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ECONOMICS 303Y1

The Economic History of Modern Europe to 1914

Prof. John Munro

Lecture Topic No. 27:

VI. RUSSIA: THE BEGINNINGS OF INDUSTRIALIZATION TO 1914

D. Russian Banking and Finance in the 19th century

D. RUSSIAN BANKING AND FINANCE IN THE 19TH CENTURY

1. Introduction: Russian Banking and the State

a) Banking Institutions in Russia:

i) **Russian banking and financial institutions:** came to play relatively as important a role in industrialization during the later 19th century as they had in 19th-century Germany;

ii) **but of course with a far smaller absolute magnitude in Russia:** since neither banking nor industrialization was on the same scale as that in Germany of that era.

iii) **The Gerschenkron thesis:** once more

(1) Obviously Russia provides a good testing ground for the Gerschenkron thesis – all the more so since he was himself Russian born (though Austrian trained, and then a professor at Harvard, as noted in previous lectures)

(2) We saw the essence of the thesis, in the industrialization of Germany, from the 1860s:

- the interventionist role of the state, combined with
- the role of investment banks and other financial institutions

iv) **In Russia, the central feature in both banking and industrialization is, indeed, the role of the state,** far more so than elsewhere.

b) The Russian state had in fact long played a major role in Russian banking institutions:

i) **As far back as the mid-18th century, in 1754** (Empress Elizabeth, 1741-61)

(1) the Russian government founded the first government or state bank, the first in Europe.

(2) and thus even before the reign of the more famous successor, Catherine the Great (1762 - 1796):

ii) **This and subsequent state banks were really Land Banks:**

(1) They were designed chiefly to serve the financial needs of the Russian nobility,

(2) especially for financing their estates through mortgages

d) **1817: formation of the State Commercial Bank,** which lent chiefly to state-sponsored guilds.

2. Gosbank: The State Bank of Imperial Russia, from 1862

a) Origins:

i) **a financial crisis of the late 1850s (1857-59),**

(1) following the Russian defeat in the Crimean War of 1854-56: in the Crimean peninsula, in the Black Sea region

(2) The war was fought against both France and Great Britain, and the Ottoman Turks

- France and Britain had joined this war to aid the Ottoman Turks, who had lost territory to the Russians in the Black Sea region
- and to prevent further Russian expansion, threatening Mediterranean sea routes.

(3) that war and the Russian defeat led to collapse of a number of state banks

ii) **They were reorganized as a division of the Ministry of Finance**, in 1862, as Gosbank, or the State Bank of Imperial Russia.

b) **Functions of Gosbank:**

i) **This was Europe's only wholly government owned state or central bank, along with Sweden's state bank:**

ii) **as a state-owned bank**, it marks an important distinction from the French and German banking models.

iii) **In its early years, Gosbank acted as a regular commercial bank:**

(1) i.e., a bank of deposit, transfer, short-term lending, and discounting,

(2) filling a vacuum in financial markets, when there were very few private banks.

iii) **It established over 900 branches throughout Russia:**

(1) until the 1890s, when private joint-stock banking had become more fully developed,

(2) Gosbank was clearly the most important bank in all of the Russian Empire.

c) **Commercial Banking Policies of Gosbank:**

i) **It came to handle about a third of total deposits:**

(1) as the table on screen shows, even after the development of private joint-stock banking,

(2) Gosbank handled about 20% - 25% of lending and discounting.

ii) **In 1890s, its business was about equally split:** between discounting and straight lending (chiefly industrial loans).

iii) **Lending:**

(1) though chiefly short-term lending, some was for periods of a year or more;

(2) and thus Gosbank directly or indirectly assisted in financing fixed-capital formation in Russian industry.

Table 1. Volume of Lending and Discounting by the Russian Banking System in millions of rubles, from 1875 to 1914 (in selected years)

Year	Total Loans and Discounts in millions of rubles	Index	Percentage by Gosbank 1875 = 100
1875	755.0	100	15.4%
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1914	5,330.6	706	20.2%

d) **Gosbank's Relations with Private Banks:**

i) **quite unlike the Bank of France**, Gosbank willingly aided all the private banks, especially in helping with their initial financing

(1) investing in them by buying shares in them,

(2) by providing lines of credit and

(3) providing full rediscounting privileges, in effect to act as a 'lender of last resort'.

ii) **For the private banks**, the chief cost was their dependence on Gosbank, their necessary subservience to Gosbank, which would always protect them.

e) **Other State-Banks founded by and governed by Gosbank:**

i) **1882: the Peasant Land Bank:** to help the peasantry finance redemptions and land reform.

ii) **1885: the Land Bank for the Nobility:** similarly to help the landed gentry and nobility engage in agricultural modernization.

iii) **1912: the Zemstvo and Urban Bank:** for municipal financing.

3. **Gosbank and Russian Monetary Policy: the Gold Standard**

a) **Russia's paper money circulation:**

i) **Russia surprisingly was the first European country to issue an official paper currency:**

(1) the paper ruble,

(2) from the reign of Empress Elizabeth I – in 1754, as noted earlier.

ii) **But this paper ruble was not tied specifically to gold or silver:**

(1) it was fiat money, i.e., fiduciary money issued on the authority of the government

(2) with a value that fluctuated quite freely and considerably in foreign exchange markets;

(3) i.e., depending on the demand for and supply of Russian currency.

b) **Russian monetary policy in the late 19th century:** was to peg the Russian ruble to gold, and thus put Russia on the international gold standard.

i) **This policy began with the Russian finance minister Vyshnegradskii: from 1886 to 1891**

(1) who began building up the gold reserves of Gosbank, by foreign borrowing and higher taxation levels
 (2) and necessarily also by contracting the supply of paper rubles.

ii) **Gosbank reserves:** as a department of the Ministry of Finance, Gosbank received very large deposits from the business of that ministry.

(1) government funds themselves came from budget surpluses, i.e., from taxation;

(2) Gerschenkron had claimed that onerous taxation of the peasantry was the cost of this monetary policy – what Gerschenkron called ‘Hunger Exports’, of grain supposedly extorted as *obrok* from the Russian peasants (see the previous lecture);

(3) on this specific issue Paul Gregory does not really supply concrete information, but Gerschenkron’s charge seems to be dubious.

(4) as noted, large funds were also derived from government borrowing, especially foreign loans.

(5) Other deposits came from private banks, who were obligated to maintain their bank reserves with Gosbank.

iii) **In the early 1890s, German speculation** against the ruble temporarily blocked the proposed move towards the gold standard.

iv) **But German manoeuvres to speculate against the ruble were foiled by Vyshnegradskii’s successor, Count Sergei Witte (1849-1915)**, who was Russia’s most famous and most powerful finance minister before World War I: ¹

(1) Minister of Finance from 1892 to 1903

(2) Premier: in 1905-06

c) **The Russian Monetary Reform of 1894 - 1897:**

i) **From 1894, Count Witte began contracting the Russian paper ruble supply even more severely**, while steadily building up Gosbank’s reserves, especially by foreign borrowing.

ii) **Gold Mining Booms:**

(1) His task was undoubtedly facilitated by the fortuitous events of new gold mining booms in South Africa and the Yukon, greatly expanding world supplies, from 1896.

(2) the ensuing inflation, from 1896 to 1914, reflects in part the fact that gold, so much more abundant, had become that much cheaper (thus leading to rising commodity prices).

(3) the explanations and the relevant data on world gold stocks will be supplied in next week’s lecture on the British economy.

iii) **By 1897, the gold reserves of Gosbank were ten times those of the Bank of England:**

(1) or so it is generally claimed in all the standard literature

¹ See the Appendix on Sergei Witte

(2) but more recently, Paul Gregory contends that the reserves were proportionately no larger than those of the Bank of France, Bank of Sweden, and the Deutsche Reichsbank.

iv) **So Russia was now fully ready to go on the international gold standard (France and Germany did so: from about 1875):**

(1) i.e., by pegging the value of the ruble to a fixed quantity of gold, and allowing full convertibility;

(2) and full convertibility into other gold-backed currencies at fixed exchange rates (fixed in terms of gold).

v) **At the same time, Gosbank became the sole issuer of paper currency**, and the official regulator of the Russian money supply.

vi) **The new gold-backed ruble was even better than gold:**

(1) the law required only 50% gold backing up to 600 million rubles, and 100% gold backing above that amount;

(2) but the paper ruble issues of Gosbank were in fact always less than the bank's total gold reserves, so that in effect Gosbank always had over 100% reserves for the currency.

(3) The paper rouble had the advantage of being more portable, and easier to use, than gold coins.

d) **The Debate About the Russian Gold-Standard Policy (Kahan, Barkai, Drummond, Gregory and Sailors, Trebilcock):²**

i) **Official Justification for the Gold Standard Policy:**

(1) to attract foreign capital, by offering foreign investors perfect security --

(2) i.e., security against losses from exchange fluctuations --

² Clive Trebilcock, *The Industrialization of the Continental Powers, 1780-1914* (London, 1981), chapter 4, 'Russia', pp. 205-91; Olga Crisp, 'Banking in Russia, 1860-1914', in Rondo Cameron, ed., *Banking in the Early Stages of Industrialization* (London and New York, 1967), pp. 183-238; Arcadius Kahan, 'Government Policies and the Industrialization of Russia', *Journal of Economic History*, 27 (1967), 460-77; Arcadius Kahan, 'Capital Formation during the Period of Early Industrialization in Russia, 1890-1913', in Peter Mathias and M.M. Postan, eds., *Cambridge Economic History of Europe*, Vol. VII: *The Industrial Economies: Capital, Labour and Enterprise*, Part ii: *U.S., Japan and Russia* (Cambridge, 1978), pp. 265-307; Arcadius Kahan, *Russian Economic History: the Nineteenth Century*, ed., Roger Weiss (Chicago, 1989); George Garvey, 'Banking under the Tsars and Soviets', *Journal of Economic History*, 32 (1972), 869-93; Haim Barkai, 'The Macro-Economics of Tsarist Russia in the Industrialization Era: Monetary Developments, Balance of Payments and the Gold Standard', *Journal of Economic History*, 33 (1973), 339-71; Ian Drummond, 'The Russian Gold Standard, 1897-1914', *Journal of Economic History*, 36 (1976), 663-88; Paul Gregory and J.W. Sailors, 'Russian Monetary Policy and Industrialization', *Journal of Economic History*, 36 (1976), 836-51; Boris V. Anan'ich, 'The Russian Private Banking Houses, 1870 - 1914', *Journal of Economic History*, 48 (June 1988), 40; V.I. Bovykin and Boris V. Anan'ich, 'The Role of International Factors in the Formation of the Banking System in Russia', in Rondo Cameron and V. I. Bovykin, eds., *International Banking, Foreign Investment, and Industrial Finance, 1870 - 1914* (London and New York: Oxford University Press, 1990); Roger Koppl and Leland B. Yeager, 'Big Players and Herding in Asset Markets: The Case of the Russian Ruble', *Explorations in Economic History*, 33:3 (July 1996), 367-83.

(3) and the right to remit both earnings and capital (principal investment) in gold.

ii) **Criticisms of the policy:** by various historians, especially Kahan and Barkai.³

(1) **That the official policy was unnecessary:**

- that gold convertibility was not necessary to attract foreign capital,
- which had been flowing into Russia in considerable abundance during the previous 15 years.

(2) **Too costly a policy for the current, underdeveloped Russian economy:**

- That the onerous level of taxation, forced grain exports to earn foreign exchange,
- and high interest rates (for borrowing) to build up the gold reserves were together injurious to the Russian economy;
- injurious by depressing living standards and domestic demand, by curbing domestic investments (thus favouring foreign investments).

(3) That the policy of monetary contraction (i.e., reducing the supply of paper rubles) was too deflationary and constrictive, i.e.,

- that it depressed internal demand, investment, and production
- evidently on the grounds that prices were not flexible, especially in the later 1880s and early 1890s.

(4) **That the policy of 100% gold backing was far too restrictive:**

- that it made the domestic money supply and supply of bank credit far too tight and inelastic (more so than the French),
- thus again curbing both market demand and domestic investments.

(5) This is simply an added post-conversion variant of the previous argument.

e) **Defence of the Gold Standard Policy:**

i) **The Gold Ruble Policy and Changes in Foreign Investments:**

(1) The influx of foreign capital was in fact far greater after the 1897 gold ruble was established than it was before:

- indeed, the level of foreign investment in the period 1897 to 1913 was four times that of the preceding 16-year era, from 1881 - 1897.
- see the data in the following table

Statistics on Foreign Capital Flows into Russia: from Gregory (1994)

A. **From 1885 to 1897 (i.e., up to the achievement of the gold ruble):**

- mean foreign capital inflows were 43 million rubles per year
- Foreign investment = 0.5% of net national income

B. **From 1897 to 1913:**

³ See previous note.

- the mean of foreign capital inflows was 191 million rubles per year (4.4 times greater)
- Foreign investment = 1.5% of net national income: a three-fold increase

(2) And in the early 20th century, foreign investments amounted to 55% of total industrial capital investments in Russia.

(3) Thus one may well argue that this increased influx of foreign capital, with the necessary advanced foreign technology, was at least partly due to gold convertibility, to the gold-backed ruble.

(4) We also have to remember the serious fluctuations in the value of the paper ruble before 1897: especially fluctuations due to German speculation in the 1880s and in 1894.

(5) Obviously the Russian government felt that a perfectly stable ruble with full convertibility was necessary to offset the risk-aversion of both foreign and domestic investors.

(6) Trebilcock certainly comes out fully in favour of this policy:⁴

- in converting what he calls one of the world's shakiest currencies into a completely stable currency;
- he concludes that the capital necessary for such rapid industrialization could have come only from abroad:
- especially in the form that it did, with direct investments especially in the metallurgical and other heavy industries.

(7) **Government borrowing and private investments:**

- Prior to 1897, government borrowing was the prime source of capital inflows into Russia;
- but after 1897, and thus after convertibility, private borrowing was by far the chief source of capital inflows.

(8) **Thus Gregory agrees with Trebilcock (and with Gerschenkron in most respects):** that the gold ruble policy was highly successful in its goal of attracting and retaining private investment capital from abroad.

(9) **Note that, in 1914,** Russia was the world's biggest borrower or debtor nation.

ii) **the question of taxation:** can we ignore nevertheless the charge of excessively heavy taxation and high interest rates to support the gold ruble?

(1) Certainly De Witte did increase the per capita levels of taxation, by some 40% over that of 1885; (2) and the interest rates were very high.

(3) Trebilcock argues, however, that lower taxes were not necessarily the better alternatives:

It does not follow that, if De Witte had foregone these tax increases, or even lowered the level of taxation, a spontaneous demand for consumer goods would have arisen in the Russian countryside.

⁴ Clive Trebilcock, *The Industrialization of the Continental Powers, 1780-1914* (London, 1981), chapter 4, 'Russia', pp. 205-91. See n. 1 above.

(4) Read Trebilcock to see why: in his view, the counter-arguments ignore the political realities of the day that

- demanded firm government controls over society -- i.e., demanded autocracy.
- he thus comments that: ‘Rural peace generated by prosperity was less reliable than rural equilibrium pinned down by fiscal extortion’.

(5) The following table, however, though showing an increase in per capita levels of taxation in nominal terms, but not real terms, does not show any increase in the actual level of taxation.

(6) In other words, the rise in per capita taxes in nominal terms, expressed in current rubles, takes no account of the world-wide inflation from the later 1890s until World War I

(7) Question: would taxation levels have necessarily been different if the government had pursued some alternative monetary policy?

Per Capita Taxation in Russia, 1885 - 1913

Year	Excise Taxes Per Capita in Rubles	Total Per Capita Taxes in Rubles	Taxes as Percentage of Net National Income	Taxes as Percentage of Gross Industrial Output
1885	2.43	6.41	12.8%	51.3%
1890	2.83	7.12		46.2%
1895	3.29	8.15		
1900	4.10	8.83	13.2%	27.3%
1905	5.59	9.53		29.2%
1910	6.69	11.79		34.4%
1913	7.34	11.43	12.9%	25.5%

Source: Arcadius Kahan, ‘Government Policies and the Industrialization of Russia’, *The Journal of Economic History*, 27:4 (December 1967), extracted from tables 1-3, pp. 462-63.

iii) **Gosbank and Russian interest rates:** were they too high, in order to support the gold ruble?

(1) **The Russian government itself**, as noted, had much earlier adopted a policy of high interest rates in order to attract foreign loans and domestic deposits.

(2) **Gosbank, however, apart from its involvement in such state policies, did not and could not set any independent interest rates,**

- since it acted as a normal commercial bank,
- and thus had to follow rather than lead the financial markets.

(3) **Nevertheless clearly the government itself influenced interest rates:** in order to attract foreign capital.

(4) **Gregory's evidence on interest rates (bank rediscount rates):**

**Official Rates of Rediscount in St. Petersburg, Berlin, and Paris, on 12-Month Notes,
1885 - 1912 (in percentages per annum):**

Years	St. Petersburg	Berlin	Paris
1885-90	6.10	3.72	3.00
1890-95	5.95	3.63	2.63
1895-00	7.80	3.30	3.00
1900-05	5.90	3.90	3.00
1908-12	5.10	4.80	3.20

(5) **Some observations:**

- Clearly the Russian interest rates were higher, and obviously in order to secure foreign borrowing and attract foreign investment capital.
- But note that interest rates were high in the late 1880s and fell in the early 1890s
- to be sure, Russian interest rates did rise significantly during the establishment of the gold ruble, from 1894 to 1897.
- But note that the Russian rates dropped significantly, once full convertibility had been achieved.

(6) **Interest Rates and Industrialization:**

- The period 1891-1900 is regarded as a period of industrial boom, industrial urbanization, with no evidence of significant industrial unemployment:
- but interest rates, though having fallen slightly in the early 1890s, then rose to their peak of 7.80 (annual mean) in 1895-1900, the very period of establishing the gold ruble.

- the period of 1900-01 to 1905 is regarded as a period industrial depression, commencing with an international financial crisis in 1900-01 and certainly aggravated by defeat in the Russo-Japanese War (1904-05) and the Russian Revolution of 1905: yet interest rates fell in this period.

(7) **See Drummond's publications:** noting that Gosbank's rediscount rates (i.e., the interest rate on rediscounting commercial paper) did not have any discernible influence on the Russian money supply.

iv) **The question of the domestic money supply: did it become too inelastic with the gold ruble?**

(1) Drummond's statistical evidence, provided on the screen, in fact shows that the money supply did not become inelastic:⁵

(2) Both the domestic money supply and the supply of credit grew far faster after 1897 than before.

(3) Note that there is no direct relationship between the aggregate money supply and the gold supplies: proportionately more and more of the money supply came from bank money creation, from bank lending and credit creation.

(4) **Drummond argues that Russia deliberately ignored the rules concerning the international gold standard:**

- by effectively isolating the Russian money supply from international pressures by various measures
- in particular, by keeping currency well below the legal maximum, state borrowing to build up gold reserves, flexible reserve ratio requirements, etc.

(5) **Paul Gregory's monetary analyses on Russian gold reserves (1994):** supporting Drummond.⁶

- He supplies evidence that the growth in money demand exceeded the growth in money supply from about 1880 to 1900,
- But from 1900 to 1913 the opposite occurred: that the growth in the money supply exceeded the growth in the demand for money.
- However, with even more detailed statistics on national income, he can find no evidence that either monetary situation had any concrete effect on real economic growth.
- Part of the problem (as Drummond's graph indicates) lies in the definition of money supplies: M1, M2, M3, etc.

(6) **Gregory's conclusions (1994):** 'We fail to find evidence that the tight money policies required to achieve the Gold Standard [gold ruble] created substantial real output losses'.

⁵ Data from Ian Drummond, 'The Russian Gold Standard, 1897-1914', *Journal of Economic History*, 36 (1976), 663-88.

⁶ Paul Gregory and J.W. Sailors, 'Russian Monetary Policy and Industrialization', *Journal of Economic History*, 36 (1976), 836-51; Paul Gregory, *Before Command: An Economic History of Russia from Emancipation to the First Five-Year Plan* (Princeton: Princeton University Press, 1994).

v) **Changes in Gosbank's gold reserves:** from domestic production + foreign borrowing

(1) **1885- 1897:** a total growth of +425 million rubles, or +33 million rubles per year

(2) **1897- 1913:** a total decline of - 133 million rubles, or - 7 million rubles per year

(3) **Thus, to quote Gregory:** 'Once Russia's gold reserve was acquired and convertibility achieved, official foreign borrowing was no longer needed to acquire gold reserves'.

f) **Conclusions on the role of Gosbank: a central bank?**

i) **Interest rates:** as noted, were effectively set by the market, and not by Gosbank, though certainly government demands provided a powerful influence on that market:

ii) **Money supply:**

(1) On the one hand, Gosbank did control the money supply in terms of gold coins and rubles, and was the sole bank of issue

(2) But Gosbank did not use standard techniques of the rediscount rate or reserve ratios to effect changes in the money supply

(3) Nor did Gosbank engage in large transactions in selling or buying bonds to exert control over the money supply

iii) **In conclusion, Gosbank did not use any other techniques of central banking to expand or contract the money supply:** thus Gosbank cannot be compared to a true, modern central bank.

iv) **But nowhere else in Europe was there such a government dominated central bank:** one that acted so much as the direct and very positive instrument of government economic policies: particularly in promoting industrialization.

v) **We shall look next at Gosbank's relationships with the private banks,** especially the private investment banks.

4. **The Private Joint-Stock Commercial Banks**

a) **Private joint-stock banking began only in the 1860s:**

i) **First, on a very small scale, in St. Petersburg:**

(1) The city was renamed Petrograd at the outbreak of World War I (because the original name sounded much too German).

(2) and then renamed Leningrad in 1924, after Lenin's death;

(3) but in 1990, as noted earlier, the name St. Petersburg was restored (though its province has still retained the name of Leningrad oblast).

ii) **commercial banking also developed in Moscow: later, especially from the 1890s**

iii) **By 1900, there were 43 joint-stock banks in Russia,** of which six handled about half of Russia's banking business.

b) **Gosbank, acting for the government, played a major role in the formation of the early joint-stock company banks:**

i) **It supplied 25% of the capital for the Private Commercial Bank of St. Petersburg;** and similarly aided the financing of other banks.

ii) **Gosbank officials consequently sat on boards of directors of most banks,** certainly those that they financed.

c) **Investment or 'Universal' Banking in Russia:**

i) **What is now called Universal Banking, as a hybrid of normal commercial banking and investment banking,** developed in Russia from the 1870s:

ii) **true investment banking, on the German model,** came only from the 1890s, when a much more rapid pace of industrialization in Russia required such investment banking.

iii) **By 1890s, as noted,**

(1) there was a considerable influx of foreign capital into Russia,

(2) especially into the coal, iron, steel, and then petroleum industries;

(3) such foreign investment was naturally facilitated by the investment banks.

d) **The Industrial Depression of 1900-1906:**

i) **This depression was sparked by an international monetary crisis in 1900-01,** which curbed the influx of foreign capital and reduced demand for Russian exports.

ii) **An industrial depression ensued,** and that injured so many foreign investors in Russian industries that they subsequently decided that it was more prudent to invest in Russia indirectly, via the investment banks, especially because of their connections with Gosbank.

iii) **The combination of industrial depression and Russia's defeat in the Russo-Japanese war of 1905:** thus led to or culminated in the abortive 1905 Revolution.

iv) **Furthermore, consider the impact of the (abortive) 1905 Revolution:**

(1) that traumatic event, combined with continued peasant unrest,

(2) forced the Russian government to alter its priorities and concentrate much more heavily on land reforms.

5. The Russian Investment Boom of 1906 to 1914

a) **The investment banks took the leadership role in this new investment boom:** especially the St. Petersburg investment banks, taking over from the government the prime role of fostering industrialization, while the government now focused more on agrarian reforms (Stolypin).

b) **The Russian investment banks became the chief mechanism for funnelling both domestic and foreign capital into Russian industries:**

i) **and for that reason, they themselves became the object of considerable foreign investment**, especially by French and German banking interests.

ii) **Thus by 1914, the largest Russian bank, the Russo-Asiatic Bank**, was 80% foreign owned;

iii) **and overall**: about 45% of total capital investment in Russian banking institutions was foreign capital.

c) **Banking syndicates:**

i) **Not only did the foreign banking interests come to control a large portion of Russian banking outright**, they also formed syndicates of Russian banks (i.e., foreign controlled Russian banks);

ii) **purpose**: in order to underwrite stock and bond issues for Russian industrial firms and to market these securities in the West.

d) **Lenin's Theory of Capitalist Imperialism:**

i) **It was this situation that led Vladimir Lenin (1870 - 1924) to develop his full theory** of Monopoly Finance Capitalism and the theory of Capitalist Imperialism,

ii) **as published in his 1916 book**: *Imperialism as the Highest Stage of Capitalism*.

e) **For foreign investments in Russia, see the tables on the screen:**

i) **Note that of an aggregate amount of 21.6 billion gold rubles invested in Russia in 1914**, foreign capital accounted for 36.1%: in state and municipal bonds, and shares and debentures of private corporations.

ii) **In the period 1897 to 1914 (the gold standard era)**: even more, 55% of total capital investments, came from foreign financing.

iii) **International origins of foreign investments in Russia:**

(1) The French and their Belgian ally accounted for almost half of this foreign investment: 47%;

- the French also accounted for just over half – 50.5% – of investments in the ten largest joint-stock investment banks

- the reason for such heavy French investments: to help finance an ally against Imperial Germany

(2) the British came second with 23%;

(3) and the Germans, third, with 20%. – but second in investments in joint-stock banks: 37%

(4) The Americans then had only 5%;

iv) **Furthermore note (from the second table on the screen) that, by 1914, foreign capital accounted for 67% of total investments in metallurgy**; and fully 85% of total investments in the Ukraine's coal, iron, and steel industries.

d) **Bank Financial Resources**: as proportion of national income in 1900-14:

i) Russia 61.0%

ii) U.S.A. 63.0%

iii) Japan 60.0%

Russian Banking and Investment, 1875 - 1914

Table 1. Volume of Lending and Discounting by the Russian Banking System in millions of rubles, from 1875 to 1914 (in selected years)

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1914	5,330.6	706	20.2%

Table 2. Foreign Investment in Russia in 1914

A. Percentages of Main Types of Russian Securities Held by Foreigners

1.	State and state-guaranteed bonds	48.7%
2.	Shares of joint-stock companies	39.4%
3.	Debentures of joint-stock companies	55.3%
4.	Municipal bonds	74.0%
5.	Mortgage debentures	5.0%
	Aggregate: 7.8 billion rubles out of a total of 21.6 billion rubles invested in Russia in 1914	36.1%

B. Distribution of Investments in Russia by Nationality

1.	French and Belgian	47%
2.	British	23%
3.	German	20%
4.	American	5%
5.	Other	5%

C. Distribution of Foreign Ownership of the Shares in the Ten Largest Joint-Stock Banks

in Russia (in 1916):

1.	French	50.5%
2.	German	37.0%
3.	British	9.0%
4.	Other	3.5%

Table 3. Russian Per Capita Taxation, 1885 - 1913

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Source:

Arcadius Kahan, 'Government Policies and the Industrialization of Russia', *The Journal of Economic History*, 27:4 (December 1967), extracted from tables 1-3, pp. 462-63.

Table 4. Bank Rates, 1885 - 1912

Official Rates of Rediscount in St. Petersburg, Berlin, and Paris, on 12-Month Notes, 1885 - 1912

Years	St. Petersburg	Berlin	Paris
1885-90	6.10	3.72	3.00
1890-95	5.95	3.63	2.63
1895-00	7.80	3.30	3.00
1900-05	5.90	3.90	3.00
1908-12	5.10	4.80	3.20

Statistics on Foreign Capital Flows into Russia:

i) From 1885 to 1897 (i.e., up to the achievement of the gold ruble):

(1) mean foreign capital inflows were 43 million rubles per year

(2) Foreign investment = 0.5% of net national income

ii) From 1897 to 1913:

(1) mean foreign capital inflows were 191 million rubles per year (4.4 times greater)

(2) Foreign investment = 1.5% of net national income

iii) Changes in Gosbank's gold reserves: from domestic production + foreign borrowing

(1) **1885- 1897:** a total growth of +425 million rubles, or +33 million rubles per year

(2) **1897- 1913:** a total decline of - 133 million rubles, or - 7 million rubles per year

Source:

Paul Gregory, *Before Command: An Economic History of Russia from Emancipation to the First Five Year Plan* (Princeton, 1994), pp. 74-6.

Appendix:**Count Sergei Witte**

From Answers.com: **Political Biography: Sergei Yulevich Witte: 3 entries**

(b. Tiflis, 17 June 1849, d. St Petersburg 13 Mar. 1915) Russian; Russian Minister of Transport and of Finance 1892 – 1903, Prime Minister 1903 – 6 Witte was brought up in Tiflis, his father being of Dutch origin, his mother Russian, the daughter of a governor. He studied mathematics at university in Odessa and entered government service, becoming an expert on transport economics. Later he became a successful railway manager. In 1889 he was invited to set up a railway department within the Ministry of Finance to develop the construction of the Trans-Siberian Railway. In 1892 he was made Minister of Transport and then Minister of Finance, superintending the industrialization boom of the 1890s which made Russia a world industrial power. The "Witte System" was a neo-mercantilist policy based on attracting foreign investment and loans by high protectionist tariffs, budgetary stability, putting the rouble on the gold standard (in 1897) and high taxation (he created the state spirits monopoly in 1894). He introduced labour legislation and urged (but never achieved) the abolition of the commune system in agriculture. In 1903 he became Prime Minister. He opposed the emperor's far-eastern policy which led to the war with Japan, but in 1905 negotiated the Treaty of Portsmouth which ended it. During the revolution of 1905 he combined suppression of popular unrest with advocacy of concessions to the middle classes. He compiled the "October Manifesto" which prepared the way for Russia's first elected parliament, the Duma. He became Russia's first constitutional premier, but, increasingly criticized by the Tsar and his conservative allies and also by dissatisfied liberals, he was suddenly dismissed in 1906, and replaced by Stolypin. He remained politically active as an independent member of the State Council until his death in Petrograd in 1915. His remarkable talents were undermined by the mistrust of the Tsar and by the left-right polarization which made his moderate conservative position difficult to sustain.

The Russian statesman Count Sergei Yulyevich Witte (1849-1915) is noted for his policy of Russian industrialization, for his role in negotiating the Peace of Portsmouth between Russia and Japan, and for his formulation of the Manifesto of October 1905. Sergei Witte was born in Tiflis. His parents gave him little attention, and he was exposed to the harmful influences of his foster-mother and to her drunkard husband and to tutors of questionable character. He was a poor student in the local classical gymnasium. At the age of 17 Witte received the certificate of maturity which entitled him to enter a university, and he matriculated in the faculty of physico-mathematical sciences at the University of Odessa. Upon finishing his studies Witte entered the service of the Odessa government railroad. In 1877, when war broke out between Russia and Turkey, he was named head of the Odessa railroad. It was of strategic importance, for the railroad transported soldiers to the front. After the war Witte was appointed director of the exploitation department of the newly formed railroad system. His office was in St. Petersburg, and there he married Madame Spiridonov, a beautiful woman and the daughter of the marshal of the nobility of the Chernigov Province. Since the northwestern railroads were running at a deficit, Witte was named director of southwestern railroads in order to reorganize the entire management of the roads through centralization. In 1892 he was appointed minister of ways of communication. His administration in this capacity lasted some 6 months. He was then appointed minister of finance by Alexander III and served in that powerful post until Nicholas II dismissed him in 1903.

Another entry: (b. Tiflis, 17 June 1849, d. St Petersburg 13 Mar. 1915) Russian; Russian Minister of Transport and of Finance 1892 – 1903, Prime Minister 1903 – 6 Witte was brought up in Tiflis, his father being of Dutch origin, his mother Russian, the daughter of a governor. He studied mathematics at university in Odessa and entered government service, becoming an expert on transport economics. Later he became a successful railway manager. In 1889 he was invited to set up a railway department within the Ministry of Finance to develop the construction of the Trans-Siberian Railway. In 1892 he was made Minister of Transport and then Minister of Finance, superintending the industrialization boom of the 1890s which made

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