Judith Kelley:

There's been tremendous political wrangling in the U.S. recently about raising the debt ceiling. The national debt of course is how much money we need to borrow to pay our bills. And the ceiling is the government's internal agreement about how much money we can borrow. But we are not the first country in history to have to borrow money. And we won't be the last. Today, we're going to look back at another such story from the late Imperial period until the early 1920s, Russia needed cash and the British and French came to the rescue with enough money that made Russia the top international debtor at the time. My guest today argues that the Russian state was so heavily indebted to its Western creditors, that it made the Western economies almost prisoners to this debt.

In a funny way, owing so much money gave Russia a kind of power because if Russia defaulted on their loans, it would've been catastrophic for the countries that lent them the money. I'm Judith Kelley, Dean of the Sanford school of Public Policy at Duke University. And my guest today is Jennifer Siegel. She's a new professor here at the Sanford school, and we are going to talk about her book For Peace and Money: French and British Finance in the Service of Tsars and Commissars. Welcome to Policy 360 Jennifer.

Jennifer Siegel:

Thank you so much Judith and it's so nice to be on Policy 360 and also at the Sanford school.

Judith Kelley:

I'm glad you feel that way still. So set the scene for us. This was not long after the Bolshevik Revolution. When was this going on? What was going on in the world? Can you set the stage for us a bit?

Jennifer Siegel:

Absolutely. And it's always so interesting when one has the opportunity to have the work that you've done be so relevant when you're working on the late 19th, early 20th century. And at this moment, debt is the word of the week.

Judith Kelley:

Right.

Jennifer Siegel:

And essentially the story that I tell in this book begins in 1894. It's a pivotal year in Russian Imperial history for two key reasons. This is the start of Nicholas II reign. He came to the throne in 1894, and it's also the start of the Russo French Alliance in 1894. France and Russia signed a military alliance that had hand in hand with it, a financial relationship. There are arguments over whether or not the financial relationship brought on the political relationship between these two countries, or of course that the political relationship made it much easier for the financial relationship to begin.

Jennifer Siegel:

But from 1894 onwards, France really became the principal investor in the Russian economy, the principal investor, and the source of Russian funding and Russian sovereign debt. The story that I tell as you pointed out, brings us into the 1920s after the Bolshevik Revolution and the repudiation of all of the debt that had been accrued by the Tsars regime as the Bolsheviks said of the imperialist government that came before them. But the growth of this indebtedness took place in the decades before the

Revolution. In the 1890s, Russia worked in a very determined fashion under the leadership of the Minister of Finance Sergei Yulyevich Witte, who is the person responsible for bringing us the Trans-Siberian railroad among other massive projects that were designed to bring Russia into the industrialized era to encourage the Russian economy, to catch up with all of those states of Western Europe and the United States who was going through its burst of economic activity in the 19th century. Russia was very far behind. They were still grappling with the legacy of Agrarian Feudalism well into the late nineteenth century.

Judith Kelley:

So was this so much that Russia was on the brink and had to borrow money. They convinced France and others that this was an investment, I guess.

Jennifer Siegel:

Well, what was going on in the 1890s and the early years of the 20th century was investment to support the growth of the Russian economy. And there wasn't a public works project in Russia that wasn't being funded in some way by foreign capital, there wasn't a sewer that was being dug in a Russian city or a docks being constructed that all wasn't being funded or a railroad being built. This was definitely investment in growth. Now what happened in that first decade of the 20th century was a shift. Russia had bit of a course correction, we'll call it in 1904 and 1905, Russia found itself at war with Japan, the Russo-Japanese war. And Russia had a disastrous showing in this war.

Judith Kelley:

Did that war increase the need for Russia to borrow? Or how did that affect the borrowing spree?

Jennifer Siegel:

It absolutely increased Russia's need for capital. It did not put a halt to their pursuit of the kind of investment in their domestic economy that they had been undertaking before this at all. Russia also had in 1905 was hit with a revolution, the revolution of 1905, another sobering moment. And also another moment where you might have seen the foreign investors stepping back pausing saying, "Why should we be investing? This country is in trouble. Why should we be going all in on funding an empire that is besieged by war and revolution?" And coming out of the war and the Revolution Russia actually managed to put together one of the largest loan issues that the empire ever put together. So you have both Russia able to raise capital and in pursuit of raising capital, the Russians were not looking to retreat in any way. We often look at the history of this period and we see Russia in a state of decline. We know the revolution comes in 1917, and we think that Russia was...

Judith Kelley:

On its knees.

Jennifer Siegel:

Exactly.

Judith Kelley:

Yes.

Jennifer Siegel:

And instead the Russian empire considered itself a great power, acted as if it was a great power and was also being supported as if it were a great power. That 1906 loan was truly an international loan. It was not just the French who had been funding Russia before this, but also there was smaller participation from bankers in the Netherlands, the United States, Germany, but most importantly, the British came in and the British had not been funding Russia up to this point. And the British came in on that 1906 loan at a moment when Russia looked like they were maybe on the ropes. This is a moment when everyone came together to really support and in some ways reward Russia.

Judith Kelley:

So Jennifer, I want to jump in because I just, some confusion I need to clear up, I think can in my mind here, if that's okay.

Jennifer Siegel:

Please.

Judith Kelley:

So we've been talking about debt, as in loans are made to Russia and Russia has various public works and other things that they are spending this money on, but at one point you use the word foreign investment, right? And you've talked about how it was really investment in roads and bridges and railroads and all this kinds of stuff. And when we think about China, for example, and it's built on road initiative, that is direct foreign investment in ports, in infrastructure, et cetera. But it's not in the same way, or is it in the same way? Debt, so the way I understand debt is like, I borrow money from somebody. I get to decide what I do with the money, right? And then I have to pay the money back. But with somebody invests in, well nobody invests in me, but if they were investing me, they get to pick the investments. So can you talk a little bit about that?

Jennifer Siegel:

Right. So there's a combination in the case of late Imperial Russia, we have a combination of those bond issues specifically for the construction of a specific railroad or the construction of docks or sewers or things like that, and municipal debt. And then there were also a series of major sovereign loans which were much more of the general use. Russia had reasons for wanting to raise this capital. A portion of these bond issues were earmarked from the get go for the servicing of previous bond issues and previous sovereign loans. And it's the overall indebtedness of Russia when historians of Imperial Russia and Russian economic historians talk about Russian indebtedness, they include the whole panoply into the discussion. My book is looking almost exclusively at those big sovereign loans.

Judith Kelley:

Right.

Jennifer Siegel:

Much more the general use funding, which really that's where I see this as much more foreign investment in Russia, as opposed to buying railroad bonds, investing in a specific railroad. There is definitely an element of the individual investor and the broader national investment in the Russian empire in the state.

Judith Kelley:

But it's not like the Belt and Road initiative or some of these other things where the investors [inaudible 00:10:51] are holding rights over the use of the infrastructure, et cetera, right.

Jennifer Siegel:

No, these were not designed for foreign ownership.

Judith Kelley:

Right. Which is precisely the part of the problem, right? I mean then later on, because it really a surrender entirely of those funds to the Russian government for its use at its disposal. And then you sit back and wait for it to get paid back. Right?

Jennifer Siegel:

Right. But there was a lot of direct foreign investment and foreign ownership of infrastructure and factories and property in Russia as well...

Judith Kelley:

By foreigners.

Jennifer Siegel:

By foreigners. Exactly.

Judith Kelley:

By foreigners. I see.

Jennifer Siegel:

And all of this was nationalized by the Bolsheviks when they came to power. So it's not just in addition to the Bolsheviks saying, "We're not paying back the debts." They also said everything that is owned by foreigners, every car company, every factory, every piece of property, this is now owned by the Russian people, by the Russian workers and peasants and not by the foreigners. And as I said, there was extensive direct investment as well.

Judith Kelley:

So what scale are we talking about here? So when the party is over and they borrowed all this money and it comes to be time to start paying it back, how much money are we talking about? Or a sort of percent of GDP.

Jennifer Siegel:

Roughly the total amount of Imperial Russian government debt at the time of the Revolution was well in excess of a hundred billion dollars in today's money. This was an extraordinary drain on Russian finances and on the state. But of course, in a system where they were able to continue to borrow money, this was not in and of itself going to bring down the Russian stage by any stretch of the imagination that the Imperial government was able to continue to borrow a fresh to service the debt, even during the course of the First World War with the drains on Russian finances that were going on because of the expenses of what was a crushingly expensive war for all those who were involved in fighting that war, not just for the Russian empire.

Judith Kelley:

So if Russia was able to do that, why is it that you argue in the book that they were actually sort of able to dictate policy to the French and the British, if there was not a lot of doubt about their ability to repay?

Jennifer Siegel:

The Western investors and the Western countries that were from whence the bankers were coming. Because of course before the war, it is individual banks who are actually putting together these bond issues sometimes with the prompting and support of their governments, depending upon the country in question, and sometimes tacit approval and encouragement. But once the war comes, it becomes a state to state financial relationship. But the comfort in whether or not Russia would be able to pay back was based in no small part on this understanding and perception of Russian credit worthiness, the expectation was that Russia would still continue to pay and would also still continue to be able to borrow the money necessary, to continue to pay, to continue to service this debt. Russia, for example, had not defaulted on any of its loans to the countries against which it was fighting during the Crimean War.

Jennifer Siegel:

And there was no expectation that Russia would default on their debt in the future. In fact, one of the most wonderful quotes that I read in response to the Bolshevik's decision and announcement that they would no longer be paying off any of this debt came from a member of the French parliament, who announced that after the French revolution, the new French government had continued to pay the debts of the [inaudible 00:15:18] regime and that the Bolsheviks had no right to say that a revolution made them not responsible. And it was an extraordinary surprise to the rest of the world that a European great power would choose to default on their debt. And this really was a choice by the Bolsheviks to do that. I'm smiling when I'm thinking about the United States government at this moment, bringing itself to the brink, rather than being pushed to the brink. There are definite parallels with the Bolshevik government pushing itself over the brink in terms of their relationship to their creditors.

Judith Kelley:

So, you said this really gave Russia some power to owe all this money to this of the world and are there some policy changes or some policy implications that end it off happening for the French and the British where they had to listen to Russia on policy issues?

Jennifer Siegel:

Well, the Russian government, because this really is, there is an example of a too big to fail moment.

Judith Kelley:

Right.

Jennifer Siegel:

The French, very specifically, because Russia was France's one ally and so much of the French investment capital was tied up in Russia, by the time we get to 1912, 1913, the French could not their one ally to fail, to falter in any way.

Judith Kelley:

Right.

Jennifer Siegel:

And because of this, the French actually, while trying to push the Russians to orient their security preparations, to be much more in keeping with France's own security needs, the French wanted the Russians to be spending all of their available capital building, military railroads that would allow Russia to mobilize quickly in any future war with Germany. Germany being France's most likely future opponent.

Judith Kelley:

Right.

Jennifer Siegel:

The French found themselves forced to support Russian railroad construction in the far east. That was totally irrelevant from the French security perspective to give way as the Russians continued to dither over responding to the demands and the expectations of Russo-French military cooperation, which should have been at the heart of their alliance, but the French had no power really in the relationship. They did not have the power that being the principal creditor might have suggested that they should have had.

Judith Kelley:

Yes, you would think that if they were the main benefactor, that they would be able to call the shots, but it sounds like they lost that ability.

Jennifer Siegel:

Exactly. And, one of the things that's interesting is that in part, the French lost their ability because of the introduction of Britain into this relationship. What had been a two part relationship between France and Russia becomes the tripartite [inaudible 00:18:53] relationship. It is very much so not an Alliance that existed between Britain, France and Russia before the First World War actually broke out. And the financial side of the story actually shows us this coming into play because the French, while the French had been Russia's principle and almost sole source of funding, the French had greater influence, once the British became part of team that were now funding Russia and Russia's bankers were no longer only in Paris, the Russians were able to say, "We don't need French money. We could get British money."

Jennifer Siegel:

There are all of these, banks in Britain who have been coming forward with offers to put loans together. And that, ofcourse, that in some ways destabilizes, from the French perspective, it destabilizes the Franco-Russian relationship and it gave Russia more of the upper hand in that relationship than they might have had and that they did have when France was the only country that was coming forward with the much needed cash.

Judith Kelley:

If we fast forward to today a little bit, we think about the U.S. debt. I mean, that's also held by foreigners, Japan, I think is the largest foreign holder of public U.S. government, then China. It definitely is in UK. So should we be worried about being beholden to these countries rather than... How should we think about that?

Jennifer Siegel:

I would argue that we shouldn't be worried because I don't see in the Russian example a case where foreign investment decreases the independence of action by the debtor country. The Russian Empire, as I said, pursued the policies both domestically and abroad, that it felt were appropriate for it to be pursuing.

Judith Kelley:

Right.

Jennifer Siegel:

Sometimes even in the face of alliance obligations that might have pointed them in other directions, debt can be a source of strength, provided of course that the perception is that the nation remains strong and that the economy is solid. And this is potentially, I think that there are some parallels here for the Russian Empire, the perception was that Russia was a great power and was going to continue to be a great power and would not be defaulting on its debt.

Judith Kelley:

Right. For you rewind to Russia situation, how were those Western lenders able to get out eventually from under the burden of the money that had loaned?

Jennifer Siegel:

I won't say it's a great story because it's not a particularly great story for those who really never got their money back. Essentially it took until Gorbachev and perestroika for any effort to be made to appease Russia's Western creditors. In the 80s, a deal was brokered concerning the debt to Britain which is mostly war time debt. And an arrangement was reached in which a portion of that debt was paid off. And essentially the rest of it was simply written off. It wasn't until the 90s, during the Yeltsin period that the French bond holders were appeased in any way and French bond holders, there are French bond holder associations who are still to this day, arguing that what they received was a nice first installment, and that they continue to be owed not only all of the interest that would've accrued over the last 100 years, but even the principle has not been paid off, but in anywhere, anything close to what was actually lent at the time.

Jennifer Siegel:

And in terms of, broad international opinion, this is not a problem. These, these deals were brokered, which allowed the new Russian state, the post-Soviet Russian state to be able to borrow again, and to reenter the international economic system in terms of the rules of engagement for being a creditor and a debtor. And the Russian Federation from the moment that the Soviet union collapsed the Russian Federation was both.

Judith Kelley:

But if I can pick up at the point of being both a borrower and a creditor, and you said the Russian Federation was both. And of course now today, United States is both. So what gives you more power lending money or borrowing it?

Jennifer Siegel:

That's a really interesting question. I would think being able to do both, actually it's what gives you power and it's an expression of power. If we're looking at the Russian example, both the Imperial Russian example and more recent Russian examples, and possibly the United States as well, it's neatly into this, the international system expects or allows for the extension and the receiving your credit equally. Being able to lend money, of course, indicates that you have financial strength that allows very often an expression of soft power, the ability to influence to invest.

Jennifer Siegel:

And again, as you brought up earlier, the Chinese investment and the belt and road project are absolutely an example of this is foreign policy, not financial policy or foreign policy and financial policy. And we always have to understand that they go hand in hand that certainly gives financial power, strength, and influence, but being able to actually borrow and being perceived as a good investment by foreign investors and foreign states, that's a source of strength as well, and an expression,

Judith Kelley:

Right. Everybody wants to have good credit ratings.

Jennifer Siegel:

Yeah. I'm interested to know you did actually what you think about which gives one more power, being a creditor, being a lender.

Judith Kelley:

Well, what I was really thinking about as I asked that question and not that that's what I meant by the question, but what it made me think about is that in families you should probably do neither, right?

Jennifer Siegel:

Yeah. It's probably true.

Judith Kelley:

If your children need money, don't lend it to them, just give it to them. Yeah. That outright gives in both directions are probably better than a system of crediting and debting certainly within our families, I would imagine. But it's a fascinating story. I wonder, Jennifer, as you were going about doing the research for this, was there some moment in the archives or in an in interview or something that you did, what was the most fun moment that was sort of, oh my goodness.

Jennifer Siegel:

I love being in the archives. It's my great joy is that treasure hunt that one has in the archives and...

Judith Kelley:

What's the biggest treasure you found?

Jennifer Siegel:

One of the great experiences on this particular project was that it got me not only into the government archives of foreign ministries and finance ministries and cabinet papers in three different countries in Britain, France, and Russia. But it also got me into the archival collections of banks all over the world in Paris, in New York, in London. And I think the greatest aha moments and I'll take, we'll do a collective aha moment here. We're seeing the ways in which the bankers in Britain and in France were relating to the members of the government in their various countries. And not just there, there are questions of the bankers dictating policy are the policy makers dictating behavior to the bankers. There was an extraordinary give and take in all of these countries, including the United States. When I look at the JP Morgan papers, these non-governmental actors, the men, and they were all men at the time, the men who were leading these banks were influencing policy, were shaping policy, but they were also responding to the policy goals of their countries and the demands of their country's or empire's geo strategic that concerns.

Judith Kelley:

It Sounds like you found quite a few records of this kind of back and forth.

Jennifer Siegel:

Absolutely. And in both the alongside periodic pronouncements from particularly in Britain, pronouncements from the government, that of course they have no control over their bankers, those more indirect relationships, because all of these people knew each other. They had all gone to school with each other. They were very often in the same social circles. And sometimes they were even in the same families, if we bring it back to families, the more private connections certainly existed. And you can find it reflected in policy decisions by both these banks and the governments in question.

Judith Kelley:

Jennifer's, this has been fascinating. And while the old adage from ghost that it is better to give than to receive, I think we're going to have to call it a draw as far as lending versus borrowing.

Jennifer Siegel:

I think that probably works for me. I don't know if it's neither a borrower or nor a lender, B is that the quote that we should end on.

Judith Kelley:

That said, though, just before we sign off, I was wondering, can you lend me some money?

Jennifer Siegel:

Well, let me stay here at duke a little while longer and we'll see what we can do.

Judith Kelley:

Okay. All right. Well, Jennifer, thank you so much for joining me and welcome to Duke.

Jennifer Siegel:

Thank you so much. Judith this has been a really interesting conversation and has been extremely thought provoking for me, even after having finished this book, I, in some ways would like to go back now that we've had this conversation.

Judith Kelley:

Oh, I am glad to hear that. My guest has been Jennifer Siegel. She is the Bruce [inaudible 00:30:32] home distinguished professor of history and public policy here at the Sanford school at Duke University. Her book is called for peace and money, French and British Finance in the service of Tsars and Commissars. And Jennifer, you said you're working on a second book. So just give a little advertisement here of what's that.

Jennifer Siegel:

Well, this will be the third book, actually, not the second book. I am currently working on a big history of diplomacy during the first world war. And this is looking at not the diplomacy of the origins of the war, not the diplomacy of the peace making, but diplomatic relations, both within alliances and going out from Alliance groups to neutral powers and also across the lines of the conflict during the first world war.

Judith Kelley:

Well, that sounds like it's going to be a tone.

Jennifer Siegel:

I'm hoping to keep it to a readable size, but we'll see how that works out.

Judith Kelley:

By historian senators.

Jennifer Siegel:

By historian Senator. Exactly. We don't write small books.

Judith Kelley:

Well, Jennifer, thank you so much. We'll have a link to, For Peace and Money at our website Policy360.org. Thanks for joining me. I'll be back in two weeks with another conversation. I'm Judith Kelly.