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Part 6 of the Series: Centenary of the Russian  
Revolution and the Repudiation of Debt

# Russian loans never die

- Features -

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**Even though Russian bonds were repudiated by the Soviet government in February 1918, they were still traded right up until the 1990s.**

**French government policy and that of other governments was directly related to this life after death.**

## How Russian bonds lived on after repudiation

In 1919, the French government drew up a list of Russian bond holders in France: 1,600,000 people declared holdings. Russian bonds seem to have accounted for 33% of foreign bonds held by residents of France, which was the equivalent of 4.5% of French wealth. 40 to 45% of Russian debt was held in France. One of the main Russian bonds to be exchanged on the Paris stock-market was the famous loan of 1906 which the Soviet of Petrograd had repudiated in advance in December 1905. This massive loan of 2.25 billion francs was issued by Paris in June 1906. It was destined to enable the Tsarist regime to continue repaying earlier debts and balance their books after the debacle of the Russo-Japanese war. The *Credit Lyonnais*, [\[1\]](#) a French bank which had specialized in issuing Russian bonds, was making 30% of its revenue from this loan before 1914.

During the period preceding and following the Soviet government's debt repudiation, 72% of bonds from the 1906 loan were held in France and being traded on the Paris stock-market.

A high degree of complicity united the Tsarist regime, the French government, French banks issuing Russian bonds (mainly the *Crédit Lyonnais* but also the *Société générale* and the *Banque de l'union parisienne* [\[2\]](#)), the major exchange agencies and the French press which had been bought off by the Tsar's emissary.

Bankers were making huge profits from commissions received when the bonds were issued and from speculative operations buying and selling Russian bonds. Their sharp practice meant that the small investors bore the brunt of the risks. Newspaper proprietors pocketed bribes paid out by the Tsar's emissary. Key government members also made sure they got kickbacks. The Tsar was a prized ally, both politically and diplomatically, to the French government and the big capitalist groups of France who invested in Russia (as did Belgian capitalists).

During the war it was the French government who paid out the interest owing to each bond-holder, at a rate of 5%. The sum of interest payments made by the French government on behalf of the Russian Empire was then added to the Russian debt to France. Thus when the Tsar was overthrown by the people in February 1917, it was a blow for the French government, who had to place all their hopes on the provisional government who claimed that debts contracted by the Tsar would be honoured. Things went from bad to worse when the Bolsheviks and their allies, the leftwing Socialists, were brought to government by the Soviets in November 1917. When the Soviet government suspended debt payments in January 1918, the French government again paid the interest on Russian bonds to bond-holders. When the Soviet government repudiated all the Tsar's debts and those of the provisional government, France decided to resort to force and prepared to send troops to Russia. From July 1918, four months before the Armistice was signed with the German Empire, the government sent French troops to join forces with the British troops that had taken Murmansk in Northern Russia. Then more soldiers were sent to occupy Arkhangelsk. After the signature of the Armistice with Berlin, France sent troops to the Black Sea with warships to bomb the Red Army's

positions. This caused a mutiny among French sailors. The attack against Soviet Russia was obviously not only due to the repudiation of debt; the various powers that took part wanted to eradicate a hotspot of revolutionary contagion. But the financial interests of France and its capitalists constituted a powerful motor too. The French government gave the White Russian generals financial support in their struggle to defeat the Bolsheviks because they had announced that they would honour the Tsar's debts. Paris also supported Polish and Ukrainian politicians and soldiers, and those of the Baltic republics who had won their independence or were fighting for it, in the hopes that the governments of the new States would honour at least part of the Tsarist debt. Paris took it very badly when, from 1920, the Soviets signed treaties with the Baltic republics and Poland to the effect that they considered that those countries should take no responsibility for the Tsarist debts.

### **What happened to Russian bond-holders when debt repudiation was made public in February 1918?**

In France, in September 1918, the government proposed to exchange Russian bonds for French debt-paper. Russian bond-holders could acquire bonds for the new loan that the French government was making. In July 1919, the French government repeated the operation. In Rome, London and Washington the authorities did the same: they exchanged Russian bonds respectively for Italian, British or US bonds. As for the Japanese government, it indemnified Japanese holders of Russian bonds at a rate of 100%. [3]

Clearly, in acting in this way the governments of these countries came to the rescue of the bankers who should have been held responsible for financing the Tsarist regime and been made to bear the consequences of the repudiation of odious debt. In the case of the French, the French government had actively shared responsibility with the bankers who supported the Tsar's regime. The French government had systematically encouraged the most affluent of the middle class, to acquire Russian bonds.

It is important to note that in France, a large portion of Russian bonds were not exchanged for French bonds. Russian bonds paid better dividends than French bonds, with an interest rate of 5% in 1906 when the average rate for French government bonds was 3%.

Between 1918 and 1922, the financial press and the government put it about that the Soviet government was about to fall and that the successors would honour the Tsarist debt. Moreover, at a conference in Genoa and on other occasions, the same press insinuated that Moscow had finally agreed to acknowledge the debt. The ensuing situation was surrealistic: bonds issued by a government that no longer existed, repudiated bonds, went on being bought and sold on the Paris stock-market. This is a perfect example of fictitious capital.

In the period 1918-1919, the price of Russian bonds oscillated between 56.5% and 66.25% of their face value. (They had originally been sold at 88% of their face value). The price of sovereign French bonds at that time oscillated between 61 and 65%. The difference between the price of repudiated Russian bonds and that of French bonds was thus slim. Speculators (and the bankers who were at the top of the list) were certainly doing very well if they could buy at 56 when small holders were offloading them, frightened by rumours circulating in the press (and originating with the bankers), and then sell them on at 66.

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*Translated by Vicki Briault, with Christine Pagnouille*

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Part 1: [Russia: Repudiation of debt at the heart of the revolutions of 1905 and 1917](#)

Part 2: [From Tsarist Russia to the 1917 revolution and the repudiation of debt](#)

Part 3: [The Russian Revolution, Debt Repudiation, War and Peace](#)

Part 4: [The Russian Revolution, Peoples' Right to Self-determination, and Debt Repudiation](#)

Part 5: [The French press in the pay of the Tsar](#)

Part 6: [Russian bonds never die](#)

Part 7: [Diplomatic manoeuvres around Russian debt repudiation](#)

Part 8: [In 1922 creditor powers again attempt to subjugate the Soviets](#)

Part 9: [The Soviet counter-attack: the Treaty of Rapallo, 1922](#)

Part 10: [Genoa \(1922\): proposals and counter-proposals on the Tsarist debt](#)

Part 11: [Debt" Lloyd George blames the Soviets](#)

Part 12: [Reasserting debt repudiation ends with success](#)

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[1] Founded in 1863, the *Crédit lyonnais* is best known for the scandal surrounding its bailout by the French state at the end of the 20th century. More or less bankrupt since the 1990s, after the mortgage crisis in the property sector, the bank was nationalized and recapitalized before being taken over by the *Crédit agricole* in 2003. The bailout is thought to have cost tax-payers 14.7 billion euros.

[2] A business bank founded in 1904, which merged with the *Crédit du Nord* in 1973.

[3] Landon-Lane J., Oosterlinck K., (2006), "Hope springs eternal: French bondholders and the Soviet Repudiation (1915-1919)", *Review of Finance*, 10, 4, pp. 507-535.