



## Economic and debt crisis

# Rosa Luxemburg and debt as an imperialist instrument - Part 1

5 March 2020, by **Éric Toussaint**

She wrote her book during the period of an international expansion of the capitalist system, both in terms of economic growth and geographical expansion. At that time, inside the Social Democracy, of which she was a member (the German Social Democratic Party and the Social Democratic Party of Poland and Lithuania - territories shared between the German and the Russian Empire), a significant number of socialist leaders and theorists supported colonial expansion. This was particularly the case in Germany, France, Great Britain and Belgium. All these powers had developed their colonial empires in Africa, mainly in the late 19th and early 20th centuries. Rosa Luxemburg was totally opposed to this orientation and denounced the colonial plunder and destruction of the traditional (often communitarian) structures of pre-capitalist societies by the expanding capitalism.

She was opposed to these same socialist leaders who claimed that this expansionist phase of strong capitalist growth demonstrated that capitalism had overcome periodic crises, the last of which had occurred in the early 1890s. Rosa Luxemburg denounced this view which gave a false interpretation of the functioning of the capitalist system. Rosa was all the more vehemently opposed to it since

this vision of an influential part of the social-democratic leadership served as a basis and justification for an increasingly collaborative attitude with the capitalist governments of the time [1].

While writing *The Accumulation of Capital*, Rosa Luxemburg aimed to construct a substantive argument to counter the pro-colonialist and class collaborationist orientations within social democracy that she had been fighting since the late 1890s. She also pursued another objective, which had its origins in 1906-1907, when she taught a course in Marxist economics at the SPD - the Social Democratic Party of Germany - cadre school, in Berlin. In fact, on that occasion, in order to prepare her lectures, she had gone back to read *Capital* and had deduced that there was a mistake in Marx's substantiation of the extended reproduction scheme of capital [2]. In order to find a solution, particularly, to this problem, she made an enormous effort to analyse capitalism's evolution during the 19th century. It should be pointed out that Marx, in *Capital*, develops his actual theoretical explanation assuming that the capitalist society has reached a stage in which only capitalist relations exist. He analyses capitalism in its pure state.

Rosa Luxemburg starts from the

observation, made even by Marx in a series of writings like in the *Grundrisse* [3] (which she did not have the opportunity to read because these works by Marx had not yet been published during her times) or chapter 31 of the first volume of [4] which says that capitalism, in its expansion, destroys the traditional structures of non-capitalist societies that were conquered during the colonial phase.

Concerning the role of colonial plunder, it is worth quoting the Marx of *Capital*: "*The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalled the rosy dawn of the era of capitalist production.*"

It is also in this chapter that Karl Marx puts forward a formula indicating the dialectical link between the oppressed in the metropolises and those in the colonies: "*In fact, the veiled slavery of the wage workers in Europe needed, for its pedestal, slavery pure and simple in the new world.*" He ends the chapter by saying that "*capital comes dripping from head to foot, from every pore, with blood and dirt.*"

Marx describes the destruction of

traditional textile producers in India during British colonial expansion. He also analyses the destruction of non-capitalist relations that existed in Europe before the massive expansion of wage-labour. But when he comes to highlight the laws of operation of the capitalist system, he assumes that capitalism totally dominates all relations of production and has therefore, already completely destroyed or/and absorbed the pre-capitalist sectors [5].

What is very enriching in Rosa's approach is her enormous capacity for critical thinking and her willingness to confront theory with practice. She takes her inspiration from Karl Marx by expressing a fundamental agreement with him, but this does not prevent her from questioning, rightly or wrongly, some of his conclusions.

One point on which Rosa Luxemburg agrees completely with Karl Marx is the question of the unequal relations between the capitalist powers and other countries where pre-capitalist relations of production are still largely present. These countries are subject to the former, who exploit them in order to continue their expansion. Rosa Luxemburg, like Marx, shows in particular that the capitalist powers find an outlet for their manufactured products by imposing them on pre-capitalist societies, particularly through the signing of free trade treaties.

## **The Latin American countries that gained their independence, in the 1820s, against the Spanish empire**

If we take the example of the Latin American countries that gained their independence in the 1820s, we see that they imported massively, manufactured goods, mainly from Great Britain, from whom they had

taken out international loans to make these purchases. The governments of Latin American countries that borrowed from London bankers spent most of the money they borrowed, on the British market, buying all kinds of goods (military equipment ranging from weapons to uniforms, capital goods for mining and agriculture, and raw materials). Then, to repay their international loans, indebted states resorted to new loans that were used both to repay previous loans and to import even more manufactured goods from Britain or other creditor powers [6].

Rosa Luxemburg states in her 1913 book that loans *"they are yet the surest ties by which the old capitalist states maintain their influence, exercise financial control and exert pressure on the customs, foreign and commercial policy of the young capitalist states."* [7]

To illustrate the penetration of manufactured goods from old European capitalist countries such as Britain into the newly independent countries of Latin America we can cite George Canning, one of the leading British politicians of the 1820s [8]. He wrote in 1824: *"The deed is done, the nail is driven, Spanish America is free; and if we do not mismanage our affairs sadly, she is English"*. Thirteen years later, the English consul in La Plata, Argentina, Woodbine Parish, could write of a gaucho (herdsman) on the Argentine pampas: *"Take his whole equipment - examine everything about him - and what is there not of raw hide that is not British? If his wife has a gown, ten to one it is made at Manchester; the camp-kettle in which he cooks his food, the earthenware he eats from, the knife, his poncho, spurs, bit, all are imported England"* [9].

To achieve this outcome, Great Britain did not need to resort to military conquest (although, when it considered it necessary, it did not hesitate to use force, as was the case in India, Egypt or China). It used two very effective economic weapons: international credit and forcing these newly independent states to discard protectionism.

Rosa Luxemburg insists on the role of

international loans to colonial countries or "independent" states (such as the young Latin American republics or Egypt and China) to finance major infrastructure works (construction of railways, construction of the Suez Canal, ...) or purchases of expensive military equipment in the interest of the big imperialist powers. This is how she wrote: *"Public loans for railroad building and armaments accompany all stages of the accumulation of capital"*.

She also asserts that *"The contradictions inherent in the modern system of foreign loans are the concrete expression of those which characterise the imperialist phase."*

Rosa Luxemburg, as Marx had done a few decades earlier, insists on the role of financing the railways all around the world, especially in peripheral countries subject to the economic domination of the imperialist powers. She speaks of the frenzy of loans used to build the railways: *"In spite of all periodical crises, however, European capital had acquired such a taste for this madness, that the London stock exchange was seized by a veritable epidemic of foreign loans in the middle of the seventies. Between 1870 and 1875, loans of this kind, amounting to £m. 260, were raised in London. The immediate consequence was a rapid increase in the overseas export of British merchandise."*

## **At the end of the 19th century, after the London bankers came those of Germany, France and Belgium.**

German, French and Belgian imperialism appeared in conjunction with Great Britain, and began to lend massively to the countries on the periphery.

Rosa Luxemburg describes this evolution: *"The following two decades made a difference only in so far as*

*German, French and Belgian capital largely participated with British capital in foreign investments, while railway construction in Asia Minor had been financed entirely by British capital from the fifties to the late eighties. From then on, German capital took over and put into execution the tremendous project of the Anatolian railway. German capital investments in Turkey gave rise to an increased export of German goods to that country.*

In 1896, German exports to Turkey amounted to 28 millions marks, in 1911 to 113 millions marks. To Asiatic Turkey, in particular, goods were exported in 1901 to the value of 12 millions and in 1911 to the value of 37 millions marks."

Rosa Luxemburg shows that colonial and imperialist expansion allowed the old European capitalist countries such as Great Britain, France, Germany, Belgium (we can add Italy and the Netherlands), where there is a surplus of capital, to use this unused capital to lend it or invest it in the peripheral countries, which then constitute a profitable outlet. She writes: *"There had been no demand for the surplus product within the country, so capital had lain idle without the possibility of accumulating. But abroad, where capitalist production has not yet developed, there has come about, voluntarily or by force, a new demand of the non-capitalist strata."* It's only by destroying traditional local small-scale production, European manufactured goods took the place of pre-capitalist domestic production. Impoverished peasant communities or craftsmen in African, Asian or American countries were forced to start buying European products, for example British, Dutch or Belgian textiles. Those responsible for this situation are not only the European capitalists, but also the local ruling classes in peripheral countries who preferred to specialise in import-export trade rather than invest in local manufacturing industries (as I have shown with regard to Latin America in the Debt System in [chapter 2](#) and [chapter 3](#)). They preferred to invest their accumulated capital to extract raw materials (e.g. mining) or to grow cotton and sell these products in their raw state in the world market, rather

than to process them locally. They preferred to import manufactured goods from old Europe rather than invest in local processing industries and produce for the domestic market.

## **Egypt, a victim of international borrowing**

In the case of Egypt, which Marx had not studied in depth, Rosa points her finger on another phenomenon. In order to repay the foreign debt contracted with bankers in London and Paris, the indebted Egyptian government subjected the Egyptian peasantry to overexploitation, either by forcing it to work for free on the construction of the Suez Canal, or by levying taxes that severely degrade the living conditions of the peasants. Rosa Luxemburg thus showed how the overexploitation of the peasantry by methods that are not purely capitalist (i.e. not based on wage-labour relations) benefits the accumulation of capital.

Rosa Luxemburg describes the process summarised above. She explains that the Egyptian workforce *"This was throughout the same forced peasant labour over which the state claimed to have an unrestricted right of disposal; and thousands had already been employed on the Kaliub dams and the Suez Canal and now the irrigation and plantation work to be done on the viceregal estates clamoured for this forced labour. The 20,000 serfs who had been put at the disposal of the Suez Canal Company were now required by the Khedive (the Egyptian sovereign, note by Éric Toussaint) himself; and this brought about the first clash with French capital. The company was adjudged a compensation of 67 millions marks by the arbitration of Napoleon III, a settlement to which the Khedive could all the more readily agree, since the very fellaheen whose labour power was the bone of contention were ultimately to be mulcted of this sum. The work of irrigation was immediately put in hand. Centrifugal machines, steam and traction engines were therefore ordered from England and France. In their hundreds, they*

*were carried by steamers from England to Alexandria and then further. Steam ploughs were needed for cultivating the soil, especially since the rinderpest of 1864 had killed off all the cattle, England again being the chief supplier of these machines."*

Rosa Luxemburg describes the numerous purchases of equipment and the entire projects carried out by the Egyptian sovereign through British and French capitalists. She asks the question: *"What had provided the capital for these enterprises?"* and herself answers: *"International loans."* All this equipment and projects were used to export raw materials, mainly agricultural (cotton, sugar cane, indigo, etc.) and to complete the construction of the Suez Canal in order to promote world trade dominated by Great Britain.

Rosa Luxemburg describes in detail the succession of international loans that gradually dragged Egypt and its people into an endless abyss. She shows that the conditions imposed by the bankers make it impossible to repay the capital because it was necessary to borrow constantly to pay the interest. Let us leave the pen to Rosa Luxemburg, who lists an impressive series of loans granted on abusive terms to the benefit of the lenders: *"One year before his death in 1863, Said Pasha [10] had raised the first loan at a nominal value of 68 millions marks which came to 68 millions marks in cash after deduction of commissions, discounts, etc. He left to Ismail Pasha the legacy of this debt and the contract with the Suez Canal Company, which was to burden Egypt with a debt of 340 millions marks. Ismail Pasha [11] in turn raised his first loan in 1864 with a nominal value of 114 million marks at 7 per cent and a cash value of 97 millions at 8¼ per cent. What remained of it, after 67 millions had been paid to the Suez Canal Company as compensation (...) In 1865, the first so-called Daira-loan was floated by the Anglo-Egyptian Bank, on the security of the Khedive's private estates. The nominal value of this loan was 678 million marks at 9 per cent, and its real value 50 million marks at 12 per cent. In 1866, Fruehling & Goschen floated a new loan at a nominal value of 60 million marks and a cash value of 50 million*



marks. The Ottoman Bank floated another in 1867 of nominally 40 million marks, really 34 million marks. The floating debt at that time amounted to 600 millions. The Banking House Oppenheim & Neffen floated a great loan in 1868 to consolidate part of this debt. Its nominal value was 238 million at 7 per cent, though Ismail could actually lay hands only on 142 millions at 13½ percent. This money made it possible, however, to pay for the pompous celebrations on the opening of the Suez Canal, in presence of the leading figures in the Courts of Europe, in finance and in the demi-monde, for a madly lavish display, and further, to grease the palm of the Turkish Overlord, the Sultan, with a new baksheesh of 20 million marks. The sugar gamble necessitated another loan in 1870. Floated by the firm of Bischoffsheim & Goldschmidt, it had a nominal value of 142 million at 7 per cent, and its cash value was 100 million at 13 per cent. In 1872/3 Oppenheim's floated two further loans, a modest one amounting to 80 million at 14 per cent and a large one of 640 million at 8 per cent which reduced the floating debt by one half, but which actually came only to 220 million in cash, since the European banking houses paid it in part by bills of exchange they had discounted.

In 1874, a further attempt was made to raise a national loan of 1 000 millions marks at an annual charge of 9 per cent., but it yielded no more than 68 million. Egyptian securities were quoted at 54 per cent of their face value. Within the thirteen years after Said Pasha's death, Egypt's total public debt had grown from £fm. 3.293 to £fm. 94.110, and collapse was imminent."

Rosa Luxemburg rightly claims that this seemingly absurd series of borrowings has paid off for the bankers: "These operations of capital, at first sight, seem to reach the height of madness. One loan followed hard on the other, the interest on old loans was defrayed by new loans, and capital borrowed from the British and French paid for the large orders placed with British and French industrial capital.

While the whole of Europe sighed and

shrugged its shoulders at Ismail's crazy economy, European capital was in fact doing business in Egypt on a unique and fantastic scale - an incredible modern version of the biblical legend about the fat kine which remains unparalleled in capitalist history.

In the first place, there was an element of usury in every loan, anything between one-fifth and one-third of the money ostensibly lent sticking to the fingers of the European bankers."

Then she shows that it was the Egyptian people, especially the mass of poor peasants, the fellahs, who repaid the debt: "Ultimately, the exorbitant interest had to be paid somehow, but how - where were the means to come from? Egypt herself was to supply them; their source was the Egyptian fellah-peasant economy providing in the final analysis all the most important elements for large-scale capitalist enterprise. He provided the land since the so-called private estates of the Khedive were quickly growing to vast dimensions by robbery and blackmail of innumerable villages; and these estates were the foundations of the irrigation projects and the speculation in cotton and sugar cane. As forced labour, the fellah also provided the labour power and, what is more, he was exploited without payment and even had to provide his own means of subsistence while he was at work. The marvels of technique which European engineers and European machines performed in the sphere of Egyptian irrigation, transport, agriculture and industry were due to this peasant economy with its fellaheen serfs. On the Kaliub Nile dams and on the Suez Canal, in the cotton plantations and in the sugar plants, untold masses of peasants were put to work; they were switched over from one job to the next as the need arose, and they were exploited to the limit of endurance and beyond. Although it became evident at every step that there were technical limits to the employment of forced labour for the purposes of modern capital, yet this was amply compensated by capital's unrestricted power of command over the pool of labour power, how long and under what conditions men were to work, live and

be exploited.

But not alone that it supplied land and labour power, peasant economy also provided the money. Under the influence of capitalist economy, the screws were put on the fellaheen by taxation. The tax on peasant holdings was persistently increased. In the late sixties, it amounted to 55 marks per hectare, but not a farthing was levied on the enormous private estates of the royal family. In addition, ever more special rates were devised. Contributions of 2.50 marks per hectare had to be paid for the maintenance of the irrigation system which almost exclusively benefited the royal estates, and the fellah had to pay 1.35 mark for every date tree felled, 75 pfennigs for every clay hovel in which he lived. In addition, every male over 10 years of age was liable to a head tax of 6.50 marks.(...)

The greater the debt to European capital became, the more had to be extorted from the peasants. In 1869 all taxes were put up by 10 per cent and the taxes for the coming year collected in advance. In 1870, a supplementary land tax of 8 marks per hectare was levied. All over Upper Egypt people were leaving the villages, demolished their dwellings and no longer tilled their land - only to avoid payment of taxes. In 1876, the tax on date palms was increased by 50 pfennigs. Whole villages went out to fell their date palms and had to be prevented by rifle volleys. North of Siut, 10,000 fellaheen are said to have starved in 1879 because they could no longer raise the irrigation tax for their fields and had killed their cattle to avoid paying tax on it."

Rosa Luxemburg shows how British capital grabbed at bargain prices what still belonged to the State, and once this was achieved, how it gets the British government to find a pretext to militarily invade Egypt and establish its domination, which we remember, lasted until 1952.

She explains, "an opportune pretext for the final blow was provided by a mutiny in the Egyptian army, starved under European financial control while European officials were drawing excellent salaries, and by a revolt engineered among the Alexandrian

*masses who had been bled white. The British military occupied Egypt in 1882, as a result of twenty years' operations of Big Business, never to leave again. This was the ultimate and final step in the process of liquidating peasant economy in Egypt by and for European capital.*

It should now be clear that the transactions between European loan capital and European industrial capital are based upon relations which are extremely rational and 'sound' for the accumulation of capital, although they appear absurd to the casual observer because this loan capital pays for the orders from Egypt and the interest on one loan is paid out of a new loan. Stripped of all obscuring connecting links, these relations consist in the simple fact that European capital has largely swallowed up the Egyptian peasant economy. Enormous tracts of land, labour, and labour products without number, accruing to the state

as taxes, have ultimately been converted into European capital and have been accumulated."

As I wrote in *The Debt System* about **Egypt**: "Egypt's 15 year-long pursuit for a partially autonomous development came to fruition when progressive young soldiers led by Gamel Abdel Nasser overthrew the Egyptian monarchy in 1952 and the Suez Canal was nationalized on July 26, 1956."

Conclusion: Rosa Luxemburg's analysis about the role of international loan as a mechanism for exploiting peoples and as an instrument for subjugating peripheral countries to the interests of the dominant capitalist powers is highly topical in the 21st century. Fundamentally, the mechanisms that Rosa Luxemburg has laid bare continue to operate today in forms that must be rigorously analysed and fought against.

In the second part, I will address Rosa Luxemburg's analysis of the debt and the submission of the Ottoman Empire to the interests of European big business. I will also point out some errors and weaknesses in Rosa Luxemburg's analysis with regard to the debt and the international financial crises of the time that she analyses.

I would like to point out that it was an invitation to participate in September 2019 in a conference in Moscow on Rosa Luxemburg that gave me the opportunity to look again at her work and to prepare the material that we find in this article. The conference was organised by young university professors completely independent of the government and was supported by the Rosa Luxemburg Foundation.

*Translated by Sushovan Dhar*

Source [CADTIM](#).

# Russia: Origin and consequences of the debt repudiation of February 10, 1918

16 February 2020, by **Éric Toussaint**

## Russia: Repudiation of debt at the heart of the revolutions of 1905 and 1917

Trotsky, who presided over the soviet of St Petersburg (capital of Russia until March 1918), explained in his autobiography that the arrest of its entire leadership on December 3, 1905 was triggered by the publication of a manifesto in which the elected members of the council appealed for the repudiation of debts contracted by the Tsarist regime. He also explained that this 1905 call for the non-payment of the debt was finally

realized in early 1918 when the Soviet government adopted a decree for the repudiation of the tsarist debts:

*"The arrest took place a day after we had published our so-called financial manifesto, which proclaimed that the financial bankruptcy of Czarism was inevitable, and issued a categorical warning that the debts incurred by the Romanovs would not be recognized by the victorious nation. [12] [13]*



*"The manifesto of the Soviet of Workers' Delegates plainly declared: 'The autocracy never enjoyed the confidence of the people, and was never granted any authority by the people. We have therefore decided not to allow the repayment of such loans*

*as have been made by the Czarist government when openly engaged in a war with the entire people.'*

*"The French Bourse answered our manifesto a few months later with a new loan of three-quarters of a million francs. The liberal and reactionary press poured sarcasm over the important threat of the Soviets against the Czar's finances and the European bankers. In later years, the manifesto was successfully forgotten but it recalled itself to mind. The financial bankruptcy of Czarism, prepared for by its whole past history, coincided with the military debacle. And later, after the victory of the revolution, the decree of the Soviet of People's Commissars, issued on February 10, 1918, declared all the Czarist debts annulled. This decree remains in force even to this day. [14] It is wrong to*

say, as some do, that the October Revolution does not recognize any obligations: its own obligations the Revolution recognizes to the full. The obligation that it took upon itself on December 2, 1905, it carried out on February 10, 1918. The Revolution is fully entitled to remind the creditors of Czarism: 'Gentlemen, you were warned in ample time.'

"In this respect, as in others, the year 1905 was a preparation for the year 1917." [15]

**In the book entitled 1905 Trotsky described the development of events that led to the adoption of the Financial Manifesto through which the Soviet, the supreme organ of revolutionary democracy, called for the refusal of payment of debts contracted by the Tsar:**

"A tremendous field of action was opening up before the Soviet. Everywhere a vast expanse of new political ground was waiting for the deep plowshare of revolution. But time was short. The reaction was feverishly forging its weapons, and the blow was expected from hour to hour. Amid the mass of day-to-day business the Executive Committee hurried to put the Soviet's resolution of November 27 into action. It issued a proclamation addressed to the troops (see The November Strike) and, at a joint meeting with representatives of the revolutionary parties, approved the text of a "financial" Manifesto (...). [16]

"On December 2 the Manifesto was published in eight St Petersburg newspapers, four socialist ones and four liberal ones.

**Here is the text of this historic document:**

'The government is on the brink of bankruptcy. It has reduced the country to ruins and scattered it with corpses. The peasants, worn out by suffering and hunger, are incapable of paying taxes. The government gave credits to the landowners out of the people's money. Now it is at a loss as to what to do with the landowners' mortgaged estates. Factories and plants are at a standstill. There is unemployment and a general

stagnation of trade.

'The government has used the capital obtained by foreign loans to build railways, warships and fortresses and to store up arms. Foreign sources have now been exhausted, and state orders have also come to an end. The merchant, the supplier, the contractor, the factory owner, accustomed to enriching themselves at the treasury's expense, find themselves without new profits and are closing down their offices and plants. One bankruptcy follows another. Banks are failing. All trade exchanges have been reduced to the barest minimum.

'The government's struggle against revolution is causing daily unrest. No one is any longer sure what the morrow will bring.

'Foreign capital is going back home. 'Purely Russian' capital is also seeping away into foreign banks. The rich are selling their property and going abroad in search of safety. The birds of prey are fleeing the country and taking the people's property with them.

'For many years the government has spent all its state revenue on the army and navy. There is a shortage of schools. Roads have been neglected. In spite of this, there is not enough money even to keep the troops supplied with food. The war was lost partly because military supplies were inadequate. Mutinies of the poverty-stricken, hungry troops are flaring up all over the country.

'The railways are economically sick through the government's fault. Many millions of roubles are needed to restore the railway economy.

'The government has pilfered the savings banks, and handed out deposits to support private banks and industrial enterprises, often entirely fictitious ones. It is using the small saver's capital to play the stock exchange, where that capital is exposed to risk daily.

'The gold reserves of the state bank are negligible compared with the existing claims of government loans and the demands of trade turnover. It will be reduced to nothing if gold coin

is demanded for every transaction.

'Taking advantage of the absence of any control of the state finances, the government has long been issuing loans which far exceed the country's means of payment. With these new loans it is covering the interest on old ones.

'Year after year the government issues false accounts of expenditure and revenue, showing both to be less than they are in reality and robbing indiscriminately to show a surplus instead of an annual deficit. Officials are free to rob the treasury which in any case is already exhausted.

'Only the Constituent Assembly, after the overthrow of the autocracy, can halt this financial ruin. **It will carry out a close investigation of the state finances and will draw up a detailed, clear, accurate, and certified balance sheet of state revenue and expenditure (budget).**

'Fear of popular control which would reveal to all the world the government's financial insolvency is forcing it to keep putting off the convening of the people's representative assembly.

'In order to safeguard its rapacious activities the government forces the people to fight unto death. Hundreds of thousands of citizens perish and are ruined in this fight, and industry, trade, and means of communication are destroyed at their very foundations.

**'There is only one way out: to overthrow the government, to deprive it of its last strength. It is necessary to cut the government off from the last source of its existence: financial revenue.** This is necessary not only for the country's political and economic liberation, but also, more particularly, in order to restore the financial equilibrium of the state.

'We have therefore decided:

'To refuse to make land redemption payments and all other payments to the treasury. In all transactions and in the payment of wages and salaries, to demand gold, and in the case of sums of less than five roubles, full-weight

hard cash (coinage).

'To withdraw deposits from savings banks and from the state bank, demanding payment of the entire sum in gold.

'The autocracy has never enjoyed the people's confidence and has never received any authority from the people.

'At the present time the government is behaving within the frontiers of its own country as though it were ruling conquered territory.

**'We have therefore decided not to allow the repayment of loans which the government contracted while it was clearly and openly waging war against the entire people'.**

(End of the Manifesto text.) "



Under the manifesto published in the press on December 2, 1905 appeared the list of the following organizations who supported this appeal to refuse the payment of Czarist debt and asphyxiate the autocracy financially:

"The Soviet of Workers' Deputies  
The Main Committee of the All-Russian Peasants' Union  
The Central Committee and the Organization Committee of the Russian Social-Democratic Workers' Party  
The Central Committee of the Party of Socialist Revolutionaries  
The Central Committee of the Polish Socialist Party."

Trotsky added a final commentary:

*"It goes without saying that this manifesto could not, in itself, overthrow Tsarism and its finances.  
"The Soviet's financial manifesto was nothing other than an overture to the December rising. Reinforced by a strike and by fighting on the barricades, it produced a powerful echo throughout the country. Whereas during the month of December in the previous three years deposits in savings banks had exceeded payments*

*by 4 million roubles, in December 1905 the excess of payments over deposits equalled 90 million: during a single month the manifesto extracted 94 million roubles from government reserves! When the insurrection had been crushed by the Tsarist hordes, equilibrium in the savings banks was once more restored."*

The denunciation of the illegitimate and odious character of the Tsarist debt played a fundamental role in the revolutions of 1905 and 1917. The call not to repay debts was finally realized in the decree for the repudiation of debt adopted by the Soviet government in February 1918.



## From Tsarist Russia to the 1917 revolution and the repudiation of debt

The Napoleonic wars ended with Russia emerging as a great European power and participating in the Holy Alliance of three European monarchies, founded on September 26, 1815 in Paris, at the behest of Tsar Alexander I. The Alliance had won over the Napoleonic Empire and they wanted to consolidate their positions and protect themselves from revolutions. Originally, the Russian Empire, the Empire of Austria and the Kingdom of Prussia were the constituents, while France (where the monarchy had been restored) joined in 1818 and London extended its support.

### Tsarist Russia: a great European power

The Russian Empire was part of the Troika which placed a Bavarian prince on the Greek throne in 1830 and enslaved the country to a debt, at once odious and unsustainable. The Ottoman Empire's gradual dismantling was a very important issue for

Moscow, because Russian interests in the Balkans as well as movement between the Black Sea and the Mediterranean were at stake.



Until the 1870s, London's bankers were the Tsar's main sponsors. German bankers replaced them once the German Empire came into being and defeated France in 1871. From that moment, Germany replaced London as Russia's main trading partner. On the eve of the First World War, 53% of Russia's imports came from Germany while 32% of their exports went there. On the other hand, at the financial level, French bankers took the place of their German counterparts at the end of the 19th century. On the eve of the First World War, "investors" in France held 80% of Russia's external debt and most of the existing Russian loans had been issued on the Paris market.



In short, the capitalists of France lent to Russia and invested there (Belgian capitalists, especially the "industrialists", also invested heavily in Russia [17]), while German capitalists exported part of their production and imported raw materials for their own stocks.

When the Petrograd Soviet adopted a financial manifesto for the repudiation of the Tsarist debt, Russia was preparing to issue a huge new loan, with the help of the French bankers and the government of France. The Paris bankers paid no heed to the Soviet's warning. The loan came through. It was repudiated twelve years later.



### First World War

The First World War was waged between two conflicting camps of capitalist powers: on one side were the German Empire and its allies— the Austro-Hungarian Empire, Bulgaria, and the Ottoman Empire. Great



Britain, France, the Russian Empire, Belgium, Romania, Italy, Japan and, from February 1917, the United States, were in the other camp.

Germany, France, Great Britain and Tsarist Russia had been preparing for war for a long time. Germany, with its thriving economy, wanted to spread its territory both in Europe and in the colonial world.

France wanted to take revenge on Germany, and particularly, to conquer Alsace and Lorraine annexed by Germany following France's defeat in 1871. Great Britain, France and Russia also wanted to extend their colonial domain, notably on the ruins of the Ottoman Empire.

The Left in various belligerent countries had denounced the preparations for this war several years before.

At the Stuttgart Congress (1907) of the Socialist International, [the unanimously adopted resolution](#) had stated:

*"In case war should break out anyway, it is their (the socialist parties') duty to intervene in favor of its speedy termination and with all their powers to utilize the economic and political crisis created by the war to rouse the masses and thereby to hasten the downfall of capitalist class rule."*

In 1913, the Extraordinary Congress of the Socialist International in Basel pronounced a solemn warning to the governments: *"Let the governments remember that with the present condition of Europe and the mood of the working class, they cannot unleash a war without danger to themselves"*. [18]

Jean Jaurès, a great French socialist leader, crisply summed up this message in the concluding sentence of his speech at the Basel Congress: *"In sharpening the danger of war, the governments should see that the peoples can easily make the count: their own revolution would cost fewer dead than the war of others"*. [19]

At the decisive moment, in August 1914, several major socialist parties (the Social Democratic Parties of Germany, Austria, Belgium, France and Great Britain) voted with the bourgeoisie for war credits to finance

the war. The cost in human life was enormous. Total deaths due to the global conflict amounted to 18.6 million: 9.7 million soldiers and 8.9 million civilians. The Tsar's participation in the First World War caused 3,300,000 deaths in Russia between 1914 and February 1917: 1,800,000 soldiers and 1,500,000 civilians. [20]

### **From the revolution of February 1917 to the October Revolution**

When revolution broke out in February 1917, spearheaded by a massive women's strike (which started on February 23, 1917 [21], the International Day for Women's Rights [22]), the Russian people wanted to get rid of the autocratic tsarist regime. They wanted bread, an end to the war, access to land for tens of millions of deprived peasants who were forced to risk their lives in a war whose objectives were totally alien to them.

The new regime, led by the moderate socialist Kerensky [23] succeeding the Tsar, refused to distribute land to the peasants, wanted to carry on with the war, and could not feed the people. It also pledged to repay the debts contracted by the tsarist regime to foreign creditors and contracted new loans to continue the war.

Dan, one of the prominent Menshevik leaders opposed to the Bolshevik party, described the revolutionary zeal in the months preceding October 1917 thus: the masses *"began more and more frequently to express their discontent and their impatience with impetuous movements, and ended (...) by turning to communism (...). Strikes followed one after the other. The workers sought to answer the rapid rise in the cost of living with wage rises. But all their efforts failed with the continuous drop in value of paper money. The Communists launched in their own ranks the slogan of "workers' control" and advised them to take the running of the factories into their own hands, in order to stop the "sabotage" of the capitalists. At the same time, the peasants started to take over the big properties, to chase out the land owners and to set fire to their manor houses....."* [24]



### **The October Revolution 1917**

Kerensky's policies triggered dissatisfaction, which in turn led to a second revolution in October 1917 (November 7, 1917, according to the new calendar adopted later). The new government [25], supported by the congress of the Soviets, pledged to restore peace, distribute land and, in a bid to revive the country's economy, repudiate debt and nationalize the banking sector [26].

### **The repudiation of debts**

At the beginning of January 1918 the Soviet government suspended foreign debt servicing and in early February 1918 it decreed the repudiation of all tsarist debts as well as the debts contracted by the Provisional Government, so that the war could be continued from February to November 1917. Simultaneously, it decided to confiscate all the assets of foreign capitalists in Russia and restore them to the national estate. Russian public debt amounted to  $\text{£} 930$  million (roughly 50% of GDP) in 1913. Between the beginning of the war and Bolsheviks' accession to power with their left-wing Socialist Revolutionary allies, the debt soared to  $\text{£} 3,385$  million, about 3.5 times what it had been.

By repudiating debt, the Soviet government implemented the Petrograd Soviet's decision of 1905, which had been supported by various parties. The capitals of the great allied powers responded with unanimous protest.

### **Peace Decree**

The Soviet government proposed peace without annexations and without indemnities. It also called for enacting the right to self-determination of peoples. All this involved the implementation of thoroughly innovative or revolutionary ideas regarding inter-State relations.



# The Russian Revolution, Debt Repudiation, War and Peace

In early January 1918, the Soviet government suspended payment on foreign debt, and in early February 1918 it decreed that all Tsarist debts were repudiated as were those contracted to continue the war by the provisional government between February and November 1917. At the same time, it decided that all assets of foreign capitalists in Russia would be confiscated and returned to the national heritage. In repudiating these debts, the Soviet government was implementing a decision made in 1905 by the soviet (people's council) of Petrograd (St Petersburg) and the various parties that supported it. This triggered a wave of unanimous protest from the capitals of the major allied powers.



## Decree on Peace

The Soviet government proposed peace with neither annexation nor compensation or reparations. It also added a clause enacting the self-determination of peoples. This was the application of totally innovative and revolutionary principles to relations between States. It turned out that the Soviet government's policy simultaneously confounded and influenced that of the US president Woodrow Wilson [27] who had made the right to self-determination of peoples a central element of US foreign policy. [28] Certainly, the Bolsheviks and the United States had different motives. The US, not having significant colonial territories, saw an interest in weakening the British and German Empires and the powers of Belgium, the Netherlands and France, in order to step into their shoes, though using other methods. Their strongest diplomatic and humanitarian argument was the right to self-determination of African, Caribbean and Asian peoples still under the colonial yoke. As for the Bolsheviks,

they wanted to have done with the Tsarist Empire that they denounced as a prison of peoples.

The desire for peace was one of the basic causes of the revolutionary uprising of 1917. The great majority of Russian soldiers were set against pursuing war. Almost all were peasants who wished to go home and work on the land. Moreover, for many years, since long before the start of the war, the Bolsheviks, who had been members of the Socialist International until its betrayal of the working classes in August 1914, had opposed the policy of preparation for war. They maintained that what was needed was a common struggle to bring capitalism and its imperialist phase and colonized territories to an end.

To bring this orientation to bear, the Soviet government was forced to enter separate negotiations with Berlin and its allies as in 1917, London, Paris and Washington wished to carry on with the war. The Soviet government did endeavour to bring these capitals of the allied nations to the negotiating table but to no avail. Having signed an armistice with the German Empire in mid-December 1917, it managed to drag out the negotiations with Berlin over five months in the hopes of seeing several populations of Europe, especially the German people, rise up against their governments to demand peace. It also vainly hoped that President Wilson would support Soviet Russia against Germany [29]. The Soviet government also wanted to show international public opinion that it wished for universal peace embracing East and West and that only as a last resort would it agree to sign a separate peace treaty with Berlin.

From December 1917, the Soviet government began to make public numerous secret documents revealing how the major powers were preparing to share out territories and populations with scant regard for their right to self-determination. One of the most sensitive of these was an agreement between Paris, London and Moscow dating from 1915 which established that at the time of victory, the Tsarist Empire would be entitled to take Constantinople, France would recover Alsace-Lorraine and London

could take control of Persia [30]. Early in March 1918, the Soviet government signed the Treaty of Brest-Litovsk with Berlin. The cost was high, with the German Empire taking a large portion of the western territory of the Russian Empire: part of the Baltic countries, part of Poland and Ukraine. In short, the treaty would deprive Russia of 26% of its population, 27% of cultivated areas and 75% of its steel and iron production.



## Intervention of the Allied Powers against Soviet Russia

The Soviet government's call for worldwide revolution combined with its desire to end the war, its repudiation of debts demanded by the Allied Powers and its nationalization measures convinced the Western leaders that they should launch a massive attack against Soviet Russia to bring down the revolutionary government and restore capitalist order. The foreign intervention began in the summer of 1918 and finished at the end of 1920 when the Western capitals took stock of their failure and were obliged to acknowledge that the Red Army had taken back control of the territory. Fourteen countries sent troops to take part in this attack. France sent 12,000 soldiers (to the Black Sea and the North), London sent 40,000 (mainly to the North), Japan 70,000 (in Siberia), Washington 13,000 (in the North with the British and the French), the Poles 12,000 (in Siberia and Murmansk), Greece 23,000 (to the Black Sea), Canada 5,300 [31]. The Japanese intervention was to last until October 1922. According to Winston Churchill, Minister of War in the British government, there was a total of 180,000 allied foreign troops.

The French government was the most bitterly hostile towards the Soviet government, right from the start. There were several reasons for this: firstly, it was feared that the revolutionary movement initiated by the Russian people might spread to France as much of the French population was vehemently opposed to carrying on with the war; secondly, the Soviet decision to repudiate debt

affected France more than any other country since Russian loan bonds had been issued in Paris and were mainly held in France.

It is now known that in 1917 the French government had begun secret talks with Berlin hoping to conclude a peace treaty that would allow the German Empire to spread eastwards to the detriment of revolutionary Russia, on condition that Alsace and Lorraine be returned to France. Berlin's refusal to make this concession to Paris brought negotiations to an end [32].

The armistice of 11 November 1918 signed between the Western capitals and Berlin made provision for German troops to stay temporarily in the "Russian" territories that they were occupying. According to article 12 of the armistice, Germany was to evacuate all former Russian territories as soon as the Allies deemed it opportune, in view of the internal situation of those territories [33]. The idea was to help the imperial army prevent the Soviet government from rapidly regaining control over the territories they had conceded to Germany under the Brest-Litovsk treaty. The Allies meant to enable anti-Bolshevik forces to take over these territories which would then serve as a rear-base while they overthrew the government.

The British historian E. H. Carr shows how unpopular the intervention against Soviet Russia was : "In January 1919 when the allied statesmen, assembled in Paris for the peace conference, discussed the occupation of Russia by allied troops, the British Prime Minister [Lloyd George] bluntly assured his colleagues that 'if he now proposed to send a thousand British troops to Russia for that purpose, the armies would mutiny', and that, 'if a military enterprise was started against the Bolsheviks, that would make England Bolshevik and there would be a soviet in London'. Lloyd George was talking for effect, as was his manner. But his perceptive mind had correctly diagnosed the symptoms. Serious mutinies in the first months of 1919 in the French fleet and in French military units landed in Odessa and other Black Sea ports led to an enforced

evacuation at the beginning of April. Of the troops of several nationalities under British command on the Archangel front the Director of Military Operations at the War Office reported in March 1919 that their morale was 'so low as to render them a prey to the very active and insidious Bolshevik propaganda which the enemy are carrying out with increasing energy and skill'. The details were disclosed much later through official American reports. On March 1, 1919, a mutiny occurred among French troops ordered to go up to the line; several days earlier a British infantry company 'refused to go to the front', and shortly afterwards an American company 'refused for a time to return to duty at the front'. It was in the light of such experience that the British government decided in March 1919 to evacuate north Russia, though the evacuation was not in fact completed till six months later." [34]



Winston Churchill was one of the main hawks in the Western camp. Taking advantage of the absence of Lloyd George and President Wilson at a summit meeting held in Paris on 19 February 1919, Churchill intervened to persuade the other governments to complete their intervention by directly supporting the army of the White Russian generals. He suggested sending them "volunteers, technical experts, arms, munitions, tanks, aeroplanes, etc." and "arming the anti-Bolshevik forces" [35].

The Allies tried to persuade the new (pro-Western) German government to take part in the action against Bolshevik Russia. Despite strong pressure from the Western capitals, in October 1919 the Reichstag (the German parliament), where socialists (SPD) and liberals held the majority, voted unanimously against Germany's participation in the blockade on Soviet Russia decreed by the Allies. To give the full picture, it should be added that at the same time certain German generals like Ludendorff, and especially Von der Goltz, who led the last organized remnants of the former imperial army, supported military

actions in the East to help out the anti-Bolshevik White Russian generals. This, with the support of the Western capitals [36].

It is quite clear that both the Western governments and those of the defeated central powers (the German Empire and Austria-Hungary) feared that revolution would spread to their own countries. Lloyd George wrote in a confidential memorandum early in 1919 : The whole of Europe is filled with the spirit of revolution. There is a deep sense not only of discontent but of anger and revolt amongst the workmen against pre-war conditions. The whole existing order in its political, social and economic aspects is questioned by the masses of the population from one end of Europe to the other" [37]. This fear of revolution was by no means fanciful and largely explains the violence of the attacks against Bolshevik Russia.

Foreign intervention backed up the White Russian generals' attacks and prolonged what was an extremely bloody civil war (it caused more deaths than the World War in Russia [38]). The cost of the foreign was considerable, in terms of human lives and of material destruction; the Soviet government later demanded that this be taken into account in the international negotiations regarding debt repudiation (see below).

### **The economic and financial blockade against Soviet Russia and the blockade on Russian gold**

From 1918, the Allied powers led a blockade against Soviet Russia. The Soviet government was prepared to pay in gold to import goods of absolute necessity, but none of the major banks or any government in the world could accept Soviet gold without crossing swords with the Allied governments. In fact Paris, London, Washington, Brussels all considered that they had a right to Russian gold to compensate Russia's expropriated capitalists and repay debts. This became a huge obstacle to Soviet trade. In the United States any person or company wishing to use gold for any transaction or to take gold into the country had to sign an official statement that the gold in their

possession had nothing to do with the 'so-called' Bolshevik government and that they guaranteed that the US had a right on it without any reservation [39].

It should be mentioned that after the German capitulation of November 1918, France managed to recover the heavy ransom in gold that Berlin had got from Russia in application of the Brest-Litovsk peace treaty signed in March 1918 [40]. France refused to return this gold to Russia, considering it as part of the reparations Germany owed Paris. The blockade of Russian gold was carried on to some extent for years. This was how France again managed in 1928 to get the Washington authorities to prohibit a payment in Russian gold for a contract between Russia and a private US company.

## **The Russian Revolution, Peoples' Right to Self-determination, and Debt Repudiation**

The Versailles Treaty was eventually signed on 28 June 1919 without Soviet Russia being involved. Even so, this treaty cancelled the Treaty of Brest-Litovsk. Under Article 116 of the Versailles Treaty, Russia could claim compensation from Germany; yet, consistent with its demand for peace without any annexation or any claim for compensation, it did not do so. What mattered most to Soviet Russia was that the Treaty of Brest-Litovsk should be cancelled and the territories that Germany had annexed in March 1918 be given back to the peoples to whom they had belonged (the Baltic, Polish, Ukrainian and Russian peoples), in accordance with the principle of peoples' right to self-determination upheld by the new Soviet government.

### **Treaties with the Baltic Republics, Poland, Persia and Turkey**

This principle was also called upon in the first article of each of the peace

treaties signed between Soviet Russia and the new Baltic States in 1920: Estonia on 2 February, Lithuania on 12 July and Latvia on 11 August. The peace treaties resembled one another and the independence of those States – that had been forceably integrated into the Tsarist Empire – was systematically asserted in the first or second article. Through such treaties, Russia reasserted its opposition to the domination of financial capital and its determination to repudiate Tsarist debts. Indeed the treaty that was signed with Estonia on 2 February 1920 states: "Estonia will bear no responsibility for any of Russia's debts or other obligations (...). All claims of the creditors of Russia for the share of the debt concerning Estonia should be addressed to Russia only." Similar dispositions appeared in the treaties signed with Lithuania and Latvia. As well as asserting that peoples did not have to pay illegitimate debts that were contracted in their names though not in their interest, Soviet Russia also acknowledged the oppressive role played by Tsarist Russia towards minority nations within the Empire.

To be fully consistent with the principles it upheld, Soviet Russia went even further. In those peace treaties, it committed itself to restoring to the oppressed Baltic nations all property and articles of value that had been removed by the Tsarist regime (especially cultural and academic property such as schools, libraries, archives, museums) as well as personal goods that had been removed from the Baltic territories during the First World War. As compensation for war damage resulting from the involvement of Tsarist Russia, Soviet Russia stated that it would grant fifteen million gold roubles to Estonia, 3 million gold roubles to Lithuania and 4 million gold roubles to Latvia, as well as concessions for those three States to exploit Russian forests across the borders. While Russian State loans to citizens of the Baltic states were transferred to the newly independent governments, the peace treaties signed with Lithuania and Latvia stipulated that claims against smallholders against the former Russian agricultural banks since nationalized should not be transferred

to the new governments but "purely and simply cancelled". The same measures also applied to Estonian smallholders under article 13 of the Peace Treaty with Estonia, which stated that "if, when such Treaties are concluded, Russia grants to any one of these new States or to its subjects special exemptions, rights or privileges, these shall be extended in full immediately and without special agreement to Estonia and its subjects."

By signing these treaties, Soviet Russia meant to try and break out of the isolation to which it had been confined by the imperialist powers since the October Revolution, while at the same time implementing principles the new state wanted to uphold.. The Baltic States were the first to breach the blockade imposed upon Russia, and those peace agreements opened the way to trade contracts between the various parties. In March 1921, a similar peace agreement was signed between Russia, the Ukraine and Belarus on the one hand and Poland on the other. This document released Poland from the obligation to pay any share of the debts of the former Russian Empire, committed Russia to restoring property that had been removed by Tsarist Russia, and specified that Russia and the Ukraine would pay 30 million gold roubles in compensation to Poland. This treaty was even more significant than the one with the Baltic States, as Poland was seen by the allied capitalist powers as key to the isolation of Russia.



The friendship treaty signed between Soviet Russia and Persia on 26 February 1921 is a further token of Soviet Russia's determination to contribute to the emancipation of oppressed people and to their right to self-determination. In this treaty Russia officially broke away from the tyrannical policies of Tsarist Russia's colonizing governments and gave up all its territories and economic interests in Persia. The very first article declares all treaties and conventions between Persia and Tsarist Russia, which denied the rights



of the Persian people, to be null and void. Article 8 unambiguously cancelled debts owed by Persia to the Tsarist regime: the new Russian government definitively “renounced the economic policy pursued in the Orient by Tsarist regime, which consisted of lending money to the Persian government, not for the economic development of the country but rather for its political subservience.” [41] Consequently it cancelled all Russian claims on Persia.

A few weeks later the Soviet government similarly renounced all liabilities, including monetary, that Turkey had towards Russia as a consequence of agreements signed by the Tsarist government. [42]

## The French press in the pay of the Tsar

With the overthrow of Tsarism in February 1917 and the seizing of power by the Bolsheviks and their Socialist Revolutionary allies in October, numerous previously confidential documents were made public (see further on). This allowed Boris Souvarine, a Franco-Russian communist activist to consult Russian imperial archives. He discovered a vast organisation of complicity with the French press that pre-dated the First World War, aimed at promoting Tsarist bond issues to French investors. This affair, in which influential people were corrupted and became accomplices, was denounced by the communist daily *L'Humanité* in a series of daily articles entitled ‘The abominable venality of the French press’ that appeared over a period of several months during 1923 and 1924.

### How the Tsarist regime procured the French press in order to issue bonds

Since the end of the 19th century the empire of the Tsar had chosen Paris as its preferred financial market for bond issues. The bonds were purchased by many French investors and small savers. At the beginning of the 20th century this funding had become a pillar of the Tsarist regime that in

1904-5 was at war with Japan at the same time as it sought to put down internal discontent and repress the 1905 revolutionary movement. After losing the war against Japan, in 1906 Russia made a big bond issue on the Paris market. Arthur Raffalovich, diplomat and secret adviser, in Paris, to the Russian minister of Finance, was charged with promoting Russian loan certificates up to the First World War. It was his correspondence with his superiors in Russia that revealed complicity in corruption and coercion between the Tsarist regime and many big French newspapers, mostly Parisian (such as *Le Figaro*, *Le Petit Journal*, *Le Temps* and *Le Matin*), big French banks (notably *Crédit lyonnais* and the *Banque de Paris et des Pays-Bas*, which has become *BNP Paribas*) as well as Senators and Ministers. Among them Raymond Poincaré, who was to become President of the French Republic (i.e. head of the French State) in 1913, was implicated for his actions while he was President of the French Council (i.e. head of the French government) and Foreign Minister in 1912 (his Finance Minister, Louis-Lucien Klotz was also implicated at the time); he was again President of the French Council and Foreign Minister when the scandal exploded. However, the affair was no bother to him: he remained President of the French Council until 1924, and again from 1924 also holding the post of... Finance Minister! The role played by the Paris Stockbrokers' Corporation was central to the coercion pressed on the Tsar's government. Between 1900 and 1914, the Russian government distributed 6.5 million francs to the French press.

When the affair blew up, the corruption of the press by the financial sector was far from being new. A scandalous French fund raising scheme to build a canal in Panama had functioned in the same way. In the case of the Russian issues the Russian empire and the issuing banks purchased advertising in the newspapers of greater distribution that praised the Russian financial situation and the solvency of the Tsarist debt. According to Raffalovich this advertising involved censorship – news of difficulties in Russia's war against Japan or of the revolutionary unrest in 1905 was not considered to

be presentable to potential investors! The documents indicate that there may also have been false subscriptions. The Stockbroker's Corporation, newspaper board members and politicians blackmailed the Russian government into making bigger payments and so maximised their profits.

The revelations in *L'Humanité* are based on authentic documents. Among the incriminated newspapers, only *Le Matin* initiated proceedings against the communist organ. From the first day of the trial, Vladimir Kokovtsov, the Tsar's Finance Minister almost without interruption between 1904 and 1914, and head of the government between 1911 and 1914, was called to the box. A reactionary exiled in France, it was not in his best interest to put the press under accusation but he did bear witness to the honesty of his former collaborator Raffalovich. *L'Humanité* was technically condemned to pay 10,000 francs damages compared to the 1,500,000 francs demanded by *Le Matin* and the court recognised the authenticity of the revealed correspondence. Finally, in 1924, Maurice Bunau-Varilla, the owner of *Le Matin*, himself highly implicated in the affair no longer hid his sympathies for the authoritarian nationalisms coming to power in Europe to resist communism. He supported Fascist Italy and later Nazi Germany. During the occupation of France, *Le Matin* collaborated with the Vichy regime. After the liberation of France it was shut down.

## Russian bonds never die

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 débâcle of the Russo-Japanese war. The *Credit lyonnais*, [43] 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* [44]), 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%. [