' role in the influx of foreign capital. France was one creditor, albeit the major one, among many. And French capital was part of the general flow which moved from advanced European nations to developing regions in the decades before 1914.