

Memoirs of Count Witte

THE RUSSIAN INTERNATIONAL LOAN OF 1906

Nothing is more reprehensible from the view point of the capitalist than that the workers should acquire a knowledge of the content of the capitalist system, and yet, in spite of themselves they are constantly adding to the workers' fund of knowledge. One of the latest contributions is the "Memoirs of Count Witte" recently published, and which the publishers, (Doubleday, Page & Co.), herald thusly:

"Who was Witte? Premier under Nicholas II. The man who re-organized Russia's finances. Principle author of the first Constitution. Chief builder of Russia's railroads. Negotiator of the Portsmouth Peace following the Russo-Japanese War.

"Recognized as the ablest statesman Russia ever produced, and one of the great statesmen of Europe, his testimony is of unparalleled value, not only as a revelation of Russia, but of the Europe that was, and a clue to the world situation of today."

Just how so very celebrated a man could have sunk into oblivion for the past ten years Doubleday, Page & Co., do not explain. However, the clue seems promising, so let us follow it and see where it leads. A little inside information will do us no harm, especially if it deals with the much mooted question as to whether the Russian Soviet Government is justified in repudiating the debts incurred by the Czar's Government. We will let this very celebrated person tell the story in his own words:—

"In October, 1905, the Government had neither troops nor funds with which to fight the revolution. I soon perceived that the only two things which could save the dynasty and enable Russia to weather the revolutionary storm, namely, a large foreign loan and the return of the army from Transbaikalia and Manchuria to the European part of the country. At the time the bulk of the army was in far Manchuria, an army of about a million men. As a matter of fact the whole vast army was in a complete state of physical and moral prostration.

"Several days before my appointment (as premier) I conferred with the Minister of War and General Trepov, the commander of the St. Petersburg garrison, for the purpose of ascertaining to what extent we could rely on the troops in case it should be decided to crush the revolution by armed force. I learned that the army was unreliable for two reasons, namely, because of its numerical weakness and its dangerous state of mind. This perhaps accounts for His Majesty's decision in preferring the road of reforms to the unstinted application of sheer force.

"After the ratification of the Portsmouth Treaty, in accordance with the letter of the law, it was necessary to discharge the reservists who had been called to the colors for the duration of the war. Since these soldiers were the most troublesome element in the army, and had infected with revolutionary ideas both the Transbaikalian troops and the units stationed in European Russia, I had them demobilized immediately. As a result, the army at my disposal diminished in numbers, but it was purged of the troublesome element, which at any moment was liable to break out in uncontrollable mutinies."

"As early as 1904 the need for a foreign loan was apparent. At that time our financial system was already giving way under the pressure of war expenditures (Russo-Japanese). In concluding our second commercial treaty with Germany in 1904, I succeeded in securing Germany's permission to float our loan in that country. The next year I made an effort to prepare the ground for the loan in France and in the United States, where I went on the Portsmouth peace mission. My intention was to conclude the loan before the opening of the Imperial Duma. As I felt that the first Duma would be unbalanced and to a certain extent revengeful, I was afraid that its interference would thwart the loan negotiations and render the bankers less tractable. As a result the Government would, without funds, lose the freedom of action which is so essential during a period of upheaval."

"I had a keen personal interest in the loan, as I was responsible for the adoption by Russia (in 1896) of the gold standard of currency, and it was doubly painful for me to see this standard seriously threatened by the financial crisis, brought about by the war on the one hand, and by the near sighted policy of the Minister of Finance in the other. He waited for the end of the war to conclude a large loan, but he failed to see the outbreak of the revolution, with its disastrous effect on our credit.

"France was willing to open its money market to us, but as a preliminary condition the French Government demanded the conclusion of peace with Japan. When the Portsmouth Treaty was concluded, the Franco-German conflict arose over Morocco, the conclusion of which was made a contingent of the loan. I finally succeeded in having the clash arbitrated by an international conference at Algiers. The conference lasted till the end of March, 1906, and until its termination the conclusion of the loan was out of the question.

"The loan was to be an international one, but in view of its large amount the French group of bankers was to play the leading part. In 1905 I opened preliminary negotiations with Neutzlin, the head of the Banque de Paris et des Pays Bas. After the death of Germain, of the Credit Lyonnais, the Banque de Paris et des Pays Bas became the chief banking institution in the so-called Christian group of bankers' syndicates. The other group of banks, known as the Jewish group, was headed by the Rothschild firm. Old Baron Alphonse Rothschild was dead, and Lord Rothschild of London, was now head of the family. Consequently I instructed Rafalovich, our financial agent in Paris, to go to London and find out what was the attitude of the Rothschilds toward our loan. Rafalovich's reply was to the effect that out of respect to Count Witte as a statesman they would willingly render full assistance to the loan, but that they would not be in a position to do so until the Russian Government had enacted legal measures tending to improve the condition of the Jews in Russia. As I deemed it beneath our dignity to connect the solution of our Jewish question with the loan, I decided to give up my intention of securing the participation of the Rothschilds.

"The Constitutional Democrats (Cadets) were fully aware of the stabilizing effect the loan would have upon the government. Consequently, they sought to defeat my efforts to conclude the loan before the opening of the Duma. Their representatives, chiefly Prince Dolgoruki and Malokov, acted in Paris trying to persuade the French Government that it was illegal for the Imperial Government to conclude the loan without the sanction of the Duma.

"As for the press, it did nothing to inspire the foreign investor with confidence. For instance, nearly all the papers printed the appeal of the revolutionists to the population enjoining it to withdraw their deposits from the banks and local treasuries, so as to reduce the Treasury to a state of insolvency. On the other hand, the foreign press displayed a great deal of hostility toward us. The English "Economist" spoke of the collapse of the gold standard of Russia and announced that Russia was driven to resort to a forced rate of exchange and printing of paper money without the corresponding deposit of gold. Other papers, that a portion of Russia's gold resources had been absorbed by the purchase of Russian securities abroad in order to stabilize the rate of exchange.

"Already in November, 1905, our money circulation was in a very critical state and I found it necessary to keep the financial committee informed about the situation. With my approval, the committee appointed two of its members, V. N. Kokovtzev and Schwanebach, Minister of Agriculture together with the Minister of Finance, L. P. Shipov, to watch the transactions of the Imperial Bank, but of course they were unable to suggest anything to improve matters. As the situation was rapidly growing worse and as some of the members thought it was possible to conclude a foreign loan immediately, I proposed to Kokovtzev that he go abroad with full power to contract a loan. I knew very well that, before the settlement of the Morocco conflict, this was out of the question, but I did not judge it possible to take the financial committee into my confidence with regard to the political aspect of the situation.

"Kokovtzev went to Paris late in December, 1905, and was told, of course, by Rouvier that we could not conclude the loan before the peaceable termination of the Morocco affair. He also had an interview with President Loubet. Kokovtzev succeeded in getting an advance of 100 million rubles on account of the future loan. This was but a drop in the bucket, for the short term bonds issued by Kokovtzev in Berlin were about to fall due. Accordingly I asked Kokovtzev to stop in Berlin and try to obtain an extension of these bonds. This extension he secured for the reason that the German Government was still undecided as to what course I would follow in matters pertaining to Russia's external policy. For though I was instrumental in annulling the monstrous Bjorke agreement, I nevertheless made it clear that I was in favor of a coalition between Russia, Germany and France, which would dominate the whole of Europe, if not the world. If this plan, which was my chief political idea, was not realized, it was because of insufficient political farsightedness on our part and also on the part of Emperor William of Germany. In January, 1906, I decided to push further the negotiations for the loan, which I had initiated in Paris on my way back from the United States. As I could not go abroad, I asked Neutzlin to come to Paris. He arrived on February 2nd and his visit lasted five days. In the course of that period I had several conferences with Neutzlin, and in the presence of the Minister of Finance, Shipov, we agreed upon the terms of the loan. At first, Neutzlin insisted that the loan should not be realized before the opening of the Duma, but I succeeded in convincing him of the undesirability of such an arrangement, and it was agreed that the loan should be effected immediately upon termination of the Algiers conference. It was also agreed that the loan should be as large as possible, so as to enable us to get along for a considerable time without new loans and also in order to cancel the temporary loans

contracted by Kokovtzev in France and Germany. I insisted on 2,750,000,000 francs as the nominal amount of the loan.

"Anticipating upon the course of events, I may say that, owing to the treachery of Germany and of the American syndicate of bankers headed by Morgan we had to reduce the amount to 2,225,000,000 francs—\$43,750,000 rubles. Neutzlin insisted on six and a quarter per cent., but I would not listen to that rate of interest and it was fixed at six per cent., the loan certificates becoming convertible after ten years."

Count Witte goes on to describe at length the various steps in the negotiations and the obstacles put in the way by Germany on various pretences. He quotes a letter sent by the German Minister of Foreign Affairs, Count Larnsdorf, to the Russian Ambassador, Count Osten-Sacken, in which the following sentences occur:—

"The German Government is quite aware that certain financial operations of the highest importance to Russia are contingent upon the successful termination of the Algiers conference. Only the carrying out of these operations will enable the Imperial Russian Government to take the necessary measures for the final suppression of the revolutionary movement, which has already shown signs of spreading to the neighboring monarchistic countries."

"He describes how the fall of the Kouvier Government and the succession by Sarrien, in which Poincare was Minister of Finance, delayed negotiations, though the latter favored the loan, then how Neutzlin in his letters show how Poincare was constantly raising the question of the legal right of the Imperial Government to contract a loan without the sanction of the Duma. How, when the Algiers Conference was drawing to a successful close his Majesty appointed Kokovtzev as a special representative empowered to go to Paris and sign the agreement. How Neutzlin went to London to confer with Fischel, German banker of the Mendelssohn firm, Revelstock, representative of the firm of London bankers and Morgan, Sr., of United States and on March 22nd wired him the results of the negotiations. How at the last moment Germany ordered her bankers to refrain from participation in the loan and how Morgan followed suit. And he adds:—

"That American banker enjoyed the German Emperor's favor, and despite his democratic feelings as an American, highly valued the attention of that exalted crowned personage."

"The refusal of Germans and the Americans to participate in the loan had its effect on the English. The Algiers affair was the first manifestation in many years of a growing rapprochement between Russia and England. On April 3rd the loan contract was signed by Kokovtzev as official Russian plenipotentiary and the representatives of the international syndicate of bankers. Several days later the envoys returned to Russia with the text of the contract in their hands. It was transmitted to me and subsequently laid before the financial committee by the Minister of Finance, Shipov. Having examined and ratified it, the committee submitted it to His Majesty for confirmation."

"It was the largest foreign loan in history of modern nations at that date. It enabled Russia to recover after that ill-starred war and the subsequent senseless turmoil known as the Russian revolution. This loan enabled the Imperial Government to weather all the vicissitudes of the period extending from 1906 to 1910 by providing it with funds which, together with the troops recalled from Transbaikalia, restored consistency and assurance to the acts of the government."

This is the history of the Russian loan by the man who was instrumental in floating it. It was primarily for the purpose of putting down the revolution. It did not succeed; it simply postponed that event until social forces should have so shaped themselves that when the revolution did occur ten years later it was invincible. And it is this loan, illegally floated, according to the lenders themselves on the payment of which determines whether Soviet Russia shall be accorded recognition and granted the privilege (!) of sitting down with them at the Economic Council. And blood-soaked, famine stricken Russia, in order to save **Our Revolution** is willing to accept this last cup of bitterness that is pressed to her lips. Could sacrifice go further?

KATHERIN SMITH