THE RUSSIAN ADVENTURE:
BELGIAN INVESTMENTS IN IMPERIAL RUSSIA

DISSERTATION

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* * * * *

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"Around the turn of the century there was an exodus of Belgian capital and technicians toward Russia, where coal mines, metallurgical plants, chemical works and street-car lines were being built....Belgian skill and capital were concentrated in the Donets Basin, sometimes called 'the Russian Belgium.'"

B. S. Chlepner, *Belgium*, p. 178.
A study of Belgian investments in Russia affords an excellent example of the international movement of capital from a highly industrialized country to a "backward" one within the limits of a clearly defined time period. More significantly, it demonstrates that Belgian capital also played a major role in the industrialization of Russia. Although Russia progressed industrially prior to Count Witte's administration, this paper takes the point of view that Russia began her industrial revolution in the nineties, and proposes that during the initial stages of this revolution Belgian capital played the most important role among foreign investors.

Heretofore, Belgian investments in Russia have been ignored for several reasons. Belgium, because of its size and its efforts to maintain a precariously balanced neutrality, was largely outside the main stream of European history. Then too, investments in Russia, like those of France, have largely been considered from the point of view of their relation to political alliances, while neutral Belgium was interested in Russia solely for economic reasons. Moreover, foreign investments were generally calculated in terms of their
total amounts on the eve of World War I, and often with no distinction being drawn between government loans and investments in industry. By contrast, Belgian investments surpassed those of other foreign countries during an earlier but more crucial period, and this capital was almost entirely devoted to the development of industry.

As the title suggests, this study is written primarily from the "point of view" of Belgium, because the primary sources used are almost exclusively Belgian. Nor is this a history of Russian industrialization. Pertinent industrial developments in Russia as a whole are intended to provide the proper background for Belgian investments and a basis for comparison with the industrial evolution of southern Russia. Since most of the Belgian capital was directed toward southern Russia, individual industries in this region are examined in detail, but none of the other half-dozen industrial centers within the Empire are discussed separately. Because Belgians did not have investments in all industries and investments in some were lighter than others, all industries are not taken into account and some receive only cursory treatment. For example, the textile industry, the largest in Russia from the point of view of total personnel and value of production, is only given brief mention under miscellaneous industries.
Perhaps it should also be pointed out that, because of the international character of capital during this period, any study of investments in Russia encounters difficulty in assessing the exact amount of capital invested by the nationals of individual foreign countries. Nor are the limits of the nationalities of companies clearly defined, since a company might have been organized under Russian law but most of its capital may have originated in Belgium, and Russian or even French investors may have participated in the enterprise.¹

By way of acknowledgement, I would like to express my gratitude to all those who have lent their assistance in some way or other, particularly Professor Jean Stengers of the Université Libre de Bruxelles and the personnel of several libraries and archives: the Bibliothèque Royale and the Ministère des Affaires Étrangères in Brussels, the Bibliothèque Nationale and the Bibliothèque de Documentation Internationale Contemporaine in Paris, the Library of

¹"The interests of nationals of different countries are found to be so interlaced as to make the task of fixing and delimiting the investments of each country a difficult matter....The exact determination of the character of the ownership was frequently obscured, under pre-war conditions, by the fact that some given concern, ostensibly operated by Russian nationals, might be controlled by the stockholders and directors of another nationality, who were in turn financed by parent organizations or financial institutions of yet another nationality." Leonard J. Lewery, Foreign Capital Investments in Russian Industries and Commerce (Washington, 1923), 1.
Congress, and the Ohio State University Library. I am also very much indebted to Professors Dorpalen and Condoide for their corrections and suggestions, and especially to my adviser, Professor Charles Morley.
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"Allez du nord au sud, de l'est à l'ouest, sur les rives de tous les océans et au profond des continents, toujours, vous trouverez des Belges, des techniciens belges, des capitaux belges."

Pierre Daye,
La Belgique Centenaire, 376
CHAPTER I

ECONOMIC BACKGROUND (1860-94)

Among the outstanding economic developments during the second half of nineteenth-century Europe were increased industrialization at home and the investment of capital abroad. Several countries, including Belgium, directed a large part of their capital toward Russia. A survey of the years 1860 through 1894 reveals the underlying causes which resulted in the intimate relationship between Belgian finance and Russian industry. During the course of these years the evolution of Belgium's economy largely determined her financial interest in Russia, while developments in Russian industry were largely responsible for the influx of foreign investments. Toward the end of this period southern Russia began to emerge as an industrial center, and a review of developments in that region provides the proper setting for l'aventure russe. For it was primarily on the vast stretches of the thinly populated steppes that tiny Belgium stimulated the industrial pulse of the Russian colossus.
Financial Developments in Belgium

Relation of intensive industrialization and population growth to foreign investments

In the latter part of the nineteenth century, Belgium passed through a phase of intensive industrialization and emerged as one of the most highly industrialized nations on the continent. Expansion took place in all industries, but was especially marked in metallurgy, mining, and railroad construction. As a result of the mechanization of industry and economic expansion in general, the national wealth of Belgium jumped from 11 billion francs in the 1840's to 51 billion in 1913.¹ This represented a per capita wealth of 850 francs—equal to that of the French and Germans, and surpassing that of the Dutch and the Italians.²

Although Belgian industrial expansion increased with amazing rapidity in the period 1875-1914, its continuous and steady growth was hindered by alternating pendulum-like swings of prosperity and depression. But beginning around 1895, as a result of technical improvements in industry and intensified relations with "backward"

¹During the period which constitutes the main part of this study, 1895-1914, the value of the Belgian franc remained stable; one franc equalled approximately one-fifth of a dollar (or 19.3 cents).

²Frans Van Kalken, La Belgique Contemporaine (Paris, 1930), 131-32.
countries, Belgium embarked upon a new and sustained period of development which lasted until World War I. Even though 1900 and 1907 were years of depression, industry reached such a high point of development by 1910 that almost one-half of the working force was engaged in industry.3

As industry expanded and Belgium began to take on the aspect of a huge factory, the population of a then prolific people also expanded at a rapid rate.4 The increased density of population, out of balance with the natural resources of the country, forced the people to look to economic expansion abroad. At first such expansion took the form of increased trade relations with different countries throughout the world. As the value of exports over imports continued to grow, there existed, as of 1870, a surplus in the balance of accounts, thereby permitting a new type of international expansion in the form of investments.

There also existed, along with the increase in population, a corresponding increase in personal income. The constant appreciation of personal income was reflected in the increase of individual bank deposits; these grew

3Forty eight and five-tenths per cent in industry compared with 16 per cent in agriculture and 16.8 per cent in commerce. B. S. Chlepner, Le Marché Financier Belge depuis Cent Ans (Brussels, 1930), 72 et seq.

4In eighty years the population of Belgium doubled. It increased from 3.7 million in 1831 to 5.5 million in 1880 and 7.4 million in 1910.
from 110 million francs in 1880 to almost 905 million in 1909.\textsuperscript{5} This capital provided the means for further industrial expansion at home as well as for additional investments in various enterprises throughout the world. In the quarter-century preceding World War I, foreign investments, in Belgian-controlled companies and foreign companies in which Belgian capital participated, reached surprisingly large proportions as indicated in the following table.

\begin{table}[h]
\centering
\caption{BELGIAN FOREIGN INVESTMENTS, 1891-1911}
\begin{tabular}{|c|c|}
\hline
Year & Billion francs \\
\hline
1891 to 1896 & 1.6 \\
1896 to 1901 & 2.3 \\
1901 to 1906 & 1.5 \\
1906 to 1911 & 3.0 \\
\hline
\end{tabular}
\end{table}

Source: Study by G. Laveleye, based on stocks and bonds introduced on the Brussels exchange, in \textit{Le Moniteur des Intérêts Matériels}, December 7, 1913.

Another reason for such extensive investments in foreign securities was closely related to the industrial development of Belgium. Metallurgical and construction

\textsuperscript{5}Sylvain Balau, \textit{Précis d'Histoire Contemporaine de Belgique 1789-1911} (Liège, 1911), 128.
companies, in their constant search for profitable foreign markets in the period 1850-75, discovered that "the principal method of obtaining foreign orders" required the sale in Belgium of the securities of foreign firms purchasing Belgian materials. This was accomplished by the direct sale of the bonds and shares of a foreign company by one or more Belgian banks; the money obtained in this manner was used to pay for the orders placed with the Belgian company. An alternate method required the interested company in Belgium to accept the securities of a foreign firm and then arrange for their public sale through its banker or the stock exchange. In many cases this relationship between industry and foreign exports "alone justified a bank to place foreign securities." For example, Société Générale, the largest bank in Belgium, indicated it would abstain from dealings in foreign securities if "national industry did not acquire large and assured compensations."  

During the period 1875-1914 the tendency to place capital in foreign corporations purchasing the products of Belgian industry intensified and expressed itself in more varied forms. But toward the close of the nineteenth

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6Chlepner, op. cit., 51. The name Société Générale is retained in its original form because it does not translate satisfactorily into English. Whenever possible, the names of Belgian and Russian companies are translated into English to facilitate reading.
century there developed, alongside this close dependence of foreign capital exports on industrial exports, the placement of investments abroad for purely financial reasons. As a result of the extent of Belgian investments and because of their influence on the national economy, the internationalization of capital became "one of the most important, if not the principal, element of all financial activity." 7

**Brief sketch of pertinent aspects of the financial development of Belgium to 1895**

To appreciate more fully the character of her foreign investments, pertinent aspects of Belgian financial activity from the early seventies through 1894, the eve of l'aventure russe, will be sketched. During the financial boom of the early seventies, the Belgian legislature passed, in 1873, a new law concerning the regulation and formation of joint-stock companies. This law resulted from continued complaints that the government's right to place auditors in the joint-stock companies paralyzed business initiative. Under the new provisions government interference was eliminated and a regime of almost complete laissez faire was introduced. 8

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8An earlier law in 1867 changed the statutes relating to stock exchanges and brokers. Prior to 1867 stock exchanges were "official institutions," and brokers received designation "by public authority"; after 1867
organization of corporations were removed and the requirement for preliminary authorization was abolished. With the liberalization of the law, 1,610 corporations were organized in the period 1873-92, whereas previous to this date there had been less than five hundred in existence. Unfortunately, there was a high mortality rate among the newly formed corporations; by 1900 less than one-third were still in operation.

The prosperity and stock market boom of 1871-73 also contributed to the formation of a number of new industrial corporations, banks, and investment companies. The investment company, whose purpose is to secure maximum dividends or revenue with a minimum risk by avoiding low paying bonds and scattering investments in different securities, was almost unknown in Belgium. On the other hand, other types of financial companies, in which the division of risk idea is absent or of secondary importance, found more fertile ground. One of the more common types

"anyone could establish a stock exchange and anyone was permitted to conduct a brokerage business." B. S. Chlepner, Belgian Banking and Banking Theory (Washington, 1943), 32.

9Le Moniteur des Intérêts Matériels, January 31, 1904. Hereafter, this journal will be cited as Moniteur. Although B. S. Chlepner, a Belgian economist, regarded this only statistical study on corporation formation by G. de Laveleye as not too satisfactory, it is cited by him and by J. A. van Houtte in his Esquisse d'une Histoire Economique de la Belgique (Louvain, 1943).

10Chlepner, Le Marché Financier Belge, 73 et passim.
of investment company in Belgium functioned as a satellite of other financial or even industrial enterprises; the latter turned over the securities of companies, which they had constituted, to the associated investment company.\footnote{This type of organization known as \textit{la société pour la reprise des titres}. As early as 1835 \textit{Société générale} created such an organization called \textit{la Mutualité}.}

Another more prominent type of investment company functioned independently and not only furnished capital for the creation of new enterprises but also retained a certain degree of control over their direction and centralized certain services.\footnote{This type known as \textit{la société de financement}.} One such organization, the General Streetcar and Electric Power Company, formed in 1874, created municipal transportation companies abroad and controlled their management. It also served as the prototype in the later formation of similar financial organizations.

The succeeding period of 1873-78 witnessed a marked decline in financial activity. The stock market indicated nervous tendencies and plummeted downwards; market prices on securities fell more than half a billion francs. Under the impact of these financial shocks some banks were liquidated and others reduced their capital. Although investments in common stock fell sharply, the sale of foreign government bonds and preferred stock in certain enterprises, such as the Russian Land Bank, continued.
With the end of the economic decline and the renewed growth of capital for investments, a new period of financial activity and industrial recovery developed in the years 1879-81. As a result of general improvement in the financial situation, the number of banks increased. The stock market also responded to the new wave of optimism. Domestic industrial securities, a result of the search of Belgian industrialists for new foreign markets, rose in demand. There was a revival of interest in foreign investment generally, but especially in industrial securities paying a fixed revenue and foreign government bonds. At this time the stock exchange also had a very active trade in foreign streetcar and railroad companies such as Russian Railroads.

In the development of railroads and streetcars abroad, Société Générale played a predominant role through its subsidiary company, Belgian Railroads. The latter, functioning alone or with the assistance of foreign groups, generally operated through subsidiaries in which it retained a controlling interest. In addition other corporations and investment houses, old and new, played an important role in expanding transportation facilities.

During this period Société Générale avoided risky enterprises and concentrated instead on state and city loans along with streetcar and rail development. During the 1880's this emphasis on rail and municipal transportation investments increased and included support of the Odessa Streetcar Company in southern Russia.
in foreign countries. Not all these companies were successful. Some failed because they were created solely for speculative purposes; others failed because of mismanagement.

The end of the year 1881 marked the beginning of a new period of financial and industrial depression which ended in 1886. With the decline of industry the value of bank holdings in industrial securities depreciated. Another bank recession struck before some had an opportunity to recover from the earlier difficulties of the seventies. The stock market also entered another period of stagnation. Although investments in foreign stock fell considerably, a few new foreign companies and government bonds continued to evoke interest. Once again Belgians turned to investments paying fixed revenues. Toward the end of this five year period the industrial depression became especially pronounced. This produced a further slump in industrial stock and the value of bank securities crumbled. A number of banks were liquidated and others suffered heavy losses.

In the course of the year 1887 a general economic recovery took place in Belgium. Low returns on domestic public and industrial securities again caused people to turn to foreign investments. However, the availability of capital in other European countries had reduced the returns on investments in most European rails and
government securities. As a result Belgians began a period of financial expansion in South America, especially Argentina. To a lesser degree Belgians also bought foreign government and railway bonds, including those of Russia. In 1889 the stock market also witnessed a rise in coal, metallurgy, and municipal transportation stock, thereby provoking considerable speculation in these shares. Scarcely had this industrial recovery begun when it again declined in the following year, and South American shares plunged downward.

By 1891 Belgium suffered another financial depression, aggravated by the economic decline in South America; by the Paris stock market crash; by financial difficulties in Portugal, Spain, and Greece; and by the famine in Russia. Once again Belgians expressed little interest in the shares of foreign industries. Instead they put their savings in securities yielding a fixed revenue. The decline in investments, stagnation in stock market activity, and recession in banking continued into 1894.

Although new foreign investments in this latter period were not significant, the total amount of Belgian investments abroad, on the eve of the great exodus of capital into Russia, was far from negligible. These included a large number of state and municipal bonds of many European countries. Rail interests in various
countries, from Spain to Russia, and securities in streetcar companies operating throughout the world constituted an important part of this portfolio. Belgians also held a considerable amount of stock in a number of continental mining and metallurgical companies. Gas and water utilities, in scattered European cities, also absorbed Belgian investments. Although precise figures are not available, one economist estimated that the total amount of foreign investments "probably even reached, if not surpassed, two billion" francs.  

Industrial Developments in Russia

General review of nature of Russian industrialization

Following the close of the Crimean War, Russia recognized the need for greater industrialization but at first this movement proceeded at a slow rate. Industry, in general, was characterized by small handicraft enterprises and production in the home, and a more rapid development was hindered by the lack of sufficient native or foreign capital, skilled labor, and improved technology.  

Although Russia still lacked these essentials in sufficient quantity for expansion comparable to that of

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14 Ibid., 81.

15 Peter I. Lyashchenko, History of the National Economy of Russia (New York, 1949), 476 et seq.
western Europe, industry underwent a notable development in the course of the seventies. The country was swept by a wave of industrial and financial promotions in the form of the inauguration of new banks and industries stimulated in part by foreign capital investments. The number of newly formed joint-stock companies reveals the extent of this expansion. Prior to 1861 there had been only 78 companies with a capital of 72 million rubles, but from this date to 1873 an additional 357 corporations with a capital of more than 1.1 billion rubles were formed.16

The prosperity of the early seventies was followed by the industrial depression of 1873-75, the result of a decline in railroad construction and of the general depression in Europe. A number of industries and banks failed under the impact, and the investment of capital in new enterprises declined. The lull in industry lasted until the Russo-Turkish War. Increased production and the development of new industries received additional impetus from the excellent harvests in the last two years of the decade. In general, the seventies witnessed a period of general industrial prosperity, largely because of railroad construction. In fact, the metallurgical and machine-construction industries could not keep pace with the demand for materials used in railroad construction.

16The value of the ruble fluctuated until 1898 when Russia went on the gold standard. From that date until 1914 one ruble equalled 51.5 cents.
Industrial prosperity was eclipsed in 1882 by the curtailment in railroad construction, another European depression, and poor harvests. Some new railroads were constructed and new enterprises organized, but Russia entered a period of depression which lasted into the early nineties. This industrial stagnation was further complicated by agricultural reverses which ended in the famine of 1891. In short, an unfavorable economic situation existed in Russia prior to the intensive industrialization movement under Count Witte.

**Various factors stimulating industrialization**

There were a number of developments, since the end of the Crimean War, which stimulated industrialization and the growth of capitalism. With the emancipation law of 1861 serfs were released from their manorial obligations and some of them migrated to the industrial centers. The availability of labor and the abundance of natural resources, coupled with other factors, resulted in the creation of banks, the influx of foreign capital and the construction of railroads. The government itself directly supported the industrialization movement by financing

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17 For a very concise discussion of these developments, see Harry Schwartz, *Russia's Soviet Economy* (New York, 1950), 60-63.
various industrial enterprises, by granting land and mining concessions, and by legislating protective tariffs.\textsuperscript{18}

\textbf{Tariffs}.--The tariff of 1868 afforded native industry little protection from foreign competition and was intended primarily as a source for government revenue. In 1877 the duties were not increased but levied in their gold equivalents; this had the effect of increasing customs duties by approximately 40 per cent. New items, such as locomotives and rolling stock, were also added to the list of taxable imports. In subsequent years, duties on finished and semi-finished metal products were levied and gradually raised. By 1890, when another 20 per cent increase on all products was enacted, the tariff had an unmistakably protective character. The purely protectionist law of 1891 increased custom duties still further, almost to the point of prohibiting the import of certain products.

\textbf{Banks}.--In addition to the tariff, the organization of banks and their expanding financial activity aided

\textsuperscript{18}Tugan-Baranovskii, a Russian economist at the turn of the century, rejected the idea that protective tariffs were an important factor in Russian industrial growth; in fact, he maintained that tariffs killed the iron industry. James Mavor, \textit{An Economic History of Russia} (New York, 1925), II, 381 \textit{et seq.} Most other writers regard the tariff as an important factor in Russian industrialization. In any case this was one of the features which attracted Belgian capital: \textquotedblleft ...comprend-on fort bien que les industriels belges cherchent à s'implanter dans les pays dont les frontières leur sont fermées par des droits d'entrée exorbitants." \textit{Moniteur}, May 5, 1895.
industrial development. Prior to 1864 there were no private banks in existence in Russia. In that year the first, joint-stock, commercial bank was founded largely through government initiative and subscription to one-fifth of the founding stock. The success of this and several other commercial banks sparked the creation of a number of new banking houses, and by the end of 1873 thirty commercial banks were incorporated. Many of these were formed with the assistance of capital from abroad. Foreign capitalists secured an interest in other banks after their foundation through the purchase of new securities issued to increase capital. As a result of these two methods foreign capitalists held stock in a majority of Russian commercial banks issuing short-term credit. International capital also played a less important role in the development of long-term credit banks.20

Foreign capital.--In spite of this increased banking activity, one of the major reasons why industrialization did not proceed at a more rapid pace was the lack of sufficient capital accumulations at home and the insufficient influx of capital from abroad. During the first two decades following emancipation, foreign capital was channeled into government debentures, the construction

19 Private Commercial Bank of St. Petersburg.
20 Anton Crihan, Le Capital Étranger en Russie (Paris, 1934), 218 et seq.
of railroads, banks, and a few industries. However, the amount of foreign capital invested in various industries before 1870 was proportionally small when compared with the investments held by the Russians themselves. By the end of the seventies, foreign capital increased to 97.7 million rubles, but it still played a minor role when compared with the total value of Russian investments. As late as 1880, Belgian capital, including bonds and shares, in joint-stock companies operating in Russia reached only 1.7 million rubles, but climbed to 24.6 million rubles in 1890. A large part of the capital of foreign investors was directed into railroad construction which had the most important consequences for the economic development of the period.

Railroads.—Railroad construction from its earliest beginnings was intimately related to government policy. In 1836 the government undertook the construction of the first railroad from St. Petersburg to Pavlosk, but in succeeding years found the building of additional roads so costly that it was forced to borrow heavily from abroad. Beginning in 1857 the government decided to grant concessions to private

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21 Total foreign capital, including Russian state and municipal bonds, but excluding non-incorporated enterprises, estimated at 9.7 million rubles in 1861, 33.6 million in 1871, 115.5 million in 1881, and 198.3 million in 1889. P. V. Ol, Innostrannye Kapitaly v Narodnom Khozajstve Dovomennoi Rossi (Leningrad, 1925), 12-13.

22 Ibid., 15.
companies to encourage the construction and operation of new lines. This policy attracted French, English, German, and Belgian capitalists who founded a number of companies. As early as 1861 a Belgian firm with a capital of 40 million rubles was formed for the construction of a line from Kiev to Volotchisk.23

The government assured "all the concessionaires... a flat guarantee of a minimum interest [on invested capital] or else large subsidies from the treasury," and sometimes loaned money to entrepreneurs without interest.24 When private firms encountered difficulty in floating new bond issues, the government passed a law in 1868 whereby the state received authorization to purchase these bonds and in turn to issue consolidated bonds which carried the guarantee of a minimum interest payment. Consolidated bonds received such a favorable reception abroad, particularly in Belgium and France, that the influx of foreign capital "caused a temporary inflation."25

In 1881 the government reverted to its original policy. Once again it began the construction of new lines and gradually purchased or repurchased a large number of

23Crihan, *op. cit.*, 64 et seq.
existing lines.\textsuperscript{26} The amount of capital invested in railroads became an increasingly important part of the budget, and in 1889 reached more than one billion rubles or 30 per cent of all state expenditures.\textsuperscript{27} As a result of public and private enterprise, the railway system of Russia extended from 1,175 kilometers in 1858 to 34,581 kilometers by the end of 1894.\textsuperscript{28} Belgians owned securities in a number of these railroads, including the Warsaw-Vienna, Southwest, Baltic, and Fastovo lines.

Industry in southern Russia as focus of attention

Railroad construction implies a close relationship to heavy industry, especially iron and steel production and the mining of coal and iron ore. A discussion of developments in various industrial centers scattered throughout Russia lies beyond the scope of this study, but since foreign investments, notably those of Belgium, found especially fertile ground in southern Russia, the focus of attention will be centered almost entirely on this region.

Coal.—The natural resources of the south included the Donets coal basin, the largest in Europe, extending

\textsuperscript{26} In 1881 private firms operated 93 per cent of the railroads, 71 per cent in 1890, and 30.4 per cent in 1900. Edmond Théry, \textit{La Transformation Économique de la Russie} (Paris, 1914), 149.

\textsuperscript{27} Crihan, \textit{op. cit.}, 70.

\textsuperscript{28} Jules Cordeweener, \textit{Contribution à l'Étude de la Crise Industrielle du Donetz} (Brussels, 1902), 272. One kilometer equal to 0.62137 mile.
more than two hundred miles from east to west and sometimes reaching one hundred miles in width. In fact the quantity and variety of the coal beds made it one of the richest coal centers in the world. Throughout the nineteenth century, the government and private individuals had sent a number of expeditions to explore this region.\(^{29}\) Geological surveys revealed that the western part contained bituminous deposits and that vast anthracite beds lay to the east. Prior to 1870 the rich deposits were mined by individual proprietors and peasants for local consumption. After this date Donets production increased rapidly and soon surpassed that of the Dombrova basin in Poland, Russia's principal source of industrial coal. Vast, well-organized mines with more modern techniques of production gradually began to replace primitive mining methods. As of 1890, 270 mines produced 183 million poods compared with an output of 15 million poods in 1870.\(^{30}\)

There were a number of factors responsible for such a sharp increase in coal production. The construction

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\(^{29}\)The first discovery of Donets coal is credited to Peter the Great. The story goes that at the time of the Azov campaign some Cossacks brought him a piece of coal and he prophetically remarked: "This mineral will be extremely valuable, if not to us, at all events to our descendants." Russia, Ministries of Finance and Crown Domains, The Industries of Russia (St. Petersburg, 1893), IV, 60.

\(^{30}\)Ibid., 62 et seq. One pood equals 36.1 American pounds; 61 poods equal one metric ton; 62.03 poods equal one long ton.
of a number of railroad lines, uniting these rich deposits with industrial consumers, constituted the most important single reason. Another factor of great importance was the discovery and exploitation of the rich iron-ore resources of Krivoi-Rog, not too far distant from the coal mines. The proximity of the two basic ingredients of iron and steel production resulted in the construction of a number of metallurgical plants, which in turn further stimulated the extraction of coal. Since Donets coal converted into excellent coke and represented the sole source of metallurgical coke of high quality, this also enhanced its importance and production. The levying of tariffs on coal imports into the ports of the Azov and Black seas further influenced rapid development. All these factors combined to attract foreign investments, a large part of which came from Belgium.\[31\]

On the other hand, Donets producers encountered certain disadvantages which prevented still further expansion. The railroads, which were so important because of the dependence on distant markets, could not always be relied on. Nor was manpower always readily available in sufficient numbers or skill on the sparsely populated steppes. Moreover, the southern firms faced the competition of Polish and English coal and Baku naphtha.

residues, all of which gradually depressed the price of coal from 18 kopecks per pood in 1870 to 8 kopecks in 1880.\(^{32}\)

**Iron ore.**—Although the iron-ore deposits of the Krivoi-Rog region in southern Russia were discovered and described with remarkable accuracy as early as 1836, these resources were not mined extensively until the early eighties. The ore had a high iron content ranging from 60 to 70 per cent, and concessionaires leased the lands from proprietors or peasant co-proprietors of the community for a small royalty. However, the success of the original metallurgical companies later resulted in land speculation and higher royalties. Demand for Krivoi-Rog ore grew steadily and by 1890 consumption reached 375 thousand tons. New expeditions into other regions of the south were initiated and resulted in the discovery of rich but not very extensive deposits in Korsak-Mogila on the Azov Sea. On the other hand, the discovery of large deposits at Kerch on the Crimean peninsula failed to meet expectations because of their low iron and high arsenic content.

\(^{32}\)Ibid., 7. Between 1898 and 1914 one kopeck equalled approximately one-half cent, or .515 cent.
Nevertheless, a number of metallurgical plants used this ore by mixing it with that of Krivoi-Rog.  

Iron and steel.—The accessibility and exploitation of the rich iron-ore deposits of the Krivoi-Rog region vigorously stimulated metallurgical development in the south. Prior to 1860 the government had tried to attract private individuals to establish iron and steel industries to this region by offering premiums and other advantages. This policy stemmed from government efforts to confine the production of rails to domestic industries rather than import them from abroad. The first successful private enterprise, the New Russian Iron Company, founded in 1865 by an Englishman named John Hughes, received large subsidies on government orders for rails. Although it underwent serious difficulties in its early years, the opening of the Krivoi-Rog deposits saved it from possible failure and gave it renewed vigor.

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33Cordewener, op. cit., 21 et passim; E. de Loisy, "La Métallurgie du Fer en Russie," Revue Économique Internationale (June, 1911), 567; Marcel Lauwick, L'Industrie dans la Russie Méridionale (Brussels, 1907), 75 et seq.

34As early as 1797 the government founded the Lugansk Iron Works in southern Russia to manufacture pig iron and meet the requirements of the Black Sea fleet. The effort was costly and unsuccessful.

35A subsidy of 50 kopecks per pood of pig iron produced and orders for rails at 2.40 rubles per pood.
The Dnieper Metallurgical Company of Southern Russia, founded by Belgian and Russian capital in 1886, also received government premiums and assurance of government contracts. Unlike the Hughes company which was situated in the coal-bearing region, this corporation established its industrial plant in the Krivoi-Rog district and secured an attractive lease for mining rich ore deposits. Formed with an initial capital of five million rubles, the specified purpose of this enterprise was "the development, in the governments of Ekaterinoslav and Kherson, of metallurgical, mechanical and naval industry, for the construction and maintenance of factories and metal works, for the exploitation of mines and for the sale of manufactured products in the Empire and abroad."37

Almost from the very beginning the operations of the Dnieper Company yielded large profits and high

36 In 1840, John Cockerill, the founder of a metallurgical company in Belgium, went to St. Petersburg to conduct negotiations for the establishment of metallurgical enterprises in Russia. His efforts were not successful, but a number of years later Russia became one of the principal clients of Cockerill's company in Belgium. Hoping to profit from these close commercial relations, in 1885, Baron Sadoine, general-manager of the company, succeeded in obtaining concessions for the creation of two industrial enterprises in Russia. For unknown reasons, these projects were abandoned. Instead an agreement was reached with a Russian company, Warsaw Metallurgy, and in 1886 they formed the Dnieper Metallurgical Company of Southern Russia. Chlepnner, op. cit., 82.

37 Le Recueil Financier Annuel, 1915, 1673.
dividends. For the year 1894 net profits totalled 2.6 million rubles or 53 per cent of the original capital investment. In the same year shareholders received dividends of one million rubles or 20 per cent of the face value of their shares, compared with 5 per cent in 1889. As a result, common shares, sold on the Brussels exchange for 1500 francs in 1891, were quoted at 6387 francs by the end of 1894.

Production figures for 1894 also reveal the progress made by this modernly equipped plant in the output of metallurgical products. The amount of pig iron produced reached 6.3 million poods, while steel production by both Bessemer and open-hearth processes increased to 5.5 million poods. Rail production, an important part of total operations, totaled 2.5 million poods. In addition 16.2 million poods of iron ore and coal were also mined. In order to become independent of other iron-ore and coal producers, the company owned and operated its own mines. Altogether some 3,750 workers were employed in these various branches and departments. As a result of its remarkable success in these early years, the Dnieper Company emerged as one of "the largest metallurgical enterprises in the world."39

38 Moniteur, December 12, 1897; Le Recuei Financier Annuel, 1902-03, 1076; 1915, 1694.

39 Chlepner, op. cit., 82.
Petroleum.—Another industry of tremendous import for the industrial revolution, and one in which Russia became a world leader, was the production of petroleum. Oil deposits were concentrated in the Caucases, and particularly on the Apsheron peninsula. Previous to 1872 the annual yield was rather small. The state monopolized production, and its own efforts or those of private individuals, who leased lands under a farming-out system, met with little success. In that year the government passed a law abolishing the farming-out system and placed the petroleum industry in the hands of free enterprise. Oil-bearing lands owned by the state were sold at public auctions, and in private hands production exceeded all expectations. From 1880 to 1895 production increased from 21.5 to 400 million poods.

Other factors which also contributed to the successful exploitation of petroleum included the introduction of boring techniques, the elimination of excise duties on lighting oils, the constitution of the Nobel Brothers Company in 1879, the construction of a railroad from Baku to Batum, and the introduction of rail and naval

40 In 1892 this law altered and revised the conditions for obtaining leases and laying pipe-lines in favor of private operators, but "took measures against the irregular exploitation of the naphtha sources." Ministries of Finance and Crown Domains, op. cit., 84.
tankers. Petroleum products were shipped by sea, river, and rail to all parts of Russia to be used in steamers, locomotives, and various industries in central Russia. The greater part of these products, however, found their way over the Transcaucasian railroad to various seaports for distribution throughout Europe, the mid-East, and Asia.

Baku became a world center of production, and this area alone produced approximately 99 per cent of total Russian production. In 1890 some twenty-five lines piped in oil from 376 wells with an average yield of 644.4 thousand poods. Of the 148 refineries in this area, thirteen, geared to large-scale production, produced three-fourths of all petroleum products in the government of Baku. The Nobel Brothers Company, originally a Swedish organization operating with the latest techniques of production and distribution, held a pre-eminent position and produced almost 18 million poods of petroleum products in 1890. As supplies increased and producers competed for new markets the price of petroleum fell from 45 kopecks per pood in 1873 to approximately 2 kopecks in 1893. The following year, because of decreased production in the United States and the effective operation of the Export Syndicate of Baku Petroleum Producers, the price rose to 4 kopecks per pood.\footnote{Ibid., 82 et seq.; Jean Ordinaire L'Évolution Industrielle Russe Depuis la Fin du XIXe Siècle (Paris, 1927), 35; Russia, Ministry of Finance, Russia: Its Industries and Trade (Glasgow, 1901), 294; Verstraete, \textit{op. cit.}, 201 et seq.; Alexander Krimmer, \textit{Sociétés de Capitaux en Russie Impériale et en Russie Soviétique} (Paris, 1934), 171.}
Chemical.—The south possessed still another industry, namely chemical production, which contributed to industrial progress and absorbed a notable amount of Belgian capital. Beginning with 1880 the government, in an effort to promote domestic production and supply chemical products to other native industries, levied heavy duties on imports from abroad. During the course of the decade tariff duties were revised upwards, but because of increased consumption these products continued to be imported in impressive quantities.

In the manufacture of soda, one branch of the chemical industry, the Lubimov-Solvay Company, virtually dominated the field. Encouraged by high tariffs and an increased demand for soda products, this joint Belgian and Russian enterprise was launched in 1887 with a capital of three million rubles. It was "the first large manufacturer of soda which utilized the natural salt reserves of the region and applied the ammoniacal process of production." The operations of its two plants, in Berezniki and Ekaterinoslav, not only included the exclusive production of sodium carbonate but also large quantities of bicarbonate of soda and caustic soda solution. The latter was sold in large amount to southern petroleum companies for the refining of oil. Output of

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42 W. de Kovaleovsky, op. cit., 334.
all products by Lubimov-Solvay increased from one million poods in 1890 to three million poods in 1893. Within a few years, the position of this corporation was such that some entrepreneurs were discouraged from competing in the production of soda.\textsuperscript{43}

**Miscellaneous enterprises with Belgian investments**

Even though the building of streetcar lines did not contribute directly to the industrialization of southern Russia, it constituted a very important part of Belgian investments in Russia and must therefore be taken into consideration. Belgians established municipal transportation companies throughout the world, and in Russia they were scattered in a large number of cities. As early as 1879 a Belgian group received a fifty-five year concession from the city of Odessa, and the following year organized a company with an initial capital of 6.3 million francs. Prior to 1895 other Belgian groups received concessions for the operation of streetcars in Kharkov, Kazan, Rostov-on-the-Don, and Moscow. Almost all of these streetcars were horse-drawn, but as early as 1889 Kiev boasted streetcars powered by electricity.\textsuperscript{44}

\textsuperscript{43}Verstraeete, \textit{op. cit.}, 201 et seq.

\textsuperscript{44}\textit{Le Recueil Financier Annuel}, 1919, 392; \textit{Russie et Belgique}, IV, 117.
Summary

In the course of several decades, the economies of Russia and Belgium underwent significant changes. For a number of reasons, Belgians expanded their investments beyond national boundaries and by 1894 held an impressive amount of securities in a variety of enterprises throughout the world. On the other hand, Russia, with the close of the Crimean War, embarked on a more extensive program of industrialization. During this period, the pace of Russian industrialization accelerated, and with the discovery of the natural assets and industrial potential of the south new enterprises began to spring up. This region became the focal point wherein Russian and Belgian interests merged, with the latter playing an important role in transforming the southern steppes into Russia's most important heavy-industry complex in the years that followed.
"L'industrie [russe] grandit hâtivement, sous l'influence des capitaux étrangers, belges surtout, puis français, allemands et anglais."

Maurice Baumont,
*Peuples et Civilisations*, XVII, 221
CHAPTER II

THE GREEN YEARS (1895-99)--Part 1

Witte's Program to Encourage Industrialization and Foreign Investments

A more intensive phase of Russian industrialization and the introduction of large-scale industry began with Count Witte's appointment as Minister of Finance in 1892. Although he continued with many policies begun by his predecessor, Witte gave them a greater force and impetus in combining them with new policies and reforms. During his administration the government awarded large contracts for rails and rolling stock, followed a tariff policy designed to promote domestic industry, stabilized currency and introduced the gold standard, and encouraged the influx of foreign capital. The chief motive underlying this government action was the rapid industrialization of Russia. These policies and reforms also served to provide the proper milieu for encouraging foreign investors to supply the capital necessary for this industrial transformation.
Railroad expansion

In the course of the nineties, particularly the latter half of the decade, government policy called for a vast expansion of the empire's railroad system. The reasons for this emphasis on railroad construction included the desire to stimulate the growth of heavy industry, to exploit natural resources more fully, to expand domestic markets, to satisfy political and military considerations, and to increase the economic power and general well-being of the empire. To achieve this program and encourage the domestic production of rails, the government placed large orders at above market prices with certain favored companies. The difference between market and government prices, which absorbed millions of rubles from the imperial treasury each year, constituted a form of subsidy. In addition the government aided private railroads by offering direct loans and continuing to buy and resell railroad bonds with guaranteed interest payments.

High tariffs

Witte also believed in the continuation of high tariffs in order to protect native industries, to foster the foundation of new industries, and to attract foreign capital. The ultimate objective of this policy envisioned the supply of necessary manufactured products by Russian
industry, rather than the continuation of their import from abroad. Although Russia failed to achieve the desired measure of independence from foreign markets, high tariff walls did serve to attract foreign capitalists to establish new enterprises.

**Monetary reform**

Foreign capital was also attracted by Witte's monetary reform; it gave the investor confidence in the future of Russia. Since the value of the ruble was subject to constant fluctuation, Witte introduced a series of measures designed to stabilize the ruble and to build up the gold reserve. In 1897 an imperial ukase put Russia on the gold standard and in that year the amount of gold reserve exceeded the value of currency in circulation. This reform was carried through largely by a favorable balance of trade payments, loans, and increased taxes. One important new source of revenue was the state monopoly on the sale of vodka introduced several years earlier.

**Balanced budget**

The revenue from the sale of alcohol also provided a considerable amount of the money required for annual budget expenditures. A balanced budget was one of Witte's chief objectives as finance minister, and to all appearances he succeeded in this goal by dividing the budget
into ordinary and extraordinary expenses.\textsuperscript{1} The ordinary budget always showed a surplus of revenue over expenditures, but the extraordinary budget, which included such perennial expenditures as railroads, often showed a deficit. Nevertheless, the publicity value of a balanced budget with surplus revenues to be expended for railroad construction, as carried in foreign journals including those of Belgium, served its purpose in attracting foreign investors.

**Encouragement of foreign investments**

Fully aware that the amount of private capital in Russia was insufficient to carry through his vast industrialization program, Witte encouraged the influx of foreign capital. He realized that these investors would bring with them not only much needed capital but would also provide examples of initiative and enterprise. Furthermore, the ingress of engineers to be employed in these enterprises would aid in the diffusion of technical knowledge, vitally important for a country anxious to reach the same industrial level as western European nations using more advanced technology.

\textsuperscript{1}A number of writers, including Paul Miliukov in his *Histoire de Russie*, state that Witte balanced the budget throughout his term as finance minister.
Corporation laws

Witte did not find it necessary to make the laws on the formation of joint-stock companies more lenient for foreign entrepreneurs, and in at least one respect existing laws were more favorable to corporations formed abroad. To be sure the statutes of all companies operating in Russia had to undergo close scrutiny by the Ministry of Finance before they received official approval by the Committee of Ministers, but in the case of corporations organized abroad they were not required to meet government approval on the method in which they issued securities. They were obliged, however, to secure a statement from the Russian legation in the country in which they were formed testifying that their statutes conformed to local laws. Once these obligations were fulfilled they enjoyed all their rights in accordance with earlier agreements reached between their governments and Russia. However, if the

2By contrast with the "permissive" character of Russian corporation laws, which dated back to 1836, most European countries, including Belgium, had changed to the "declaratory" or registration system during the seventies. Belgium adopted her law because of arguments that government requirements for incorporation might cause delay in securing approval for a particular company "and result in its losing the advantage of favorable circumstances on which its calculations had been based." Russia, II September, 1917), 6-10.

3The Belgian government concluded agreements with Russia as early as 1865, but there were occasional differences as to the interpretation of these conventions and laws on incorporation. In 1890 a small group of Belgian
directors of the company engaged in illegal activities, the Russian government could take steps to investigate and prosecute if necessary. 4

Belgian Expansion at Home and Abroad

While Witte was busy initiating and implementing policies and reforms designed to introduce an industrial revolution within Russia, the character of Belgian finance and industry underwent a transformation which made it possible to merge the interests of both countries. The year 1895 marked the beginning of a new era of economic prosperity during which Belgium not only enlarged its domestic industrial plant but, more significantly, entered

entrepreneurs were refused imperial approval of their statutes because capital assets of the projected enterprise were designated at the modest figure of 200 thousand francs. They appealed to the Ministry of Foreign Affairs in Brussels to obtain "a solution conforming to international conventions and with the interests of our nationals." The organizers claimed that since their statutes conformed to the Belgian legal code, and Russian law did not require a minimum capital for authorization, Russian authorities should not "require of us what their laws do not require of their own nationals." In spite of official intervention by the Belgian minister in St. Petersburg, the Ministry of Finance refused to give its approval maintaining that a minimum capital of 250 thousand francs was required. Belgium, Ministère des Affaires Étrangères, Dossier No. 2906, March 18, 1890.

4 Russia, Ministry of Finance, Russia: Its Industries and Trade (Glasgow, 1901), 154-55. See also W. de Kovalevsky, La Russie a la Fin du XIXe Siècle (Paris, 1900), 663-64.
a phase of marked industrial and financial expansion abroad. A few years earlier Belgian investors timidly invested savings in government bonds yielding a smaller and smaller revenue, but with industrial recovery and the emergence of a new atmosphere of optimism, Belgian capital again acquired a more adventuresome outlook in its search for more profitable investments. 5

**Stock market recovery**

Despite occasional slumps, the Brussels stock exchange entered a period of feverish speculation in domestic and foreign securities during the years 1895-99. Almost all shares increased in market value but unrestrained speculation especially characterized the trade in stocks of Russian, colonial, streetcar, metallurgical and coal enterprises. The shares of newly created enterprises were often sold directly at the exchange without public issue or notice. Each year the total amount of new stock for domestic and foreign enterprises introduced on the Brussels exchange increased rapidly and in 1899 reached 750 million francs, exclusive of capital increases of existing corporations. The capital gains of securities quoted on the exchange in 1898 surpassed a half billion francs, exclusive of new issues. 6

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5B. S. Chleper, *Le Marché Financier Belge depuis Cent Ans* (Brussels, 1930), 81 et seq.

6The nominal value of all shares quoted on the exchange in 1898 was 6.5 billion francs and their
Organization of banks and investment companies

These years of prosperity also stimulated the formation of a large number of investment companies and banks, both of which began to play increasingly prominent roles in Belgium's expansion abroad. Some of the new banking houses were established on firm foundations, while the organizers and promoters of others absconded with the funds. Several of the new banks, in which foreign capital also participated, extended part of their operations into Russia. One of these was the Overseas Bank founded with a capital of 32 million francs by a group of Belgian banks, headed by Société Générale, and several French, Dutch, and German banks. Another was the International Bank of Brussels founded by the Antwerp Central Bank and a number of German, Swiss, Austrian, and Dutch banks. A group of French, Russian, and Belgian bankers also joined in the formation of the Russian Financial Company.

Along with the rise of banks a profusion of investment companies sprang into existence. The majority of these were engaged in specialized branches of activity, especially streetcars and electricity, but others were involved in the financial operations of various groups of

market value was 7.7 billion. This stock yielded dividends of 254.8 million francs, or 3.3 per cent of their market value. Cesar Colinet, L'Organisation Professionnelle des Bourses de Valeurs Mobilières en Belgique (Brussels, 1913), 138.
industry. Those companies whose field of operations included the control of the financial activities of streetcar and electrical enterprises in Russia, and in some cases engaged in the actual work of construction, included Belgian Electrical Enterprises, Electric Light and Power, and Russo-Belgian Electrical Enterprises. These specialized investment companies enjoyed varying degrees of success or failure, but almost all the general investment companies, those engaged in varied industrial activities, experienced failure. Among them, l'Entreprise, whose assets comprised extensive Russian holdings, was associated with some stable enterprises but also with some of the most whimsical undertakings of this period.7

General interest in foreign investments

Apart from the more distinctly financial character of international investments evidenced by investment companies and banks, private investors and industrialists also renewed their interest in foreign investments. Since internal markets were incapable of absorbing increased production and foreign markets were protected by rising tariff walls, a growing number of industrialists, especially iron and steel manufacturers hoped to solve this

7These included two iron and steel corporations in southern Russia: Odessa Metallurgy and Verkhny-Dnieprovsk Metallurgy.
dilemma by constructing branches in other countries. Then too, since Belgium was essentially a manufacturing and exporting country and her natural resources were insufficient, foreign investments were regarded as the means for opening up new sources of raw materials and semi-finished products.

Along with these industrialists and financiers representing impressive interests, the individual investor, with his more meager capital, also participated in the creation of new foreign enterprises and the expansion of those in existence. The value of securities issued by joint-stock companies operating abroad increased at a rapid rate and in 1900 was more than double the value of issues by domestic corporations. According to one estimate the total value of Belgian investments in foreign countries as of 1900 reached four billion francs. The major part of these investments were directed toward Russia. These were the green years of l'aventure russe.

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8 The figure for those operating abroad reached 459.4 million francs compared with 223 million for domestic companies. The total number of new domestic and foreign joint-stock companies formed from 1896 through 1900 was 1806, while 265 corporations published notices of liquidation. Chlepner, op. cit., 86, 74.

9 Laurent Dechesne, L'Expansion Économique de la Belgique (Brussels, 1900), 20. Returns on these investments were estimated at 160 million francs, or 4 per cent.
Reasons for Belgian investments in Russia

There are a number of other factors which help to explain why Belgians developed a strong taste for Russian enterprises in particular. On the one hand, industrialists were attracted by the vast untapped natural resources of Russia, the low cost of labor, the government's railroad program, and the high tariff intended to protect nascent industries. On the other hand, investors, who had suffered losses of capital in other countries, especially the United States as a result of the depression in the early nineties, found that "on the whole Russia offered the most favorable field at that time."10 The monetary reform and the introduction of the gold standard also gave the Belgian investor confidence in the stability of the Russian ruble.

Apart from these generally attractive features, the brilliant success of the Dnieper Metallurgical Company appears to be the most significant single factor in explaining the flow of Belgian capital into Russia. All the large metallurgical corporations in Belgium hoped to duplicate the success of the Dnieper Company and, consequently, established branches in Russia: Russo-Belgian Metallurgy (Angleur and Saint-Leonard), Tula Blast Furnaces (Esperance-Longdoz), Taganrog Metallurgy (Ougrée), Uaspensk

10 James Mavor, An Economic History of Russia (New York, 1925), II, 377.
(Ougrée-Marihaye), Olkhovaia Blast Furnaces (Halanzo), and Russian Providence (Providence). In fact if the organizers of a joint-stock enterprise published a prospectus announcing its proximity to the Dnieper Company and the Donets coal mines, this often sufficed to bring about a quick sale of its capital stock issues.

The Belgian press also played an important role in arousing the interest of investors in Russian enterprises. In the early part of 1895 the Belgian journal l'Économiste International published a series of articles describing the vast potential of Russian resources and the profits to be derived from their exploitation. One of its first articles apprised the "immense" wealth to be derived from the "colossal" reserves of the Donets coal basin and predicted "a magnificent development" and "universal renown for the great wealth of this inexhaustible region." This was followed by a succession of four articles discussing the economic development of Russia and pointing up such advantages as the low wages of Russian labor, her protectionist policy, and the accessibility of abundant supplies of fuel and iron ore in the south. Once the work of installation and administration of foreign factories

11 The names in parenthesis are the parent organizations in Belgium.

12 l'Économiste International, February 9, 1895.
was accomplished, industries "will grow in an extraordinary fashion for the happy prosperity of capital invested in these enterprises." This series was capped by an editorial comparing production increases of iron, steel, rails, coal, and oil for the years 1881 and 1893; suggesting that government funds were "almost inexhaustible"; implying that a budget "surplus" of 347 million rubles would be used for extraordinary expenses "which are exclusively destined for the construction of railroads"; and citing figures on the increase of savings banks and deposits.

*L'Économiste International* also encouraged speculation in the stock of specific companies by its highly colored descriptions of their assets and potentialities. It was especially partial in its treatment of the Prokhorov Coal Company and appraised its deposits as "the best in the basin." When an anonymous circular suggested that the prospects of this company were not too bright, this journal defended this company assiduously against this and other attacks of its instability and failure to live up to expectations. It portrayed the ill-fated Verkhny-Dneprovsk Metallurgical Company as possessing "important mining lands of an exceptional richness, the jewel of its crown," and

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13 Ibid., May 18, May 25, June 1, June 8, 1895.
14 Ibid., June 22, 1895.
15 Ibid., March 16, June 8, 1895 and above-mentioned issues among others.
"one of the enterprises in Russia which in the industrial world passes for one of the most fortunate and fruitful conceptions, due to the initiative of those who have investigated all possibilities for bringing the largest profit to the capital of this remarkable business in Russia."16

The most florid account by l'Économiste International was written to describe the resources of the more successful Groznyi Petroleum Company. "The company had scarcely been constituted when a gushing well poured out veritable torrents of oil to the point that the valleys had to be fenced to avoid a downright flood in the region situated below the oil-bearing land."17 An ever-increasing number of articles in this and other journals on the richness of the oil, coal, and iron resources in southern Russia, the production and profits of existing foreign firms, and figures on the requirements for supplying materials for a growing railroad network served to whet the appetite of the small Belgian investor for the securities of Russian enterprises.

Belgians were also familiarized with the financial and economic situation in Russia via official and private

16Ibid., December 25, 1897.
17Ibid., July 4, 1896.
publications which were circulated in Belgium. As early as 1886 Les Finances de l'Empire de Russie was translated from the Russian for the purpose of acquainting businessmen and investors with the existing situation in Russia by examining such aspects of industrial and financial life as the State Bank, budget, public debt, and railroads. After an appraisal of the Nizhni-Novgorod Exposition of 1896, another author furnished information on the possibilities of the extension of foreign commerce with and investments in Russia. Another book, Le Régime Économique de la Russie, discussed the contemporary economic situation including the role of the protective tariff in the growth of Russian industry and various aspects of labor conditions.

18 Published simultaneously in Belgium, France, England, Austria, and Germany.

19 This book, entitled La Russie Industrielle: Étude sur l'Exposition de Nijni-Novgorod, was written by a French consul in Russia, Maurice Verstraete, but was also circulated in Belgium.

20 This book was written by Maxim Kovalevsky and published in a translated edition in 1898. On the occasion of several international expositions the Russian Ministry of Finance also directed the publication of a number of volumes on Russian industries and trade, apparently a part of Witte's program to attract foreign capital and encourage commerce but also designed to acquaint the reader with existing conditions in Russia. These sources also revealed the increasingly significant role of foreign capital, especially Belgian, in the formation of new enterprises throughout Russia. The Industries of Russia (St. Petersburg, 1893) published in five volumes for the World's Exposition at Chicago; La Russie à la Fin du XIXe Siècle (Paris, 1900) for the Universal Exposition at Paris; and Russia: Its Industries and Trade (Glasgow, 1901) for the Glasgow International Exposition.
Special role of the Ministry of Foreign Affairs

In the dissemination of information on economic developments in Russia and in other ways, the Belgian Ministry of Foreign Affairs, whose domain included foreign commerce, played a special and rather important role. Belgian officials in Russia received requests from their home office to intervene in behalf of some particular enterprise, and they answered numerous requests for information on possible investments. In imparting information these agents were cautioned against submitting personal evaluations of a "detrimental" nature to investors or entrepreneurs. In one case a consular agent, apparently at the instance of a company already in operation, wrote the foreign office that a projected public transportation company for the city of Odessa would encounter all manner of difficulties, have little chance of financial success, and that in his opinion the organizers of the new

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21 As early as 1864 the government published a notice that interested persons could request consuls abroad for information on business conditions, markets, and for other similar information. In 1877 these instructions were confirmed in circulars addressed to foreign agents, and they were instructed to reply to all letters of Belgian industrialists and merchants since "one of the principal functions of your mission is precisely to serve the economic interests of Belgium...by furnishing all useful information." Another circular issued in 1884 advised government agents abroad to act voluntarily as intermediaries in the distribution of samples sent them by industrialists in order to make known the variety of Belgian products in other countries. L'Economiste International, January 26, 1901
enterprise were launching it in haste. The foreign office reprimanded him and recommended "limiting yourself to pointing out the facts...and leaving concern of evaluation of the enterprise to interested parties."^22

Although the head of the Belgian legation in St. Petersburg could use his office to secure government orders for Belgian firms, he was not permitted to jeopardize Belgium's role as a neutral by involving her in the political competition of great powers. When the Russian government published a ukase earmarking the use of ninety million rubles of treasury funds for a naval construction program, following the occupation of Port Arthur, the Belgian minister called the attention of Russian officials "to the part which Belgian industry could take in the work to be executed. They assured me that they certainly would not forget the large Belgian shops with which they have already had satisfactory relations."^23

On another occasion, when the Belgian minister tried to obtain orders for Belgian firms in the construction of a Russian railroad into Asia Minor, he indicated to Witte that in "the political extension of the Empire...by public works,...the Belgians would take part."

^22Belgium, Ministère des Affaires Étrangères, Dossier No. 2898, June 28, 1898.

^23Ibid., Séries Générale re Russie, XXI (1897-98), March 10, 16, 1898.
The home office in Brussels immediately informed him that in offering assistance on public works there must be an "absolute disinterest from the political point of view." To involve Belgium politically would be contrary to her interests and legal obligations, and Belgium had "no other aim except to promote and protect the commercial and industrial enterprises of our nationals."24

**Extent of Belgian investments in Russia**

As entrepreneurs availed themselves of the assistance of the Belgian foreign affairs office and other sources of information on investment possibilities, Belgian journals carried a growing number of announcements and advertisements of new Belgian companies authorized to operate throughout the length and breadth of Russia. These enterprises, largely concentrated in the south, were of a diversified nature and included the operation of streetcars in Ekaterinoslav, Kursk, and Astrakhan; electric-power stations in Saratov, Taroslaw, and Rostov-on-the-Don, and metal-working shops in Nikolaiev, Sumy, and Gorlovka. Corporations in heavy industry were involved in the production of coal in Ruchenko, Pobedenko, and Varvaropol; iron and steel in Taganrog, Lugansk, and Belaia; iron ore in Rakhmanovka; and petroleum in Grozniy. Still other

companies were occupied with the manufacture of glass in Santurinovka, bricks in Krinichnaia, cotton cloth in Kostroma, bottles in Odessa, leather in Moscow, explosives in Belaia, and corsets in Kiev. This listing of various industries in which Belgians were occupied also included the chemical, cement, tobacco, linen, gold mining, and ceramic companies scattered throughout the vast Slav empire.

The stock of all these companies was not quoted on the Brussels exchange, but with each passing year the listings grew longer and more diversified. Prior to 1895 the individual investor had little choice among Russian securities since only a few railroads and streetcars were listed, but by 1900 the selection included the bonds of some 55 companies and the shares of 75 metallurgical, coal, streetcar, glass, and a number of other miscellaneous enterprises. In their selection of securities, individual investors were most influenced by articles and advertisements in journals, brochures issued by firms soliciting capital, and the advice of brokers and bankers. Popular demand for Russian stock extended to all types of industrial activity, but, due to the phenomenal success of the Dnieper Metallurgical Company, the public expressed a strong preference for the shares of new iron and steel corporations. This craze for Russian securities permitted the organizers of most new enterprises to dispose quickly of stock issues. As corporations competed for the capital
of investors eager to reap dividends, the stock market responded in a fever of wild speculation which was reflected in the rising price of the stock of most Russian enterprises.

Within the short span of a few years Belgian investments flowed into Russia at an accelerated rate, and by 1900 exceeded those of any other foreign investors. However, since some enterprises were financed by Russo-Belgian or Franco-Belgian capital, it is difficult to arrive at an exact figure.\(^{25}\) According to the most thorough and complete Belgian study, by an engineer working in Russia at the time, total Belgian capital in joint-stock enterprises operating throughout the Russian empire reached the impressive figure of one billion francs.\(^{26}\) A more recent Soviet study fixed Belgian

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\(^{25}\)Since Belgian laws on the formation of joint-stock companies were more lenient and taxes on profits lower than in France, some French corporations were formed according to Belgian law and were often partially financed by Belgian capital; conversely Belgian capital assisted in the financing of corporations organized under French laws. Although most Belgian enterprises operating in Russia were organized in Belgium, a few were also organized according to Russian law and in some cases partially financed by Russian or even French capital. These distinctions were also important because the rights and privileges of these corporations and the protection afforded by government agencies depended on the laws of the country in which these statutes were drawn up.

\(^{26}\)Jules Cordeweener, *Contribution à l'Étude de la Crise Industrielle du Donetz* (Brussels, 1902), 304. Since this study breaks Belgian investments down into individual companies, it is used throughout the period 1895-1900 as
corporate investments in 1900 at 296.5 million rubles, or 788.6 million francs. Even this more modest estimate placed Belgium first among all foreign countries with investments in Russia, surpassing France, Germany, and England. At this time Belgium's nearest rival was France with a total capital of 226.1 million rubles.

Background of Financial and Industrial Developments in Russia

A general appraisal of pertinent aspects of industrial and financial developments in Russia as a whole furnishes the necessary background for a more detailed examination of Belgian investments in individual Russian industries. Such an evaluation not only provides the

the basis for evaluating Belgian capital in individual industries throughout Russia.

27 P. V. Ol, Innostrannye Kapitaly v Narodnom Khozaiystve Dovolennoi Rossi (Leningrad, 1925), 15. This and another Soviet study, Innostrannye Kapitaly v Rossi (Petrograd, 1922), are the result of efforts of two official economic agencies whose findings were published under the name of P. V. Ol. These studies represent the most intensive and thorough statistical survey of the extent and nature of Belgian, and other foreign investments in Russia, for the entire period prior to 1917.

28 According to a contemporary Russian study, there were 269 foreign corporations operating in Russia as of the beginning of 1900, and 162 of them were Belgian. W. de Kovalevsky, op. cit., 665.
proper milieu in which Belgian enterprises operated but also indicates the factors which influenced the course of Belgian investments. In addition this survey affords the proper perspective in comparing the progress made in southern industries with other Russian industrial centers and the role played by Belgian capital in the industrial revolution of this region.

Relation of financial developments to industrial growth

The rapid advance in the industrialization of Russia as a whole was closely related to the phenomenal growth in the number of joint-stock companies established throughout the empire and the expansion of banking activities. Loans by private banks and the State Bank increased markedly and were more readily available to entrepreneurs. As a result of new statutes elaborated in 1894, the State Bank could grant individual loans up to 500 thousand rubles to industrialists on their signature and a mortgage on buildings or equipment. Other financial resources which could be tapped by commerce and industry included personal deposits in private banks which increased by more than 50 per cent between 1895 and 1900. During this

29 The State Bank was established in 1860 for the service of the Ministry of Finance. At the time of its creation, the State Bank could not issue bills for its commercial operations; by the ukase of June 8, 1888 it could do so by covering them fully with metal reserves. B. S. Chlepner, "La Banque de Russie," Revue Économique Internationale. (January, 1914), 127-28.
period commercial banks in particular expanded their operations, and the value of securities held by these banks more than doubled.  

Private banks in Russia also played an indispensable role in industrial development by providing short-term capital for the growing number of joint-stock companies being formed in Russia. From 1890 through 1899 the total number of corporations in Russia more than doubled and the capital of these enterprises increased by more than 800 million rubles. Compared with the years prior to 1890—when a large percentage of capital was invested in banks, insurance and transportation companies—approximately three-fourths of corporative capital was invested in industrial enterprises. Mining and metallurgical industries experienced a greatly accelerated rate of growth and in 1899 accounted for more than two-fifths of all industrial investments.  

Foreign capital constituted a large part of the increase in corporate wealth and, in comparison with previous years, began to play a more active role in the promotion of industrialization. In the last decade of the nineteenth century well over two hundred new joint-stock companies were established in Russia. By 1900 the

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30 *Russie et Belgique*, IV, 306 et seq.  
31 The amount of capital invested in metallurgical corporations jumped from 32.7 million rubles in 1893 to 250.3 million in 1899, while that of mining enterprises increased from 101 million rubles to 406.1 million. Alexander Krimmer, *Sociétés de Capitaux en Russie Impériale et en Russie Soviétique* (Paris, 1934), 109-110.
total amount of capital in foreign corporations operating throughout the Russian empire reached 911 million rubles. Most of this capital was invested in mining and metal industries, and accounted for 70 per cent of all investments in Russian mines and 42 per cent of all investments in metal-producing enterprises. To sum up the extent to which foreign capital flowed into Russian industry, "it seems clear that foreign capital comprised somewhat more than one-third of all corporation capital during 1890, rising to nearly one-half in 1900."  

Foreign capital in the form of loans to the Russian government also played a noteworthy part in industrial progress. The construction of new railroad lines by the government required large capital outlays. Since the revenue derived from taxes and favorable balance of trade payments failed to cover these expenditures, the

32 Compared with 214.7 million rubles in 1890, op. cit., 15. The estimates of several other studies are cited in Anton Crihan, Le Capital Étranger en Russie (Paris, 1934), 241, 244; and in Peter Lyashcherko, History of the National Economy of Russia (New York, 1949), 535.

33 Ibid.

34 According to B. Tschchanian, government construction of railroads, along with guaranteed loans to private railroads and the repurchase of private lines, increased the state's railroad debt in 1901 to 2.7 billion rubles of which 2 billion came from abroad (Die ausländischen Elemente in der russischen Volkswirtschaft, 228). Cited in Crihan, op. cit., 70.
government resorted more and more frequently to foreign loans. The part of these loans that was used to place orders for rails, rolling stock, and other railroad materials further stimulated the growth of heavy industry.

**General survey of industrial development**

The vast railroad construction program undertaken by the government constituted the base of Russia's industrial upsurge in the nineties. During the course of this decade private and government enterprise added over 21,000 versts to the empire's railroad network. More than 15,000 versts were built in the short span of 1896-1900, an unparalleled accomplishment in Russian history. This burst of activity made its heaviest impact on the metallurgical industry not only in the production of railroad materials, but also in the construction and outfitting of new metallurgical and metal-processing plants which in turn supplied additional rail equipment. The coal industry sold over one-third of its output to railroads, its biggest consumer. Railroads also opened up new industrial markets for coal and petroleum products. Furthermore, these products, as a result of improved transportation facilities uniting cities with industrial

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35Total railroad mileage increased to almost 49,000 versts in 1900. One verst equal to 3,500 feet or approximately two-thirds of a mile (.6629 mile).
areas, found new consumers in urban expansion programs which also absorbed a large proportion of the output of brick, cement, and lumber industries.

The extent of the industrial revolution reveals itself most forcefully in the value of industrial output which more than doubled in the course of a decade. New branches of industry came into existence, but the coal, iron and steel, and petroleum industries underwent the most remarkable development. In the production of pig iron, Russia emerged as the third largest European producer surpassing even France. Iron and steel production during the nineties increased at a more rapid rate, percentage-wise, than that of any world producer. The production of coal more than doubled, and Russia rivaled and sometimes surpassed the United States in the output of petroleum.


37A Russian economist, Finn-Enotshevskii, concluded that the percentage increase of Russian production of pig iron, iron and steel "has sensibly exceeded that of the world, and has enormously exceeded that of each capitalist country considered separately," but he failed to include all industrialized countries in his calculations. Quoted in several sources including Gregor Alexinsky, Modern Russia (London, 1913), 102.
Marked technological improvements accompanied this notable expansion in industrial productivity. Since the number of workers did not increase in the same proportion as production, the difference was attributed to technical progress. In metallurgy, cold blast furnaces were being eliminated, and Bessemer furnaces were being replaced by open hearths. The more recently constructed factories were equipped with modern machinery. All these technical advances resulted in a decided improvement in the variety, quantity, and quality of manufactured machines and other products.

The introduction of new techniques of production was particularly characteristic of industries in southern Russia. Because of the proximity of immense coal and iron ore deposits, this region was far superior to other industrial centers which lacked either one of these two resources or relied on relatively poorer minerals. Newly constructed metallurgical plants in the south rivaled or surpassed their counterparts in western Europe. The prospects of large orders prompted the importation of machines designed for "specialization and the division of labor and production;...the powerful machines coming from the best foreign shops."38 The results of this

38W. de Kovalevsky, op. cit., 449. See also Edmond Thery, La Transformation Economique de la Russie (Paris, 1914), 87; Marcel Lauwick, L'Industrie dans la
modernization of industrial equipment and the effects of intensified railroad construction find their most eloquent expression in comparing production figures of the south with the rest of Russia.

**TABLE 2**

HEAVY INDUSTRY PRODUCTION IN SOUTHERN RUSSIA COMPARED WITH TOTAL RUSSIAN OUTPUT, 1890-1900

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Output (million poods)</th>
<th>Southern Production (million poods)</th>
<th>Per cent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Iron Ore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>106.3</td>
<td>23.0</td>
<td>21.6</td>
</tr>
<tr>
<td>1895</td>
<td>168.0</td>
<td>59.1</td>
<td>35.2</td>
</tr>
<tr>
<td>1900</td>
<td>367.0</td>
<td>210.1</td>
<td>57.1</td>
</tr>
<tr>
<td></td>
<td>Pig Iron</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>55.2</td>
<td>13.4</td>
<td>24.3</td>
</tr>
<tr>
<td>1895</td>
<td>86.8</td>
<td>33.6</td>
<td>38.7</td>
</tr>
<tr>
<td>1900</td>
<td>176.8</td>
<td>91.6</td>
<td>51.8</td>
</tr>
<tr>
<td></td>
<td>Iron and Steel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>48.4</td>
<td>8.6</td>
<td>17.8</td>
</tr>
<tr>
<td>1895</td>
<td>62.3</td>
<td>18.2</td>
<td>29.2</td>
</tr>
<tr>
<td>1900</td>
<td>134.4</td>
<td>59.2</td>
<td>44.0</td>
</tr>
<tr>
<td></td>
<td>Coal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>367.2</td>
<td>183.3</td>
<td>49.9</td>
</tr>
<tr>
<td>1895</td>
<td>555.5</td>
<td>298.3</td>
<td>53.7</td>
</tr>
<tr>
<td>1900</td>
<td>995.2</td>
<td>691.5</td>
<td>69.5</td>
</tr>
<tr>
<td></td>
<td>Petroleum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>241.0</td>
<td>226.0^a</td>
<td>93.8</td>
</tr>
<tr>
<td>1895</td>
<td>386.0</td>
<td>385.0^a</td>
<td>99.7</td>
</tr>
<tr>
<td>1900</td>
<td>632.0</td>
<td>601.0^a</td>
<td>95.1</td>
</tr>
</tbody>
</table>

^Baku only.

This table clearly illustrates the impressive part which southern Russia played in the total output of heavy industry. With the exception of iron and steel, by 1900 this industrial region surpassed all other industrial centers combined. Compared with 1890 these various branches of southern industry made a tremendous leap forward: coal output almost quadrupled, pig iron and iron and steel increased seven-fold, and iron ore production multiplied nine times. This feverish activity on the southern steppes was chiefly due to the influx of foreign capital and was the stage on which Belgian capital played the leading role.
CHAPTER III

THE GREEN YEARS (1895-99)--Part 2

Belgian Investments in Russian Industry

During the decade in which southern Russia emerged with the most important heavy-industry complex in Russia, Belgian capital participated heavily in the development of the mining and metal industries. As the most highly industrialized country on the continent, Belgians possessed the experience and technical skill necessary for establishing and operating such enterprises. The concentration of capital in heavy industry was supplemented by investments in a variety of other industries throughout Russia, in which Belgians also had varying degrees of technical proficiency. A discussion of the operations of a number of these individual enterprises, especially their financial activities, furnishes some insight into their later evolution. These illustrations of representative companies will be discussed within the context of the general characteristics of each industry as a whole. Such a setting not only constitutes the framework within which Belgian companies functioned, but since investments in certain industries were
especially large, these companies either helped to bring about new developments in the south or were at least affected by them in some way.

**Belgian investments in industries of southern Russia**

**Coal.**—Coal production in the south, largely as a result of foreign investments, more than tripled in the course of a decade and in 1899 constituted more than two-thirds of all coal mined in Russia. In spite of this increased production, Russia imported a considerable amount of coal from abroad.¹ Most of these imports found their way into northern markets which Donets producers found unprofitable because of high transportation costs. Foreign coal imports presented little competition in the south. More formidable competition came from the petroleum industry in the form of naphtha residues used as fuel oil. When the price of this product was more attractive than that of coal, some coal consumers turned to liquid fuel. But even though the average sale price of coal increased from approximately 6 to 8 kopecks per pood between 1896 and 1900, the mining companies were assured of large markets because of the great demand. Approximately two-thirds of Donets production was consumed by the growing transportation and metallurgical industries alone, and the great demand of coke for smelting

¹In the period 1896-1900, Russia imported 642.8 million poods of coal and exported 6.3 million. *Moniteur*, June 22, 1902.
purposes pushed production from .5 million tons in 1895 to 2.2 million in 1900.²

In order to discuss markets, prices, and other problems common to the industry, the mine owners formed the Council of the Congress of the South Russian Mining Industry. Once a year representatives of the various mines met to consider such important matters as larger markets, improved railway transportation, better mining education, the development of ports, a credit system, and a sufficient supply of labor. The government was "at all times prepared to lend its assistance" in solving these problems.³ In fact, the authority of this organization assumed such importance that in later years "scarcey a single law concerning industry was passed without the opinion of the Council of the Congress being taken."⁴ An example of the government's interest in the problems of the coal industry was the formation of the Kharkov Committee for the Transport of Mining Material which was organized to assure a fair distribution of rolling stock to the various mining companies.

A leading role in the development of the Donets coal industry was played by Belgian investors and industrialists

²Maurice Verstraete, La Russie Industrielle: Étude sur l'Exposition de Nijni-Novgorod (Paris, 1897), 7; Moniteur, October 29, 1899; Marcel Lauwick, L'Industrie dans la Russie Méridionale (Brussels, 1907), 101.

³Russia, Ministry of Finance, Russia: Its Industries and Trade (Glasgow, 1901), 287.

who established large companies equipped with more modern techniques of production. In fact, the amount of Belgian capital invested in coal mining was second only to the metal industries and by 1900 the value of stocks and bonds in twenty-two enterprises was estimated at 229.2 million francs. The majority of these coal mines were located in the south and included such heavily capitalized companies as Prokhorov Coal and Central Donets Coal.

The Central Donets Coal Company, "Almaznaia", organized in Belgium in 1894 with a capital of 6 million francs, purchased a large tract of land for the original purpose of mining coal only. The Dnieper Metallurgical Company along with its parent organization, Cockerill Company, owned more than three-fourths of Almaznaia's capital shares. Since the directors of the Dnieper Company also administered Almaznaia, it was regarded as a branch of

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6There were two additional corporations organized under Russian law, and capitalized at 53 million francs, in which Belgians had an interest. Some French capital was invested in these companies organized in both Belgium and Russia, but Belgians also had investments in Russian coal companies organized under French law. In 1899, more than half of all these coal companies were listed on the Brussels exchange.
the iron and steel company during its early years. However, after Almaznaia's contracts with this company expired and were not renewed, Almaznaia increased its assets to 15 million francs for the purpose of erecting two blast furnaces. This company also invested over 2 million francs in iron-ore mines, and after several failures it acquired a long lease on more productive lands. In 1897 the mines of Almaznaia yielded over 163 thousand tons of coal, and its coke furnaces produced 58 thousand tons of coke.7

The Prokhorov Coal Company, previously controlled by Russian capital, was organized in Brussels in 1895. Originally constituted with a capital of 5 million francs, it was immediately increased to 8 million. From 1896 through 1899 the company produced 71.5 million poods of coal earning a gross profit of 3.3 million francs. Over two-thirds of this amount was paid in dividends. During this same period Prokhorov Coal also issued bonds valued at 6.5 million francs but amortized these to the extent of only 225 thousand francs.8 It failed to build up adequate financial reserves to carry it through less prosperous years.

7Jules Cordeweener, Contribution à l'étude de la Crise Industrielle du Donetz (Brussels, 1902), 178 et passim; Moniteur, November 14, 1897; November 18, 1900. With the exception of the year 1896, the various operations of this company resulted in 5 per cent annual dividends to its shareholders. Percentage dividends, unless otherwise stated, are based on the face value of stock. This was the method of calculation used by Belgian companies and financial journals.

8Ibid., 1896, 1898 Suppléments; Le Recueil Financier Annuel, 1902-03, 925.
In addition to the companies chiefly devoted to the production of coal, some of the large iron and steel corporations in the Donets sought to assure themselves of coal supplies at a minimum cost by operating their own mines. Although this evidence of concentration became more prominent in later years, in 1899 the coal production of the Russo-Belgian Metallurgical Company reached almost 300 thousand tons, of which the largest part was turned into coke for use in its blast furnaces.

Iron ore.—In addition to the coal mining enterprises, four companies with a capital of 27.2 million francs, were organized in Belgium to mine iron-ore deposits in various sections of southern Russia. However, the total amount of Belgian capital invested in iron-ore enterprises cannot be accurately estimated, since, in addition to the companies devoted exclusively to mining, there were several large Belgian iron and steel corporations which also used some of their capital to open and operate their own iron-ore mines.

By 1900 the total production of iron ore in the south represented close to three-fifths of all Russian production. Although some of the ore was exported abroad, most of it was shipped to the booming southern iron and

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9In addition to the companies in southern Russia, Belgians also organized the Southern Ural Mining Company. Although French capital was invested in some of these companies, Belgian capital was invested in the Krivoi-Rog Iron Ore Company organized in France.
steel mills, not too far distance from the mines. These markets were protected by a tariff which was higher than the price of Russian mined ore. Another decided advantage of the mines in the south was the extensive reserves estimated at a half billion tons. Although the largest proportion of these reserves was found in the Crimean peninsula, the most important producers were located in Krivoi-Rog which supplied approximately 8 million tons in the period 1895-1900.

In the exploitation of the Krivoi-Rog deposits, the Dnieper Metallurgical Company had a decided advantage over other Belgian enterprises. Since it was one of the first in the region, it secured a lease on mining concessions for the moderate sum of 56 thousand rubles. Not only did the ore have a high iron content, but the beds were extensive and constituted the richest deposits in this area. In the years 1895 through 1899 these mines yielded approximately 2 million tons. When its lease on these lands expired in 1898, the Dnieper Company negotiated another favorable long-term contract which included royalties of one kopeck per pood and an annual guarantee of 25 thousand rubles to the owners.

The tremendous success of the Dnieper Company provoked mad land speculations in the Krivoi-Rog region and a demand for higher royalties. In 1898 the Russo-Belgian Metallurgical Company negotiated a lease for mining concessions with royalties of 3 kopecks per pood and an annual
guarantee of 90 thousand rubles. Other iron and steel corporations, including Verkhny-Dneprovsk and Russian Providence, also secured contracts with such high royalties. As a result of these large royalties, high operational costs, and the poor yield of some mines, not all the companies in the Krivoi-Rog region were successful. The sale price of iron ore reached as high as 9 kopecks per pood in 1899, but it fluctuated to a great extent depending on the amount of production and the discovery of new deposits. Consequently, production was sometimes regulated to maintain satisfactory price levels.

A few important Belgian companies also invested capital in the development of iron-ore mines in Korsak-Mogila and Kerch. Prior to obtaining its concession in Krivoi-Rog, Russo-Belgian Metallurgy secured a land lease in Korsak-Mogila at a cost of 500 thousand rubles plus a very small royalty and annual guarantee. Initial efforts resulted in the production of ore with a lower iron content than that of Krivoi-Rog, and although subsequent research uncovered richer deposits, these were not too extensive. The discovery of the Kerch deposits on the Crimean peninsula led to the formation of the Taganrog and Russian Providence metallurgical companies. In 1899 the mines of Russian Providence had a monthly production of 16 thousand tons. Although the Kerch deposits, because of their low iron and high silicate content, proved less desirable than those of Krivoi-Rog,
total shipments of this ore amounted to 11.3 million poods in 1899.10

Metallurgy, metal-working, and machinery.—The huge increase in the production of iron ore and coal assumes importance in its relation to the expansion of the iron and steel industry in the south. With a percentage rate of growth surpassing that of any other industrialized country in this decade, the production of pig iron from 1890 through 1899 increased by more than six times.11 It was during this period that the metallurgical industry in the Urals, which had long dominated Russian production, succumbed to the new industry in the south. This supremacy is illustrated by the percentage contribution of each region to total Russian production.

TABLE 3
OUTPUT OF PIG IRON IN THE URALS AND SOUTHERN RUSSIA RELATED TO TOTAL RUSSIAN PRODUCTION, 1890-99

<table>
<thead>
<tr>
<th>Year</th>
<th>Urals</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>1895</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>1899</td>
<td>27</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Jules Cordeweener, Contribution a l'Etude de la Crise Industrielle du Donetz (Brussels, 1902), 256.

10Cordeweener, op. cit., 230 et passim; Lauwick, op. cit., 75 et seq.

11The manufacturing of pig iron increased with a rapidity that no country, not even America, had reached in such a short period of time." E. de Loisy, "La Métallurgie du Fer en Russie," Revue Économique Internationale (June, 1911), 563.
In spite of the tremendous increase in the production of pig iron, in 1899 only three-fourths of Russia's domestic needs were supplied. Quantities of ferro-manganese, ferro-silicon, and ferro-silico-manganese, used in the manufacture of high-grade steel, were imported. Although Russia produced approximately one-half of the world's supply of manganese ore required in the manufacture of ferrous alloys, most of the ore was exported abroad. For the most part, southern manufacturers preferred to import these products, in spite of their high price, because of the huge profits reaped in the production of ordinary pig iron. Nevertheless, prior to 1900 two Belgian companies, Dnieper and Russo-Belgian, undertook with success the smelting of higher quality ferrous alloys.

In the general development of the southern metallurgical industry, foreign capital played a major role. Out of the eighteen enterprises operating in 1899, only four were established by Russian entrepreneurs. At this time the

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\[^{12}\text{In 1899, according to the Russian Bureau of Statistics, Russia imported 56 million poods and exported 250 thousand poods. Moniteur, July 4, 1901. The supply of pig iron by domestic producers in 1899 represented a decided improvement over 1894 when }37\text{ per cent of the pig iron consumed was imported from abroad. Ibid., October 17, 1895.}\]

\[^{13}\text{Ibid., February 7, 1906.}\]

\[^{14}\text{Russia, II (July, 1917), 19. Cordeweener (op. cit., 260-61, 292-93) also lists eighteen iron and steel corporations in operation in the south in 1899. However, James Mayor An Economic History of Russia, II (New York, 1925), 374, states that in 1889 there were 17 large smelting works operating 29 blast furnaces and each factory employed about}\]

iron and steel industry represented the most attractive field of activity to industrialists and investors. Although existing metallurgical companies constantly increased their productive capacity, five new iron and steel companies were organized in the years 1895 through 1897. The new plants alone increased production by 50 per cent.\(^1\)

In the manufacture of iron and steel and the metal industry as a whole, Belgians occupied the most prominent position among all foreign investors and directed the largest part of their capital into these enterprises. As of 1900 there were thirty-nine companies organized in Belgium to manufacture iron, steel, metal products and machines in Russia. These companies had a total capital of 267.9 million francs in stocks and bonds.\(^2\) In addition there were nine corporations established according to Russian law in which Belgians had important investments. Among these were three

\(^{10,000}\) men. According to figures cited in Cordeweener none of the iron and steel plants employed 10,000 workers prior to 1900. *Moniteur* (October 17, 1901), citing a Russian publication, indicates there were a total of 54 blast furnaces in the south as of December 31, 1899: 35 in operation, 12 in construction, 3 in repairs, and 4 shut down. In 1889 there were only 5 major metallurgical plants in southern Russia: Hughes, Pastuchkov, Briansk, Dnieper, and Krivoi-Rog Mines and Blast Furnaces.

\(^{15}\) Lauwick, *op. cit.*, 14 *et passim.*

\(^{16}\) These included several companies in which Belgian and French capital participated. Companies involved in the production of iron and steel, metal products, and machines are grouped together because they were generally considered as a unit in the classification of investments.
of the largest southern companies—Dnieper, Russo-Belgian, and Taganrog—whose total capital reached 114 million francs. Along with Russian Providence, organized in Belgium, these four corporations alone represented capital investments upwards of 164 million francs, or approximately one-third of all capital invested in iron and steel enterprises in the south. Of the five plants which constituted the giants of southern metallurgy and whose individual production exceeded 100 thousand tons in 1899, Belgians had an interest in four.

17 In the south there were other foreign metallurgical companies organized according to Russian law in which Belgian capital played a less important role. These included Briansk, a French corporation capitalized at 53.2 million francs; Donets-Iurievka (42.6 million francs) of German origin; and Nicopol-Mariupol, an American organization with 26 million francs in stocks and bonds. All three were quoted on the Brussels exchange. Anton Crihan, Le Capital Etranger en Russie (Paris, 1934), 14, indicates that Taganrog was founded by French capitalists alone. According to Moniteur (September 19, 1897), this company was founded in 1896 by two Belgian companies (Ougrée, and Jupille Forges and Sheet Metal) and a French company (Louvroil Tube Manufacturing). He also states that Donets-Iurievka was founded by Belgians, but, as pointed out, this was a German company in which Belgians had an interest.

18 There were twenty metallurgical enterprises in southern Russia in 1899 (including one private firm, and two companies which had not yet begun operations) with a total capital of 469.6 million francs; Belgians were involved in the creation of, or participated in, thirteen of them capitalized at 400.7 million francs, or 85.3 per cent of total investments. Based on figures cited in Cordeweener, op. cit., 260-61.

19 The dividends paid by these four corporations for operations ending in 1899 averaged 13.5 per cent. In this year, about three-fifths of all the metal companies in which Belgians had an interest were listed on the Brussels exchange.
A very impressive part in the total production of the south was played by the Dnieper, Russo-Belgian, and Taganrog corporations. In 1899 these three companies alone produced 418.3 thousand tons or 30 per cent of all the pig iron manufactured in the south. Unlike a number of other companies which shipped all or a very large part of their pig iron output, these three processed all but one per cent of their production. Russo-Belgian alone manufactured close to one-third of all rail production. Dnieper, whose iron and steel production was the most diversified of all southern plants, manufactured rails, rail accessories, commercial iron and steel, steel tires, girders, cross-bars, iron pipes, sheet metal, and other products. In the total southern production of commercial iron and steel alone, Dnieper and Taganrog manufactured 47 per cent, and 62 per cent of all sheet metal.²⁰

During this period the Dnieper Company, the Eldorado of the Donets, continued to yield unusually large profits and to pay enormous dividends. In fact the net profits for the five year period ending in 1899 totaled 20 million rubles. Of this amount the shareholders received one-half or more than double the face value of their shares. With the exception of the year 1895, the directors declared an

²⁰Percentages based on production figures cited in Cordeweener, op. cit., 292-93.
annual 40 per cent dividend. With each dividend announce-
ment the price of Dnieper shares on the Brussels exchange
literally soared, and by the end of 1899 was more than seven
times higher than the original value of the stock. Perhaps
a German journal had this company in mind when it remarked
with a touch of envy that the Belgians appropriated "the
cake and the cream of Russian industry."  

In 1896 with capital assets in plant and equipment
valued at 9.3 million rubles, the Dnieper Company had
realizable and liquid assets of 9.1 million. The following
year, when liquid assets were increased by another million
rubles, the company held securities in its portfolio worth
close to 1.4 million rubles. With the reserve fund up to
a third of its capital stock, the company voted a credit of
one million rubles for plant expansion. In 1898 there was
a two for one stock split which did not alter the aggregate

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21 *Le Recueil Financier Annuel, 1902-03*, 1076. Ordinaire (op. cit., 80) states that the Dnieper Company was able "from its beginning to distribute to its stockholders dividends from 70 to 80%." Although such extravagant claims were also made by one or two contemporary writers, the company never paid 80 per cent dividends during its entire history. True, the annual gross profits of the company reached 80 per cent and even exceeded 100 per cent of capital stock.

22 A Frankfort journal quoted in *l'Économiste International*, September 22, 1900.

23 Stocks and bonds of the Dnieper Company and Almaznaia were held by *Société Mutualité Industrielle*, a "satellite" whose principal function was to take over the shares of the enterprises created or participated in by Cockerill Company, the parent corporation in Belgium.
par value of the shares. The next year, the capital stock of the company was increased to 7.5 million rubles for further expansion of its iron and steel plant and the acquisition of new coal mines. With such healthy financial conditions, the Dnieper Company easily weathered the rough storms ahead.

As a result of these increases in capital and shrewd management, the Dnieper Company could boast of having one of the most efficient and best-equipped metallurgical plants in Russia. Its iron and steel mills included four blast furnaces, a large number of coke furnaces, Bessemer and open-hearth plants, a puddle mill, and rolling mills. This company continuously altered the character of its production to meet the changing needs of the market. Unlike other iron and steel corporations which sought to capitalize on government and private orders for rails, Dnieper production of this commodity remained relatively uniform. Instead it underwent particularly marked expansion in the production of beams, coils, axles, iron sections, and sheet metal. In the manufacture of these and other products the average production per worker increased considerably.

Another highly successful iron and steel enterprise undertaken by Belgians was the Russo-Belgian Metallurgical Corporation. It was organized in 1895 by the Brussels bank

\[\text{\textsuperscript{24}}\textit{Moniteur}, \text{November 19, 1896; November 21, December 12, 1897; November 22, 1900; } \textit{Le Recueil Financier Annuel, 1915}, 1694.\]
Société Générale, the Russian Foreign Commerce Bank, and two Belgian metallurgical companies. The enterprise was formed with an original capital of 8 million rubles, but its shares were not quoted on the Brussels exchange until 1898 when the capital was increased to 10 million rubles. In 1899 the company declared a 10 per cent dividend and the market price of shares, with an original value of 666 francs, climbed to 1215 francs. One year earlier the company also authorized a 5 million ruble bond issue which was "entirely subscribed" by Société Générale and the Russian Foreign Commerce Bank.25

As a result of such quick successive stock increases, Russo-Belgian Metallurgy became the most heavily capitalized iron and steel corporation in the south. Prior to 1899 the company invested approximately 17 million rubles in the acquisition and equipment of coal and iron-ore mines, the construction of hydraulic installations, blast furnaces, a Bessemer plant, rolling mills, construction and repair shops, a laboratory, a brick factory, and a railroad linking the coal mines with the factories. Part of this capital was also used to construct a complete settlement with lodgings, schools, and a church. Although the company failed to reach expectations in 1898 because of operational difficulties and a strike, the following year the daily production of two blast furnaces averaged close to 200 tons each.26

25 Ibid., 1919, 1878.
26 Moniteur, 1898, 1899 Suppléments.
Belgian capital also underwrote a large number of factories which manufactured a variety of metal products and machinery. Among those in the south, Donets Metal Stamping produced iron and steel products; Berdiansk Industries manufactured farm equipment; Sumy Metal Works built machinery; Nikolaiev Naval Yards, Shops, and Foundries constructed ships; and Odessa Steel, Forges, and Chains manufactured railroad and naval equipment.

The most heavily capitalized of these enterprises was Nikolaiev Naval Yards, Shops and Foundries. This company was organized in Brussels in 1895 with an original capital of 12 million francs subscribed by "a very large number of individuals." In addition to the naval yards the company boasted a magnificent outlay of shops including an iron and steel foundry, a blacksmith shop, a tube mill, and car shop for the assembly of rolling stock. These shops, equipped with the latest electrically-powered machinery, were arranged in such a way as to reduce manpower to a minimum and permit

27Although the greatest concentration of Belgian capital in metallurgy, metal-working and machine shops was in the south, Belgian capital was also invested in similar enterprises in other Russian industrial centers. For example, Tula Blast Furnaces, capitalized at 10 million francs, was located in central Russia; and Southern Ural Metallurgy, capitalized at 16 million francs, was located in the Urals.  
28The founders of this company included Biesme Steel and Forges, Louvrière Blast Furnaces, and Louvroil Tube Manufacturing.  
29Le Recueil Financier Annuel, 1910, 1187.
the regular flow of goods from their assembly to shipment. 30

At the stockholders' meetings prior to 1900, the directors spoke of small profits and the need for further expansion of the company's physical plant. This required new capital outlays, and in 1897 the company authorized a bond issue for 6 million francs. After payment of its first and only dividend in 1898, the company, indicating the need for additional capital to expand its naval yards for the construction of warships, increased its capital by another stock issue for 6 million francs. 31 The following year the directors, after raising hopes for further dividends in the future, called for the issue of additional shares which raised the total value of outstanding stock to 20 million francs. 32 In expanding both its capital stock and capital assets at this rapid rate, Nikolaiev Naval Yards failed to

30"Les ateliers et magasins ont été distribués de façon à réduire la main-d'oeuvre à son minimum, faisant suivre à chaque pièce, depuis sa fabrication ou sa réception, une marche régulière pendant son façonnage et jusqu'à son montage définitif, son emmagasinage et son expédition." Moniteur, November 21, 1897.

31Both a Belgian bank, Crédit Générale, and the Belgian Industrial Company subscribed to 1,000 shares (or one million francs) each.

32Le Recueil Financier Annuel, 1910, 1186-87; Moniteur, 1897, 1898 Suppléments; October 23, 1898; L'Économiste International, April 29, 1899.
set aside the ample reserves necessary for meeting these increased obligations.

Petroleum.—In comparison with the major role of Belgian capital in metal production, Belgium played a relatively minor role in the development of the petroleum industry in Russia. Although Russian production in 1881 was approximately one-sixth that of the United States, in 1895 Russia became the world leader in the production of crude petroleum. During the five years prior to 1900, the Baku oil industry profited from the increased rents and royalties demanded by the state for concessions on new oil lands and the higher prices charged for American petroleum. Between 1892 and 1900 the price of crude petroleum at Baku rose rapidly. The Baku region continued to hold its dominant position in the oil industry, but during the nineties the Groznyi fields to the north were opened by several companies. In 1898 the production of these new fields reached 300 thousand tons, the second largest output in the Caucasus, and the Groznyi region assumed even greater importance in total production after the turn of the century.

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<th>Year</th>
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<td>1895</td>
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34W. de Kovalevsky, La Russie à la Fin du XIXe Siècle (Paris, 1900), 339 et seq.
In order to extract and refine these extensive and rich deposits, the Groznyi Petroleum Corporation was formed in Antwerp in 1895 with a capital of 6 million francs, divided into preferred and common stock.\textsuperscript{35} By 1896 this enterprise had eight wells in operation and six new ones being drilled. A pipe-line, which connected the wells with the refinery and a railroad station, was constructed, and several sales agencies were established in different parts of Russia. In 1897, in order to expand its production and refinery facilities, the company issued new shares for 2 million francs and floated a bond issue for an additional 4 million. The operations of this enterprise proved to be very profitable and prior to 1900 the company consistently paid 8 per cent dividends on preferred stock.\textsuperscript{36} Although Groznyi Petroleum was the most important Belgian undertaking in oil production, Belgian capital was also invested in other petroleum companies in the Caucasus.\textsuperscript{37}

\textsuperscript{35}The capital of 12,000 preferred shares of 500 francs each were turned over for capital assets (\textit{remises aux apports}). Common shares had no stated value either on the certificates or in financial statements and were simply designated as \textit{pour memoire}. Oddly enough these common shares were sometimes quoted on the Brussels exchange and in December of 1899 were listed at 108 francs. \textit{Moniteur}, November 24, 1895; 1900 Supplément.

\textsuperscript{36}Common stock received an annual dividend of 15 francs per share during this period. \textit{Ibid.}, April 18, 1897; 1899, 1900-01 Suppléments.

\textsuperscript{37}The \textit{Russian Journal of Financial Statistics} for 1900 (p. 154) cited Georgia Petroleum and Mines constituted in 1898 with a meager capital of 575,000 francs (also cited in Kovalevsky, \textit{op. cit.}, 669). A list compiled by the
Chemical.--The immense progress of the petroleum and other industries gave a further impetus to the development of the chemical industry. The production of soda made rapid progress and most of the new producers established during this period went into operation "in the Donets basin where... the most favorable economic conditions" prevailed.\(^{38}\) The Belgo-Russian enterprise, Lubimov-Solvay, continued its leading role in the domestic production of soda, particularly sodium carbonate. Even though Russian output of soda products increased by 74 thousand tons between 1890 and 1898, Russia still found it necessary to import about one-fifth of her consumption requirements from Belgium and other European countries.

In the chemical industry as a whole, the output of which became more diversified, the value of total Russian production increased rapidly.\(^{39}\) Enterprises formed by Belgians produced acids, dyes, fertilizers, and explosives. By 1900 Belgian capital was interested in six companies with

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Belgian Ministry of Foreign Affairs for this period included the Binagady Petroleum Corporation (Dossier No. 2900).

\(^{38}\)Kovalevsky, op. cit., 334.

\(^{39}\)The value of total Russian production multiplied twelve times between 1877 and 1897 when it reached 59.9 million rubles. According to one source, there were 686 manufacturers of chemical products, but most of these were small undertakings producing only for local needs. Ibid., 336. A very small part of these were joint-stock companies.
a total capital of 37.2 million francs. Four of these, including the most important undertakings, were located in southern Russia. Next to the Lubimov-Solvay Company, whose capital reached as high as 25 million francs, the most important Belgian corporation in the south was Odessa Chemical and Oil Products whose stocks and bonds were valued at 5 million francs.

Construction.--As in the production of chemical products, the value of building materials produced by the construction industry increased remarkably in this period. Half of the sixteen companies organized in Belgium for the purpose of manufacturing bricks, cement, and ceramic products in Russia, were located in various southern cities. Since none of these enterprises had very heavy investments, their total capital of 26.4 million francs represented a rather small part of total Belgian investments.

The Odessa Cement Company, which had the largest capital stock among these construction enterprises, was organized in Brussels in 1895. It was formed with a capital

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\textsuperscript{40} Three of these corporations were organized according to Belgian law and three according to Russian law. Only one of these companies issued bonds, and the shares of two chemical enterprises were quoted on the Brussels exchange.

\textsuperscript{41} By the end of 1899, the shares of half of these companies were listed on the Brussels exchange. Only a few of them paid satisfactory dividends in the years before 1900.
of 1.5 million francs, but after two successive increases, this was raised to 2.5 million by 1898. Another million francs were secured through a bond issue. The statutes of the company stipulated that, in addition to fixed compensation, the directors were to receive as much as 17 per cent of the profits. But profits were rather small, and there were no dividends except for the year 1897 when the directors declared a 4 per cent dividend based on the profits of previous years.\(^{42}\)

**Glass.**—In the manufacture of glass products, some of which were also used in construction, Belgian investments amounted to 37.2 million francs by 1900. This gave Belgian capital a preeminent position in an industry in which Belgian skill was widely recognized. Before 1890 there were a large number of glass works in Russia but most of them were very small, and although the majority of workers were Russians, some specially skilled Belgian, French and Bohemian workers were relied on for the production of certain articles. In the manufacture of window glass, Russian production was very limited and most of this demand was met "by heavy Belgian imports."\(^{43}\)

Encouraged by the protective tariff and a growing market for glass products, Belgians established nine

\(^{42}\)In 1899 the operations of Odessa Cement showed a loss, and the market value of its shares declined rapidly. *Moniteur*, June 2, 1895; November 4, 1897; December 27, 1900; *1900-01 Supplément*.

\(^{43}\)Kovalevsky, *op. cit.*, 496.
Joint-stock companies, almost all of which were constituted during the last half of the nineties. Five of the enterprises were located in southern Russia, and these were engaged in the manufacture of a wide variety of products, especially plate glass. In this way Belgian entrepreneurs and technicians "introduced the manufacturing system used in Belgium." Belgo-Russian Plate-Glass Manufacturing, which was located in Moscow, was the most heavily capitalized corporation in the glass industry; its capital in bonds and stocks surpassed 9.7 million francs. The Donets Glass Works, capitalized at 5 million francs, was founded by a group of Belgian glass manufacturers and was considered one of Russia's chief producers of plate glass.

Belgian investments in other enterprises throughout Russia

Electrical.—Outside of southern Russia, the largest proportion of Belgian capital was absorbed by public utilities and the electrical industry which was closely allied with these municipal enterprises. On the whole, the electrical industry in Russia made relatively humble

44 Ibid.

45 The Belgian organizers of this company, which also operated a chemical plant for the production of sulfuric acid, included Mariemont Glass Works, Hamendes Glass Works, and an Antwerp group (Moniteur, September 22, 1895). All but the Belgo-Russian Plate-Glass Manufacturing Company were organized according to Belgian law. Four of these companies were listed on the Brussels exchange, and, as a result of infrequent dividend payments, their shares were quoted below par as early as 1898.
beginnings. More extensive practical application of electrical energy was hindered by the paucity of training schools for skilled electrical technicians, and the reliance of foreign engineers and specialists on imported equipment with which they were familiar. Nevertheless, compared with the years prior to 1895, the electrical industry made "immense progress."\textsuperscript{46} Increased demands for electrical power—to operate machines, to light factories and towns, to power streetcars, and to run some mines in the south—also meant a greater need for dynamos, motors, transformers, conductors, and armatures.

Since the production of electrically-powered machinery was practically non-existent, most of these machines were imported by the more modern shops in the south from a number of European countries including Belgium. Much of the other electrical equipment was also imported, but some companies were formed within Russia to supply these new markets. Among these was the Moscow Central Electrical Company formed in Liege to engage in all industrial and commercial branches of the electrical industry. This enterprise was established in 1896 with a capital of 1.5 million francs but by 1900 the company increased its stock issues to 10 million francs.\textsuperscript{47}

\textsuperscript{46}Kovalevsky, \textit{op. cit.}, 476 et seq.

\textsuperscript{47}Of the 3,000 original shares, 400 were turned over to the International Electric Company of Liége and to a Moscow industrialist "as payment for their contributions." \textit{Moniteur}, February 27, 1896.
Russo-Belgian Electrical Enterprises, previously a Russian firm, was organized in Brussels in 1896 for the production of electrical equipment and the construction and operation of electrical installations. The original capital of 2 million francs was divided equally into preferred and common stock. All the common stock was turned over to a Russian industrialist as a purchase payment, and the preferred shares were sold for a down payment of half the value of the stock. Bonds totaling 1.5 million francs were also issued. In the three years that followed, the company increased its stock issues by another 2 million francs and sold additional bonds valued at 3.5 million. During this same period dividends on preferred shares averaged approximately 10 per cent and more than 5 per cent on common stock.48

Public utilities.—In addition to this impressive array of industrial undertakings, Belgians invested a great deal of capital in municipal public-service enterprises. In fact, in this field also, Belgian capital far exceeded that of any other foreign country. Including the two mentioned in connection with the electrical industry, Belgians were interested in ten water, gas, and electric companies whose stocks and bonds totaled 57.2 million francs. With the exception of two enterprises, one each in water and gas, the others furnished electricity for such widely

48Ibid., April 19, 1896; 1897, 1898, 1900 Supplément.
scattered cities as St. Petersburg, Moscow, and Vladikavkaz. Some of these undertakings furnished electricity to several cities, while others were also involved in the operation of streetcars. The General Streetcar and Electric Power Corporation operated electric-light installations in Sevastopol, Krementchug, and Iaroslav and streetcars in Ekaterinador, Sevastopol, Krementchug, and Nikolaiev.

An even greater amount of Belgian capital was invested in the operation of streetcars, another Belgian speciality. Most of the streetcar enterprises in Russia were privately owned, but some were under municipal control. Although a large number of the streetcars were still horse-drawn, the process of electrification made great progress. A number of cities had cars powered by electricity and some had transportation systems with both types of traction.\textsuperscript{49} By 1900, Belgian corporations, with a capital of 110 million francs, operated public conveyances in some twenty-five cities throughout Russia. A large part of the enterprises controlled by Belgians were established after 1895, and many of them operated in southern Russia. Most of these companies had heavy bond investments and some of them also distributed

\textsuperscript{49}Kovalevsky (op. cit., 479) states that 45 cities had electric streetcars, although not entirely so, by 1898. \textit{Russe et Belgique} (IV, 117) indicates there were 27 cities with electric streetcars in 1910, and lists nine prior to 1900.
special stock, called actions de jouissance. On the whole, the operations of these local transportation companies yielded the most steady and rather satisfactory returns.

Some of these companies were especially profitable and, on occasion, found it necessary to offer more favorable terms to municipal authorities in order to secure a renewal of their concessions. The Odessa Streetcar Company, one of the most heavily capitalized with stocks and bonds worth 12 million francs, averaged net profits of over a million francs annually for the years 1895-99. In 1898 the Odessa Streetcar Company submitted a request to the city council of Odessa for an extension of its concession and the elimination of a clause which gave the city "the right of repurchase" in 1905. In return the company promised to introduce electric-powered trams and to give the city a larger share of the profits. At this time the municipal council, hoping to receive better terms, received the proposition coolly and indicated that it would leave itself open to more satisfactory proposals from other groups. In the negotiations

50 Actions de jouissance were shares for which the capital had been repaid by drawings, but which still participated in profits and in reserve assets in the event of liquidation.

51 About half of all public-utility corporations were listed on the Brussels exchange.

52 A total of 3.1 million francs were paid in dividends during these five years. This represented an annual average of 8.5 per cent to common-stock holders and 4.6 per cent to actions de jouissance owners. Le Recueil Financier Annuel, 1902-03, 232.
which continued through the following years, the company finally reached a favorable agreement with the council.\textsuperscript{53}

\textbf{Miscellaneous.}—In addition to these municipal corporations, Belgians also had investments in a number of textile, gold mining, and quite a few other miscellaneous enterprises. The textile industry, the most important in Russia, absorbed a relatively small part of Belgian capital even though Belgian technical skill in this field of enterprise was well-known. Belgians were interested in three companies whose stock and bond issues totaled 19.5 million francs.\textsuperscript{54} The most important of these was Kostroma Linen and Cotton Manufacturing, formed in Brussels in 1899 with a capital of 10 million francs. This organization took over the installations of a Russian firm for which the owners were paid two-thirds of the common stock issued.\textsuperscript{55}

\textsuperscript{53}Belgium, Ministère des Affaires Étrangères, Dossier No. 2898, June 23, 1898; \textit{Moniteur}, \textit{1899 Supplément}.

\textsuperscript{54}The list drawn up by the Belgian Ministry of Foreign Affairs includes a fourth, Peltzer and Son located in Chenstokhova (Dossier No. 2900). Before 1900, only one of the textile companies was quoted on the Brussels exchange.

\textsuperscript{55}They received 20,410 shares of ordinary stock without stated value, out of a total of 30,000 shares. In addition, of the 20,000 preferred shares with a par value of 500 francs, the previous owners received 820 shares. After all deductions and a payment of 5 per cent on preferred stock, 25 per cent of the balance went to preferred shareholders and 75 per cent to the common-stock holders. \textit{Moniteur}, July 23, 1899.
There were also seven companies organized for the operation of gold, copper, and platinum mines, most of which were in the Urals. Five of these enterprises, with a capital of 29.5 million francs, were concerned with gold mining which made rapid strides at this time. The most important of these, Kachkar Gold Mines, organized in Brussels in 1897 with a capital of 12 million francs, was also supported by heavy French and Russian investments. Belgian capital also joined with that of the French in the investment of 9 million francs in the Alagir Mining and Chemical Company which possessed the richest platinum deposits in Russia and became the world's largest producer. Of the remaining seventeen enterprises organized in Belgium by 1900, some were engaged in the forest and leather industries, while the output of others included tobacco, canned fish and vegetables, shoes, hats, cask-making machinery, stearine, cartridges, and corsets.

Railroads.—Compared with the increase of investments in all other branches of enterprise, Belgian capital in

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56 All these mining enterprises, with the exception of the platinum company, were formed in Belgium. Because of the risks involved in mining undertakings, only the platinum company issued bonds. None of these companies had their shares listed on the Brussels exchange before 1900.

57 These seventeen companies had a total capital of 33.3 million francs. Only a few were located in southern Russia. Prior to 1900, just one of these companies had its shares listed on the Brussels exchange, although after 1900 more of them were quoted.
Russian railroads declined. This, of course, was due to the government's continued policy of the repurchase of private lines. As the government pursued this policy more vigorously and private lines decreased to less than one-third of the total length of Russia's railway system by 1900, some investors speculated on railroad shares in anticipation of government purchase and the distribution of a large indemnity to shareholders. The possibility of government purchase of the Fastovo line sparked widespread speculation on these shares among Belgians; the quotation of these shares on the Brussels exchange jumped from 310 to 388 francs from January to March of 1895. The Russian Ministry of Finance issued two communiques denying the rumors of payments over and above the value of stock to shareholders of the Fastovo line, and the price of these shares fell gradually. As a result of the government repurchase policy, the stock of only one Russian railroad was quoted on the Brussels exchange by the end of 1899, compared with four in 1895.

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58 Francis Skrine, *The Expansion of Russia 1815-1900* (Cambridge, 1903), 313, states that at the end of the nineteenth century Russia had 41,577 miles of railway of which the state owned 22,846, or 55 per cent. Kovalevsky (*op. cit.*, 858) indicates that state control of railroads reached 67 per cent of the total as early as 1897; Edmond Thery, *La Transformation Economique de la Russie* (Paris, 1914), 145, fixes it at 70 per cent in 1900.

59 *Moniteur*, March 10, July 14, August 18, December 29, 1895.

60 The only railroad shares still quoted in 1899 were those of the Warsaw-Vienna line. As of 1899 the bonds of Ivangoord-Dombrova, Warsaw-Vienna, and the Great Russian
Investment Benefits for Belgium

Although railroad investments declined, the increased investments of Belgians in other Russian industries brought many benefits to both countries. The direct expansion of Belgian industries by the establishment of branches in Russia has already been mentioned. No less important was the increased income resulting from dividends. An analysis of the payments made by sixty-eight companies in 1898 reveals an average dividend of 5 per cent. Metal industries led all other investments with an average yield of 7.5 per cent for all iron and steel plants, metal-working factories, and machine shops. Rails and trams paid the next highest returns, just under 5 per cent. Coal enterprises yielded the lowest, under 2 per cent, while the companies in all other industries averaged almost 4 per cent. Bonds also yielded satisfactory returns for their investors, and, Railroads Corporation were still listed on the Brussels exchange. In later years, the Russian government again changed its railroad policy and the stocks and bonds of additional companies were listed.

61 Computed from dividend payments cited in Moniteur, 1900-01 Supplément. These include only those companies whose shares were quoted on the Brussels exchange and whose dividend payments were made through Belgian banks. Dividends paid on shares with an unlisted value were not included in these results. In 1899, under somewhat less favorable economic conditions, seventy-one companies paid an average of 3.7 per cent on their stock. All of the above averages also include listed companies which did not pay any dividends. Cf. Fernand Baudhuin, Le Capital de la Belgique et le Rendement de son Industrie avant la Guerre (Louvain, 1924), 113.
although these payments were as high as 6 per cent, the over-all average was 4.5 per cent.

Apart from the added income, these investments resulted in increased exports and provided employment for Belgians. Approximately fourteen thousand engineers, foremen, employees, and workers migrated from their densely populated country to Russia where they profitably utilized their varied abilities and skills. Another decided advantage for the economy of Belgium was the increase in exports which rose to 25 million rubles in 1897, or five times as much as 1892. These shipments, some of which were destined for Belgian plants in southern Russia, included unfinished iron and steel, machines, and machine parts. Belgium also continued to import such raw materials as manganese and petroleum to supply the needs of domestic industry.

**Opposition in Russia to Influx of Foreign Capital**

Frequent allusion has already been made to the progress of Russian industry as a result of the import of foreign capital and Witte was pleased with its beneficial effects on his industrialization program, but some Russian

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63 Laurent Dechesne, *L'Expansion Économique de la Belgique* (Brussels, 1900), 64.

64 Kovalevsky, *op. cit.*, 706 et seq.
circles seriously opposed the influx of investments from abroad. At first the strongest criticism came from the old guard "opposed to the establishment in Russia of foreign industries and colonies which modify the character and beliefs of the people, demoralize them, and make them more difficult to govern." Until 1899 this opposition expressed itself, to a great extent, through the press, "and although some attack constantly and even violently against foreign enterprises, the Government has not let itself be influenced by them."^65

But in February of that year, the issue of foreign investments was brought to a head by the Moscow Stock Exchange Committee when the Groznyi Petroleum Company requested permission from the government to construct a pipe-line to the Black Sea. This committee charged that the oil industry in the Caucasus was monopolized by foreign capitalists "and requested the government to take energetic measures to stop the current invasion."^66 This request was submitted to the Council of the Empire of which "a good number...give it their support."^67

In the official journal of the Ministry of Finance, Witte charged his opponents with using the pipe-line as a

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^65Belgium, Ministère des Affaires Étrangères, Dossier No. 2906, February 18, 1899.

^66Ibid., Dossier No. 2900, February 11, 1899.

^67Ibid., Dossier, No. 2906, February 18, 1899.
pretext for their attack on foreign capital in Russia and indicated that the pipe-line would serve the needs of the military in the Black Sea region. Not only did the minister of finance defend the import of foreign capital, but he maintained that more was required since foreign imports continued in spite of high tariffs. Witte also asserted that some industrialists and merchants linked their attack on foreign capital with the protective tariff, because they feared that the competition of foreign companies within Russia would reduce their profits, but that the tariff was intended to develop Russian industry and not to protect "hothouse plants." Nor was the opposition to foreign technicians justified since they, like the foreigners bringing in their capital, settle in Russia and after several generations their descendants become Russians. In summary, Witte called for the continued attraction of foreign capital and technicians, and the maintenance of a high protective tariff until industries could withstand foreign competition and exist without protection.68

On the occasion of the meeting of a commission for the improvement of commerce in grains, Witte personally expressed his views before an audience composed of landholders, industrialists, and merchants. In this address

68This position led the Belgian minister in St. Petersburg to conclude that as long as Witte dominated the government "we do not have to fear that a check would be placed on the extension of our enterprises in Russia." Ibid.
Witte took the position that although agriculture was the base of national production, those countries which were exclusively agricultural "are compelled to play the role of tributary colonies with respect to industrial countries," and that intensive agriculture, the accumulation of capital, and the spirit of enterprise and technical "know-how" were non-existent. Once again he defended his twin policies of high tariffs and the import of foreign capital. He said that the protectionist system had the effect "of creating a school for our young industry," and that it was only a temporary measure until the country reached an economic level where it was free from its dependence on foreign enterprise and markets.69

With respect to the discontent of some over the influx of foreign capital, Witte told his audience that it produced the salutary effects of competition, a price decline, and lower profits, and that it was "preferable for Russia to see an influx of foreign capital than to import foreign products." In addition, to the continuation of the protective tariff and the import of foreign capital, concluded Witte, the increase of technical schools, the elimination of obstacles hindering industrial initiative, and the improvement of working conditions, "will bring about the stable

69Ibid., Dossier No. 2900, March 4, 1899.
development of all productive forces in the country and open a new era of prosperity for Russian agriculture."70

The speech "produced a sensation because it was the first public revelation of his ideas on certain important points of the economic situation of the country."71 The Russian press discussed the speech at length, and although it was "unanimous" in its agreement that industry and agriculture must march together, it was "unanimous also in combatting the idea of Witte that it is by foreign capital that one can arrive at this development."72 And since serious attacks in "high government circles, even by many members of the cabinet," continued, Witte decided to give his policy imperial sanction and "requested the Emperor to call a grand council presided over by his Majesty in which he expounded his ideas."73

In this closed session Witte presented in essence the same arguments which he had used in the official press and before the grain commission, but painted more graphically the effects of abandoning the protective tariff and foreign capital at this critical juncture of Russian industrialization.

70 Ibid.
71 Ibid., March 16, 1899.
72 Ibid., March 23, 1899.
73 Ibid., April 13, 1899.
If the proposal to secure cheaper prices on industrial commodities by decreased tariffs and increased imports were followed, "it would forever deprive the country of the positive results of the protective system, for which a whole generation has made sacrifices." In time the continued influx of foreign capital would result in lower dividends "and amass so much native capital as to reduce imperceptibly its own influence," and, therefore, the role of foreign capital would "stand out only at the beginning of the process of industrialization." 74

Instead of introducing drastic changes which would hinder further industrial development, Witte requested that the tariff be continued until the trade treaties were renewed and that the existing policy with regard to foreign capital be retained until 1904 when it would be decided "whether new safeguards should be added to existing legislation." 75 Witte's arguments convinced the Czar who gave his full

74 T. H. von Laue "A Secret Memorandum of Sergei Witte on the Industrialization of Imperial Russia." *Journal of Modern History*, XXVI (March, 1954), 64 et seq. Witte also underscored the "excess of government control of foreign capital," since "foreign companies are subject to Russian laws and regulations....In permitting the activities of foreign companies in Russia, the government retains the right to revoke at any time that permission and to demand the liquidation of any company."

75 Ibid., 74.
approval to these policies and proposals. When the Belgian minister congratulated Witte on his victory, the latter said...

...that he was very happy for the assistance of the Belgians, that he has nothing but praise for their efforts and that in the future, although nothing will be changed in the legislation and that no action would be taken to fix a duration on the rights which protect industry, one can be assured that foreign capital and labor will find an easier investment in Russia and that he would take care of and free them from difficulties and narrow, vexatious measures which still sometime paralyze them.76

Witte's victory over his opposition was so complete that a fortnight later, when he visited England to develop further commercial and financial relations between the two countries, he expressed the view that Russia's industrial development was indissolubly linked with foreign capital. He indicated that the rapid industrial progress made throughout the world made it necessary for Russia "to employ every possible means of catching up with her competitors,... and to refuse the cooperation of foreign capital in the exploitation of the natural riches of Russia would be tantamount to voluntary acquiescence in industrial stagnation."77 In the following weeks much of the opposition to foreign capital and workers declined, but not entirely so, and Witte ordered the publication of a book which "is

76Belgium, Ministère des Affaires Étrangères, Dossier No. 2900, April 13, 1899.

77The Times (London), April 26, 1899.
entirely in favor of foreign capital and illustrates the immense advantages accruing to Russia."78

Other contemporary Russian economists and writers took a different view of Witte's intensive industrialization program and the effects of foreign capital on Russia. According to one observer, the penetration of foreign capital hindered the development of Russian capital, with the result that the autocracy "succeeded in making itself independent of the middle classes" and prevented them from acquiring political power. The end result of the failure to develop a strong native middle class was that the autocracy "profited by the technical advantages of Russian capitalism to reinforce its power,...without modifying the despotic character of its authority."79

Other analysts believed that Witte's emphasis on industry, and the neglect of the interests of the people engaged in farming, aggravated the difficulties in agriculture. Although industrial profits were high, the burdens of taxation continued to fall on the peasants. The poverty of this group and the failure to increase the purchasing power

78Belgium, Ministère des Affaires Étrangères, Dossier No. 2906, July 6, 1899. This was B. F. Brandt's book which dealt with foreign capital in Russian metallurgical and mining industries, constituting the second of a four volume study entitled Foreign Capital.

79Gregor Alexinsky, Modern Russia (London, 1913), 103-04.
of the people in general would soon result, one economist remarked, in an industrial depression, all the more severe since Russian industry depended almost entirely on an internal market. 80

Summary

The economic evolution of Belgium and Witte's industrialization program produced the conditions which created the union between Belgian capital and Russian industry during the years 1895 to 1900. With the renewed financial expansion of Belgium in 1895, industrialists, financiers, and investors looked about for a productive center of investment and found the conditions in Russia the most attractive. The importance of railroad construction cannot be exaggerated but other factors, such as the earlier success of the Dnieper Company, were considered in making this choice. In a short period of time a steady stream of capital flowed from Belgium into Russia, and by 1900 Belgians played the most important role among foreign investors.

80 "On ne paraissait pas se rendre compte de cette vieille vérité que le marché ainsi que la valeur d'échange des marchandises sont créées par le consommateur et que le paupérisme des masses populaires fait craindre que dans un avenir de plus en plus proche nous ayons à souffrir d'une de ces crises dont une jeune industrie, telle que la nôtre, a peine à se relever." Maxime Kovalewsky, Le Régime Économique de la Russie (Paris, 1898), 253.
Foreign investments, along with increased financial activity in Russia, laid the basis for the great industrial upsurge in the latter half of the nineties. In the south, which was the center of Belgian activity, this resulted in the emergence of a multiplicity of factories. The revolution in heavy industry was especially marked, and by far the greatest amount of Belgian capital was invested in the mining of coal, the smelting of pig iron, and the manufacture of metal products. Other investments also stimulated the growing chemical, construction, and glass industries in the south. In Russia as a whole, Belgians financed the electric lighting and transportation of expanding urban communities. They also created enterprises in such widely divergent industries as textiles and gold mining. For Belgium, these green years brought increased income from dividends and larger exports; for Russia, an array of industrial plants which rivaled those of western Europe and a potential output which could not always be entirely absorbed during periods of economic decline.
"Mais on avait fondé trop d'espoir sur la Russie; de 1890 à 1900, sa production de charbon, de minerais, de fonte et d'acier avait triplé ou peu s'en fallait, et de nouvelles usines allaient seulement commencer à produire. C'était trop: en 1899 des difficultés se firent jour, qui bientôt tournèrent au désastre."

Ferrand Baudhuin,

*Histoire de la Belgique Contemporaine*,

Volume I, p. 333
CHAPTER IV

CRITICAL YEARS (1900-06)--Part 1

Depressions in Russia and Belgium

The Russian depression

The first year of the twentieth century marked the beginning of a commercial-industrial depression which brought disaster to Belgian investments in Russian industries. The first sign of an impending depression appeared in the financial crash which began toward the middle of 1899. A monetary crisis in western Europe had produced a scarcity of money in Russia. By the end of the year Russian state and commercial banks gradually increased their rates of discount and restricted credit.

Tightening of credits, partially provoked by the debacle of two major financial houses, created an atmosphere of "no-confidence" and the collapse of the stock market. All industrial stock fell sharply. Immediate support by the government in the form of loans by the Bank of Russia to institutions with solvent credit stayed the tide.¹ But a

¹Arthur Raffalovitch, Les Crises Commerciales et Financières depuis 1889 (Paris, 1900), 46 et seq.
few months later shares began to plunge downward once again, and the following listing of a few favored banking and industrial shares quoted on the St. Petersburg exchange illustrates the extent of this decline within the next two years.

**TABLE 4**

**STOCK QUOTATIONS ON ST. PETERSBURG EXCHANGE, 1899-1901**

<table>
<thead>
<tr>
<th></th>
<th>April 1, 1899</th>
<th>Feb. 7, 1901</th>
<th>Decline in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Petersburg Discount-Loan Bank</td>
<td>723</td>
<td>395</td>
<td>45.4</td>
</tr>
<tr>
<td>St. Petersburg International Bank</td>
<td>573</td>
<td>285</td>
<td>51.2</td>
</tr>
<tr>
<td>Donetz-Iurievka Metallurgy</td>
<td>618</td>
<td>140</td>
<td>77.4</td>
</tr>
<tr>
<td>Briansk Metallurgy</td>
<td>494</td>
<td>210</td>
<td>57.5</td>
</tr>
</tbody>
</table>


This situation was further aggravated by government economy in the execution of its domestic program. The stringency in the money market, poor harvests, and the expenses of government operations in China at the time of the Boxer rebellion, forced Witte to divert "available sources from their destined channels."\(^2\)

government purchases, which constituted approximately 40 per cent of metallurgical output, were gradually reduced for several years. The decline in internal markets had harsh effects on the iron and steel industry because it depended almost exclusively on domestic markets.

The decrease of government orders on the one hand and the lack of necessary credits to manufacturers and consumers on the other resulted in stockpiling and glutted markets. As a growing number of manufacturers competed for fewer markets, prices fell drastically. Although producers in heavy industries throughout Russia were forced to sell at lower prices, the price declines in southern industries were even more acute. In the first year of the depression, the price of Krivoi-Rog ore fell 50 per cent. The price of Donets coal dropped from a high of 11 kopeks per pood in 1901 to below 6 kopeks in the early part of 1903. In less than three years the price of pig iron fell from 75 to as low as 39 kopeks per pood, and other iron and steel products suffered a similar decline. Baku crude oil fell from as high as 17 kopeks per pood in 1900 to as low as 4 kopeks in 1902, a decline of approximately 75 per cent. Some industries managed to operate on a small margin of profit while others were forced to sell at cost or even below.

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3 Moniteur, December 2, 1900; February 6, 1901; February 1, 1903; June 2, 1904; L'Economiste International, August 24, 1901.
This downward spiral of prices resulted in a decline in production, although some industries were more drastically affected than others. Heavy industry felt the most severe impact of the depression in all Russian industrial centers, but the lowest levels in the output of these products were reached in the southern industrial center as illustrated in the following table.

**TABLE 5**

**PRODUCTION DECLINE OF MAJOR INDUSTRIES IN SOUTHERN RUSSIA, 1900-03**

<table>
<thead>
<tr>
<th>Year</th>
<th>Iron ore (a)</th>
<th>Coal</th>
<th>Pig iron</th>
<th>Petroleum (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in million poods)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1900</td>
<td>156.2</td>
<td>691.4</td>
<td>91.9</td>
<td>600.0</td>
</tr>
<tr>
<td>1901</td>
<td>111.3</td>
<td>694.4</td>
<td>91.8</td>
<td>670.9</td>
</tr>
<tr>
<td>1902</td>
<td>111.8</td>
<td>642.1</td>
<td>84.2</td>
<td>636.0</td>
</tr>
<tr>
<td>1903</td>
<td>149.7</td>
<td>728.0</td>
<td>83.4</td>
<td>596.3</td>
</tr>
</tbody>
</table>

(a) Krivoi-Rog region only.
(b) Baku only.


The latter part of 1902 represented the lowest point of the depression, but the output of some products reached even lower levels in 1903. Since the absolute decline in the production of heavy industry was not too great, the critical situation facing these industries stemmed from other factors. During the period 1895-1900 production increased at a rapid
rate, and in anticipation of a similar rate of development in the years ahead a number of new major industrial plants were established. As a result the average output of industrial factories declined considerably while the decrease in total production was comparatively slight. Some factories which had scarcely begun operations were forced to stop production and even the older factories generally cut their output drastically.

The decline in the rate of production best illustrates the difficulties which faced these industrial enterprises. In 1900 the eighteen major metallurgical factories in the south had 54 blast furnaces, several of which were still in the process of construction, but by the end of the year only 29 of these were in operation. The decline in the consumption of pig iron forced the producers to cut blast furnace operations to 55 per cent of capacity in 1902. During this same year the growth of stockpiles decreased iron-ore mine operations to 37 per cent of capacity, coke furnaces to 42 per cent, and coal mines to 59 per cent. By the early part of 1903 only 23 out of 56 blast furnaces were still active. 4

Although the above general causes explain, to some extent, why a large number of domestic and foreign companies

4 *Moniteur*, January 10, October 17, 1901; December 11, 1902; April 26, 1903.
went into bankruptcy, other factors also contributed. These more specific causes—including the shortsightedness of industrialists, excessive speculation, and the shortage of operating capital—explain the deepening of the depression and the debacle suffered by Belgian companies. Belgian financiers and industrialists, often unfamiliar with the Russian language, failed to study adequately the needs of the market. There also developed a market tendency toward overspecialization, or the launching of additional enterprises for the manufacture of products in which an equilibrium between supply and demand already existed. This overestimation of the market was largely based on the belief that the profitable orders distributed by the government were inexhaustible, or resulted from the desire to compete for the huge profits of a few companies in certain industries.

Factories geared to the production of government orders lacked the flexibility required to meet the demands of the private market. On the other hand, ignorance of local conditions prevented industrialists from discovering the needs of private consumers. In some cases factories were established to manufacture products for which there was no immediate demand, or whose production far exceeded the purchasing power of the Russian people. Occasional words of caution against overinvestment in such industries had gone unheeded.
Excessive speculation also constituted a major reason for the heavy losses sustained by Belgian companies. This characteristic pervaded all Russian stock regardless of whether the operations of the company resulted in profits or losses. Some companies were created in bad faith, while the stock of others was pushed to exaggerated heights when there was no justification for such a rise. The stock price of some companies which were still in the process of construction was pushed to two or even three times above nominal value. Earlier periodic warnings against irrational speculation had failed to curb the appetite of Belgian investors for Russian securities.

For a number of reasons, Belgian companies lacked adequate amounts of operating capital. In some cases, too large a part of the founding capital had been absorbed in preliminary expenses and fixed assets. Promoters, employed to launch new enterprises, were paid excessive commissions and service charges. Consequently there were insufficient funds for plant construction and equipment. Other companies underestimated the high costs of construction, or failed to make adequate provision for the building of workers' lodgings, schools, and hospitals. The large capital outlays for such expenditures forced these companies to issue additional securities, but when the depression struck these sources were no longer available.
Other factors also accounted for the lack of operating capital. Certain companies, particularly those in the metallurgical industry, invested too much money in fixed assets. They were conceived on a grand scale and tried from the beginning to create self-sufficient enterprises. In addition to this overexpansion, others found themselves overburdened by heavy administrative expenses. Such expenditures sometimes included the maintenance of administrative offices in Belgium and Russia, or the employment of an excessive and overpaid managerial staff. In their first years of operation some companies also paid large dividends before they were firmly established and failed to build up a reserve fund to meet emergency conditions. Lack of a reserve fund also resulted from the overextension of long-term credits to consumers. Caught without adequate funds at the time of the depression, these companies borrowed short-term loans with interest rates as high as 9 per cent.\(^5\)

In summary, these more specific causes along with those of a more general nature mentioned earlier unleashed

the spectre of an industrial depression in Russia before it broke out in other countries. The depression in western Europe further aggravated the economic decline in Russia. This decline in turn intensified the stock market collapse in Belgium.

The Belgian depression

The financial and industrial depression in Belgium closely paralleled that of Russia. A stock market crash in the latter half of 1899 caused the dissolution of a large number of banks, especially those engaged in stock market activities. Even the sturdier banks suffered losses, while others were obliged to reduce their capital. Among those which suffered the heaviest losses were the ones with Russian investments. The Bank of Liege, in order to meet its obligations to privileged shareholders, had to undergo reorganization. The Brussels International Bank operated at a loss; the Overseas Bank reduced its capital; and the Russian Financial Company was dissolved. A number of investment companies followed these same patterns.6

The collapse of the stock market in Belgium resulted from professional and public speculation. Although the quotation of all stock declined, colonial and Russian shares fell more drastically than those of domestic industries.

6B. S. Chlepner, Le Marché Financier Belge depuis Cent Ans (Brussels, 1930), 96 et passim.
During the early months of 1901, there were signs of a recovery, but the aggravation of the depression in Russia and the dissolution of several Belgian banks intensified the crash. In two years the value of all shares quoted in Brussels depreciated by approximately one billion francs.

As a result of developments similar to those in Russian, iron and steel enterprises throughout Belgium suffered the heaviest losses. The increased demand for metallurgical products and the extraordinary profits reaped by existing companies in the closing years of the nineteenth century brought a large number of new iron and steel enterprises, attended by excessive speculation, into existence. The decline in the stock market and the high costs of production, particularly because of excessive coal costs, destroyed many of the new enterprises before they could become established on a firm footing. In 1902, largely as a result of the extensive losses in Russia, the average net return on all Belgian domestic and foreign companies declined to zero. 7

Although Russian shares quoted in Brussels began to decline in the second half of 1899, the depression of 1900 and the failure of a number of Russian companies created a panic in Russian stock. In the course of a year the market value of Belgo-Russian shares fell 59 per cent. But this

7 Baudhuin, *op. cit.*, 103 et passim.
stock had not yet reached its nadir, and the following listing of the common shares of major companies that survived the depression indicates the dimensions of the catastrophe of l'aventure russe.

**TABLE 6**

QUOTATIONS OF RUSSIAN SHARES ON BRUSSELS EXCHANGE, 1899-1902

<table>
<thead>
<tr>
<th></th>
<th>June 29, 1899</th>
<th>Dec. 31, 1902</th>
<th>Decline in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dnieper Metallurgical</td>
<td>4700</td>
<td>1812</td>
<td>61.5</td>
</tr>
<tr>
<td>Russian Providence Metallurgical</td>
<td>1600(^a)</td>
<td>65</td>
<td>96.0</td>
</tr>
<tr>
<td>Nikolaiev Naval Yards</td>
<td>1112</td>
<td>110</td>
<td>90.2</td>
</tr>
<tr>
<td>Central Donets Coal</td>
<td>1025</td>
<td>60</td>
<td>94.2</td>
</tr>
<tr>
<td>Groznyi Petroleum</td>
<td>225</td>
<td>32</td>
<td>85.8</td>
</tr>
<tr>
<td>Belgo-Russian Plate-Glass Mnf.</td>
<td>810</td>
<td>20</td>
<td>97.6</td>
</tr>
</tbody>
</table>

\(^a\)December 30, 1899.

Source: *Le Moniteur des Intérêts Matériels*, July 2, 1899; *1899-1900, 1902-03 Suppléments*.

Many of the shares in Russian industries became completely worthless, and although some stocks recovered, Belgian investors suffered a considerable loss. The losses sustained by stockholders in Belgian companies alone was estimated at 360 million francs.\(^8\) Taking into consideration Belgian investments in companies formed under Russian law and the losses to bondholders and banks, one economist concluded that the Belgians lost approximately 375 million francs, or

\(^8\)This figure includes French losses in Belgian companies.
Reactions to the Depression in Russia

The impact of the industrial depression in Russia on the economies of both Russia and Belgium provoked the governments, industrialists, and press of these countries to engage in a great debate on its causes and solutions. The attitude of the Belgian government influenced the amount of support it gave to native industrialists and investors, while the reaction of the Russian government affected the extent and nature of future Belgian investments in Russia. Belgian and Russian press reports reflected the views of these two countries and their reactions to government policies. In turn, the views expressed by these two groups and interested industrialists shaped the ideas which they proposed for solving the depression.

Reaction of the Belgian government

In view of the immense losses of its nationals, the Belgian government at home and through its representative in St. Petersburg expressed the need for official intervention, preferably by the Russian government. As early as May of 1900 Leghait, the Belgian minister in St. Petersburg, wrote

9 Ibid., 165-66.
that businessmen were discontented with Witte and charged him with creating a money scarcity by accumulating all available national resources in the state banks in order "to make the situation of the Treasury appear flourishing for the purpose of more easily obtaining a loan." Moreover, "Witte has remained mute to all requests" for credit extensions by companies in financial difficulties.

Less than a month later, because of numerous requests by Belgian industrialists, Leghait made a personal appeal to Witte to persuade him "that the present general situation was such, from the point of view of our interests, that his intervention was necessary to re-establish confidence and credit." He pointed out that with Witte's approval, Belgian syndicates would furnish capital to hard-pressed enterprises if the Russian government would guarantee a moderate rate of interest. At first Witte attacked those foreign companies "which launch in Russia rash enterprises with insufficient capital, or by simple speculation, [and] he could not in any way be responsible for the disappointments suffered by some speculators."11

When Leghait protested this characterization of Belgian enterprises, Witte blamed existing difficulties on

10 Belgium, Ministère des Affaires Étrangères, Séries Générale re Russie, XXII (1898-1900), May 24, 1900.

11 Ibid., Dossier No. 2900, June 13, 1900.
the territorial expansion of colonial powers and short-sighted international investments. But, he added, "it is infantile to ask me to say anything or to take measures for re-establishing confidence or credit; ...why should I support and encourage still-born enterprises in an artificial way by fruitless orders?" In view of Witte's attitude, concluded Leghait, industrialists were discontented and "we can scarcely count on assistance at the present."12

At the time that Witte presented his budget report for 1901, Leghait observed that Witte's optimistic conclusions were received "with a certain skepticism."13 In another interview which followed shortly after, Leghait called Witte's attention to "the danger of seeing the stream of capital which flows toward Russia diverted and depicted for him [Witte] the imminence of the disasters which menace the interests of the two countries if appropriate measures to restore confidence and to sustain the hopes of better times were not taken without delay." Witte, while refusing to admit that the Russian depression was worse than elsewhere, continued to attribute current difficulties to the international situation and indicated plans to give special orders to industry.14

12 Ibid.

13 Ibid., Séries Générale re Russie, XXIII (1901-02), January 15, 1901.

14 Ibid., No. 2900, February 25, 1901.
By the summer of 1901, the Belgian parliament began to consider the advisability of more direct intervention and proposed methods for safeguarding the Russian interests of her nationals. Henry Delvaux, member of the lower house, contended that, because investments exceeding 100 francs per capita were involved, the government should consider intervention. He suggested that since the depression affected these investments and Belgian industry, the Minister of Industry and Labor in Belgium should interview interested industrialists and follow their advice.\textsuperscript{15}

In a speech before the Senate about a month later, a member further proposed that Belgium imitate Witte in his loans to industry on condition that the Russian government guarantee the interest payments on such mortgage debentures. These speeches brought the Minister of Industry and Labor to the Senate floor to advise the members that since no government accepted interference from another, it was "necessary to use the greatest caution and not advance except knowingly."\textsuperscript{16}

The views of the Belgian parliament were communicated to Leghait who arranged an interview with Kovalevsky, the Assistant Minister of Finance and Director General of the

\textsuperscript{15}Belgium, \textit{Annales Parlementaires de Belgique} 1901, 555.

\textsuperscript{16}\textit{Ibid.}, 440, 452.
Department of Industry. Leghait inquired whether the Russian government would guarantee the interest rate on Belgian loans intended to give orders to industry and/or the creation of a bank to furnish loans to companies requiring additional capital. In this attempt to discover "in what limits he would consider government intervention on either side" in behalf of Belgian investments, Kovalevsky, like Witte, held that the Belgians themselves were responsible for their difficulties. The Belgian representative allowed that there was "unfortunately some truth in these reproaches," but in view of the immense advantages which these investments brought to Russia, Belgians should expect some Russian support.\(^{17}\)

Instead of supporting the proposals presented by the Belgian representative, Kovalevsky suggested that a Russian bank would make the necessary loans if the Belgian government would guarantee the interest. Leghait replied that the Belgian government could not accept such a proposal. As a result of this interview, Leghait saw no solution "in an impasse from which there is no escape," unless government finances improved to the point where it could place larger orders with industry. The depression, according to Leghait, was not a result of overproduction but rather "the abnormal reduction of consumption" due to decreased government orders.\(^{18}\)

\(^{17}\)Belgium, Ministère des Affaires Étrangères, Dossier No. 2900, August 5, 1901.

\(^{18}\)Ibid.
By the end of 1901, when the depression grew more serious, Witte, in response to a renewed appeal by Leghait in behalf of Belgian investments, "was disposed to show himself as friendly as possible" and treating each case individually "to come to...[industry's] support." A short time later, when Witte published his budget report for the year 1902, the Belgian envoy indicated that it was generally well received because of its confidence in the future but that the business world was "much more skeptical and Mr. Witte is very unpopular." Since the Russian press refrained from any opposition to the budget, Leghait strongly urged that the Belgian press abstain from any attacks on the views and administration of Witte.

Attitude of the Belgian press

While the Belgian press generally refrained from attacking Witte's policies with regard to the depression, the French press strongly criticized the finance minister. Perhaps with a view to blunting this criticism Witte arranged an interview, with the editors of two Paris journals, in which he acquitted the Russian government of any responsibility and remarked that "the French have made a big mistake in confiding their capital to Belgians who are

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19 Ibid., December 10, 1901.
20 Ibid., January 15, 1902.
21 Ibid., January 20, 1902.
making fools of them."\textsuperscript{22} One Belgian journal branded Witte's interview as calumny and attributed the catastrophe to "the fallacious promises of the Russian government."\textsuperscript{23} Witte complained to the French ambassador that his words had been misinterpreted, and Leghait again advised the home office that the Belgian press would do well to abstain from any campaigns or attacks on Witte.\textsuperscript{24}

Although \textit{Le Moniteur des Intérêts Matériels}, the leading Belgian financial journal, generally took a moderate view of the depression, it eventually took Witte to task for a "hands off" policy. This journal maintained that the depression was not the result of overproduction but rather "production badly distributed and not suited to consumption needs," and that industry should try to develop the vast potential markets of Russia.\textsuperscript{25} In evaluating one of Witte's published analysis of the depression, this journal agreed that it was "in part the result of excess speculation and other exaggerations, ...but the Russian government is obliged to recognize that this decline has been too brusque and that...market conditions have become absolutely abnormal."\textsuperscript{26}

\footnotesize{\textsuperscript{22}Résumé of interview in \textit{L'Étoile Belge}, May 18, 1902.} \\
\footnotesize{\textsuperscript{23}\textit{Le Matin} (Antwerp), May 20, 1902.} \\
\footnotesize{\textsuperscript{24}Belgium, Ministère des Affaires Étrangères, Dossier No. 2900, June 10, 1902.} \\
\footnotesize{\textsuperscript{25}\textit{Moniteur}, December 8, 1901.} \\
\footnotesize{\textsuperscript{26}\textit{Ibid}., December 22, 1901.}
But when the depression reached its lowest point, Moniteur criticized Witte for contenting himself "with expressing vague hopes for a slow and progressive improvement," and closed with the phrase: "Non verba, sed acta."

Proposals of Belgian industrialists

In the face of their vast commitments in Russia, Belgian industrialists could ill-afford to limit themselves to vague hopes and proposed the organization of industrial combinations as the most effective solution to the depression. One Belgian industrialist envisioned the fusion of all metallurgical factories of southern Russia into an organization known as the Southern Russia Trust. Existing stocks and bonds were to be replaced by securities issued by the trust in proportion to the value of each enterprise. According to its sponsor, this trust would increase the sale price of metallurgical products by suppressing excessive competition, and decrease cost price through specialization of production and the reduction of operational expenses.

The boldest plan of all was presented by another Belgian industrialist, J. Gemaert, who conceived a union of all Russian industry, regardless of nationality, into a giant industrial federation under the surveillance and patronage

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27 Ibid., January 25, 1903.
28 Ibid., July 7, 1901.
of the Russian government. This comprehensive proposal was presented by Gernaert before a conference of Belgian engineers and industrialists gathered "to initiate means for safeguarding industrial interests tied up in Russia."\textsuperscript{29}

The meeting was attended by representatives of the majority of companies with investments in Russian industries, bank directors, and representatives of the Belgian and Russian governments. In his address, Gernaert indicated that the preservation of Belgium's vast interests in Russia constituted one of her major economic problems. He begged his countrymen not to abandon their investments at this critical juncture, since "more than half of the industries established in Russia would be irremediably compromised."\textsuperscript{30}

A transfusion of additional capital into the bloodstream of existing companies represented an emergency measure, but the organization of an industrial federation constituted a more permanent antidote to a future industrial relapse. According to Gernaert, such a federation would bring confidence to industry and consolidate the financial situation of member companies. Created in the spirit of a community of interests, it would study conditions peculiar to each group of industries to determine the particular combination which should be adopted for each branch of industry.

\textsuperscript{29}Jules Gernaert, \textit{Fédération Industrielle Russe} (Brussels, 1901), 1 et seq.

\textsuperscript{30}\textit{Ibid.}, 6.
The federation would not be a deceptive league with aggressive tendencies, but would represent a federation of interests operating with official approval and under the surveillance of the Russian government. It would also submit approved requests to the government for its consideration; study production control and price fixing; provide loans; and publish information to keep industries informed on commercial, financial, and industrial developments. The basic purpose of the federation was to avoid overproduction and establish a balance between supply and demand.

This federation proposal received a favorable reception among Belgian and French industrialists in Russia, and joint committees were appointed to study this matter further and draw up a definite plan of action. With regard to the formation of associations for individual branches of industry, the statutes stated that these could take the form of a syndicate, a central sales agency for the purchase of raw materials or the sale of certain products, an association for the centralization of commercial and technical services, or a trust. Such combinations were forbidden to operate as a monopoly and their price control depended on the elimination of excessive competition. Constituted under Russian law, the financial assets of this federation were fixed at 5 million rubles in shares and 75.5 million rubles in bonds whose
interest would be guaranteed by the Russian government.\textsuperscript{31}

Enthusiastically hopeful about the success of his plan, Gernaert made a trip to Russia to outline his federation proposal to Witte. Witte not only indicated that he had no objection in principle to the federation but that he would give Gernaert all the freedom of action necessary for reaching an agreement with interested parties, although he reserved the right to examine the agreements reached. But as for the government guarantee of a minimum interest on the capital intended to constitute a bank for industrial loans, Witte drily replied that such a guarantee was out of the question. And so Witte's refusal prevented the boldest conception for dealing with the depression from materializing.\textsuperscript{32}

\textbf{Reaction of the Russian government}

In view of the Russian government's policy to promote rapid industrialization and the dependence of industry on large government contracts, Witte's pronouncements on the causes of the depression and proposals for its solution were of grave concern to native and foreign industrialists. During the early part of 1900 Witte believed that the situation

\textsuperscript{31}"Circonstances qui justifient la garantie d'intérêt de la part du Gouvernement," Belgium, Ministère des Affaires Étrangères, Dossier No. 2900.

\textsuperscript{32}\textit{Ibid.}, May 23, June 17, August 10, August 16, 1901.
believed that the situation in the metallurgical industry was due to "constant speculation," and opposed pleas for higher protective tariffs at this time on the grounds that "Russian industry cannot remain forever in infancy." Instead the government lowered the prices paid on its orders for metallurgical products as "the best remedy," in the belief that this policy would increase demand and result in a greater flow of goods on the market. But as the decline in the market price of industrial shares continued, a decline Witte thought unjustified by existing circumstances, he took a decisive step. Witte authorized the Bank of Russia to issue large-scale loans to industry under new conditions, in the hope that this display of government support would restore confidence in the financial and industrial world.

In his budget message of 1901 Witte cautiously underestimated the effects of financial difficulties on the general economic situation and viewed the future with confidence. He regarded this development as a reaction to world conditions, and attributed the decline in the influx of foreign capital to investments in western European industries and the financing of various wars.

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33 Translation of an article entitled "Crisis in the Metallurgical Industry" from a Russian journal. Leghait attributed these views to Witte. *Ibid.*, May 16, 1900.

34 *Gazette de Saint-Pétersbourg*, June 25, 1900. See p. 139.

35 Russia, Rapport du Ministre des Finances à S.M. l'Empereur sur le Budget de l'Empire pour l'Exercice 1901 (St. Petersburg, 1900), 10.
Witte, in reply to observations made by a French economist, also opposed the view that the depression was due to an industrial overproduction. According to Witte, iron and steel companies restricted themselves to the manufacture of products which no longer found a ready market, instead of producing goods required by the private market at lower prices. As for the recommendation that the government refuse authorization of new enterprises to assure the return of high prices, Witte replied that a reduction in the number of new enterprises was to be recommended but there could be no return to the abnormally high prices charged earlier.\textsuperscript{36}

When the downward spiral of prices sometimes fell to below the cost of production and requests for government support increased, Witte expressed his views at length through the journal of the Ministry of Finance. The severe price decline, he observed, was not due to a reduction in government orders but to government policy and to entrepreneurs who "directed their enterprises without reason or prudence." When the government adopted protectionism, its purpose was to stimulate internal competition through the influx of foreign capital and thereby bring reduced prices. Consequently, reduced prices were "precisely the result which the Government had in mind." On the other hand, entrepreneurs, attracted by high prices which they thought would

\textsuperscript{36}Moniteur, November 17, 1901.
be permanent, continued to expand production until they broke the balance between supply and demand, forcing firms to curtail or decrease production.\footnote{Reprinted from \textit{Vestnik Finansov} in \textit{Journal de Saint-Pétersbourg}, December 10, 1901.}

Witte also blamed the depression on the way in which some companies were constituted. He charged that some enterprises were the victims of irregularities in organization: founders received excessive remuneration for exaggerated contributions, while various intermediaries and agents were paid unreasonable commissions for their organizational services. Still others, and this was particularly true of foreign corporations in the south, were the objects of gross speculation. As a result of such practices, these companies found themselves heavily in debt and threatened with ruin.

But instead of offering any government aid in this public pronouncement of policy, Witte advised the industrialists to seek a program of self-help. The problem could be solved by carefully studying market conditions and adapting production to these demands, by cutting cost price of manufactured goods through a reduction of production expenses, and by selling their products at lower prices for the conquest of new markets.

But as for the view of some industrialists that prices should be regulated by limiting production controlled
by syndicates constituted "with the support of the State and under its direction," the government could not support "the interests of certain groups" by accepting this contradiction to the aims of the protective system. However, if industrialists thought that a union was necessary to bring industry out of its difficulties, "they will not encounter obstacles in this path on the part of the ministry of finance." But if such a combination attempted to exercise pressure on the state in order to obtain major assistance or proposed artificial increases of prices to their former levels, the state would withdraw its protection; and, furthermore, if it thought such action necessary, the government would use its power to lower tariff rates and regulate prices. In any case, such an arrangement could not expect "the aid nor, less still, the participation of the government."

In his budget messages for 1902 and 1903 Witte continued to insist on the transitory nature of the depression, but altered his view of its effect on the national economy. While admitting, in his budget message for 1902, that industry was undergoing difficulties, he concluded that "the general prosperity of the country presents no signs of decline." The following year he delivered a less optimistic

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report and conceded that there had been no improvement in Russian industry. Indeed, "the difficulties have increased," and the result was "unfavorable not only to private interests, but likewise to the national welfare." Nevertheless, there should be "no real cause for alarm" since the price decline would restore the equilibrium between supply and demand, act as a purgative in eliminating moribund enterprises, and result in increased consumption by the mass of people.

A few months later, partially to discourage the dependence of industry on government orders, Witte decided to call an "iron congress" to elaborate measures for the widest possible diffusion and application of iron and steel products. On April 20, 1903 Witte opened the conference, attended by government officials and representatives of industry, with a renewed defense of his protectionist policy and called for the substitution of iron and steel for wood products. More than one hundred reports delivered by the members suggested a variety of proposals including the creation of technical schools, improvement of transportation facilities, credit extensions, etc. This was perhaps

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40 Russia, Report of the Minister of Finance to H.M. the Emperor on the Budget of the Empire for the Year 1903 (St. Petersburg, 1902), 18-19.

41 Moniteur, March 26, May 17, 1903.
Witte's last attempt at personal intervention since just a few months later he was appointed president of the Council of Ministers.

Attitude of the Russian press

The Russian press expressed varied reactions to the industrial decline and some found a new opportunity for venting their hostility to the influx of foreign capital. One journal took the position that the iron and steel industry was built on excessive government protection and contracts, and that as soon as the government decreased its orders a depression set in. Instead of depending almost exclusively on government contracts, industrialists should concern themselves with "the needs of the population and of the country." Another claimed that Witte's entire industrialization program was based on government orders and questioned the effectiveness of his protectionist policy. It stated that England conquered foreign markets with her free trade policy, and America conquered internal markets with her protectionist policy, but in Russia protectionism conquered neither.

To frequent statements made by southern industrialists that the depression was one of overproduction, the

\[42\] Opinion expressed by the Gazette de Moscow cited in Moniteur, July 7, 1901.

\[43\] Opinion of Promyslenyi Mir cited in Moniteur, May 31, 1903.
Kharkov Gazette maintained that this was impossible since per capita consumption was far below that of other industrialized countries. Rather it was "a purely accidental phenomenon, created by a series of errors in the market, development, and direction of industry." Industry in the south must find "the means of maintaining itself." And to end the evil of disproportionate overbidding on stock, this journal called for the regulation of the market price of shares at a fair and equitable rate. But to prevent the decline of shares below their nominal value, the Kharkov Gazette suggested temporary support from the government in the form of larger orders.44

When a French journal published an article blaming Witte for the depression, the Russian press renewed its criticism of foreign enterprises. The French newspaper declared—in answer to Witte's statement that the price decline was a studied policy of the government—that the industrial decline was "not accidental; it is, to the contrary, the forseen result and to a certain extent pre-mediated by the policy of the Russian government."45 In summary, the Russian press retorted that foreign companies were established without knowing the conditions of the country or the needs of the market; much of the capital

44Cited in Moniteur, July 7, 1901.

45Le Matin (Paris), March 3, 1902.
intended to finance industries was misused; those industries facing ruin were founded by stock-market speculators; and that industries with no chance of survival should not expect the state to loan its money for their support. 46

Views and proposals of southern industrialists

The group most directly affected by the depression, the industrialists in southern Russia, expressed a different view on the factors leading to the decline in industry and presented a number of proposals for remedying the situation. Consideration of their position indicates to some extent the intensity of the depression and the unfavorable consequences which they believed it held for their investments. Furthermore, it illustrates the tendency of the industrialists to look to the government for support. Then too these reactions partially reflect the position of Belgian industrialists since they played a prominent role in the south.

In essence the southern industrialists believes that overproduction was the primary cause of the depression, and that Witte was responsible since he encouraged the influx of foreign capital to manufacture products for which there was no market. 47 In a letter to Witte during the first year of industrial decline, these industrialists indicated that overproduction held "grave consequences for the population

46 Moniteur, May 31, 1903.

47 Dillon, loc. cit., 486.
and even for the general interests of the State." To deal with problems confronting the iron and steel industry, they suggested a conference of representatives of industry and government.

Witte queried the southern industrialists how an overproduction in the metallurgical and coal industries could be reconciled to the continued import of sizable quantities of these products from abroad. They replied that Donets coal could not compete with foreign coal in the Baltic region because of the great distances involved, and to do so it would be necessary to construct a special railroad line and reduce transportation rates. As for the continued import of metal products from abroad this was attributed to unsatisfactory tariffs, the absence of production of certain articles in Russia, and in part by the placement of government orders abroad.

Methods for checking the decline in metallurgy and coal were considered by the regular and special sessions of the Kharkov Assembly of Industrialists and by special conferences of representatives of industry and government. Their recommendations included both a program of self-help and government assistance. In the way of government support for

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48 *L'Économiste International*, September 1, 1900.

49 *Moniteur*, December 15, 1901.
the iron and steel industry the industrialists recommended the increase of government orders for rails at higher prices. To extend internal markets among small consumers, they requested higher tariffs and lower interest rates on government loans to *zemstvo* representatives. And for the development of new markets abroad, they called for a decrease in export taxes, the abolition of the existing port tax, and subsidies on foreign exports.

But the industrialists believed that the union of all metallurgical factories into a syndicate, in order to establish a balance between production and consumption, represented the principal solution to the problems confronting the iron and steel industry. Since adequate measures had not been taken to increase consumption, "the only remedy capable of ending the crisis consists of regulating the production of factories."50 The industrialists added that the success of such a project depended on the government's distribution of its orders through a special conference of all industrialists to decide quotas and the government's agreement not to expand the production capacity of its factories.

The Kharkov Assembly reported that the way to improve the situation in the metal construction shops was to study the needs of the private market. It recommended that domestic producers replace foreign imports of machines and

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50Ibid., December 25, 1902.
installations for a variety of industries. In order to reduce operational costs, it suggested that the government introduce uniform specifications in its orders for railroad equipment, thereby permitting factory specialization. This assembly also requested the government to terminate contracts for naval orders abroad and encourage the maritime industry at home by offering premiums to contractors.

Because of the chronic difficulties which faced the Donets coal industry, the Kharkov Assembly recommended competition with England in the Balkan and Mediterranean countries. To insure the success of this proposal the assembly appointed delegates to make a complete study of markets in these areas, made plans for the formation of a central export company, and requested the government to reduce transportation rates to ports on the Black Sea. In order to extend the domestic market, this organization recommended the study of fuel requirements in the Baltic region, the construction of a direct rail line to the Baltic, and the increase of tariff duties on imported coke.51

51 For detailed accounts of the meetings of the industrialists at Kharkov see Moniteur, February 10, December 15, 1901; February 20, February 27, December 11, December 25, 1902; January 15, November 22, December 24, 1903.
Solutions Adopted to Alleviate the Russian Depression

Throughout the course of the depression and during its immediate aftermath, both the Russian government and the industrialists provided solutions which, gradually, helped to bring an end to the decline of industry. The various measures adopted by the government were generally applicable to all industrial centers, but preference was often given to southern industry because it felt the worst effects. Similarly the program of self-help put into effect by southern industrialists affected almost exclusively the industries in that area. These solutions, both state and private, were important to the Russian government and Belgian investors. The latter were interested in saving as many jeopardized companies as possible, while the Russian government found it necessary to offer assistance because of the importance of industrial recovery to Russia's economic well-being.
Measures adopted by the Russian government

Government assistance to industry took various forms and some measures were of greater consequence than others. In order to increase industrial production at home, the government took steps to cut its foreign orders for metal products to a minimum. A new tariff—whose higher rates were intended to cut German exports of coal, iron and steel products to western Russia—was published officially in 1903 but did not take effect until 1906. The government also abolished the tax of 1.5 kopecks per pood on the production of pig iron and, to permit foreign export of some products, reduced the transportation rates on rail shipments.1

Of far greater importance for industrial revival were government orders for railroad equipment and state loans to industry. As early as 1900 Witte took the decisive step of authorizing the Russian State Bank to grant loans on a vast scale to companies requiring capital for current operations. These anti-statutory loans were backed by industrial securities and reached as high as 10 million rubles to individual companies for periods as long as ten years. Figures released by a state comptroller revealed loans of more than 100 million rubles by the end of 1902. Because of the large amounts of capital involved,

1Moniteur, August 18, September 8, 1901; March 8, 1903.
the government required its functionaries to serve as directors of these companies and some government officials served on as many as seven different boards of directors.  

With a view to providing the metal industries with orders and to improving the current needs of various industrial centers, the government also increased its orders for rails, rolling stock, and miscellaneous railroad equipment. For several years government orders for such material had decreased, but in 1902 the committee for the distribution of government contracts indicated that expenditures for the following year were fixed at 106.9 million rubles, or 32.8 million rubles more than 1902. In the distribution of these contracts, preference was given to factories in the south. Approximately four-fifths of the rail orders, at the rate of 1.25 rubles per pood, were given to southern factories, including the Russo-Belgian and Dnieper companies.

Because of the importance of these contracts, southern industrialists disagreed over their division.

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3 In 1902, 47 per cent of the budget was spent on railroads. Anton Crihan, Le Capital Étranger en Russie (Paris, 1934), 70.

4 Moniteur, October 9, 1902.
One group favored the distribution of government orders to a limited number of factories as practiced in the past, while the other group, representing those companies more recently formed, favored their distribution among all factories equipped for the manufacture of these products. The latter maintained that the "favored" companies had an unfair advantage since they could compete for the private market at lower prices, making up the difference in the profitable prices paid by the government. The dissidents later appealed to the government to award these contracts by public bids on the grounds that the existing system paralyzed internal competition.

In spite of several such appeals by "non-favored" companies, the government refused to alter its policy on the award of its orders for rails and rolling stock. It took the position that only a half-dozen foreign factories could continue to expect government orders since the government had supported their foundation and because they were indispensable to the maintenance of the government's railroad system. The government also claimed that an equal distribution of these orders would create new enterprises and stimulate a price increase since factories not equipped for mass production would find the existing rates unprofitable. Non-favored factories were compensated with
orders for other railroad equipment and these were turned over to a metallurgical syndicate for distribution.\(^5\)

**Solutions adopted by southern industrialists**

While individual companies took steps to re-establish their enterprises on a sound financial basis, certain measures adopted by southern industrialists were intended to come to the aid of industry as a whole. One measure decided upon by the southern industrialists called for the creation of an industrial bank, with a capital of five million rubles, to provide companies with funds for current operations through long and short-term loans. In 1902 the southern industrialists also created the Kharkov Coal and Iron Exchange designed primarily to organize the sale of coal and metals at home and abroad. The exchange, which drew most of its members from the council of the Kharkov Assembly of Industrialists, was open to all foreign and Russian companies connected with these industries. However, the Kharkov Exchange failed to play an important role because most commercial transactions took place outside the organization and the later formation of metallurgical and coal syndicates eclipsed its activities.\(^6\)

\(^5\)Ibid., November 13, November 20, December 11, 1902.

\(^6\)Ibid., February 27, July 24, 1902; June 2, 1904.
The organization of syndicates represented the most important and decisive step taken by industrialists. Since most of them believed that excessive competition had produced the price decline and overproduction, they maintained that syndicates alone would restore the balance between production and consumption. As the idea gained wider and wider acceptance among manufacturers, syndicates sprang up in various industries. Formation of these syndicates carried significant implications not only for the course of Russian industry as a whole but also for the status of Belgian companies, whose directors played an important part in the organization and effective operation of some of these syndicates.

Syndicates were not completely new to Russia. Prior to the twentieth century, syndicates had been organized in the sugar, petroleum, platinum, textile, paper, cement, and nail and wire industries. Since agreements intended to increase prices were illegal, they were "almost always kept secret." In practice, however, the law was not applied, and, although the government generally opposed the organization of syndicates, in some cases they operated with the full knowledge and protection of the government.

In 1902 a metallurgical syndicate was formed under the name of the Corporation for the Sale of Products of Russian Metallurgical Plants. Prodamet, as it was more commonly called, was conceived by Jassiukovich, a director of the Dnieper Metallurgical Company. Whereas other projects proposed a syndicate designed to control production and increase prices, Jassiukovich's plan called for a union of southern factories into "a special organization for the sale of metals...to establish the correlation broken between supply and demand." This plan, further elaborated by the Kharkov Assembly of Industrialists, was submitted to Witte who indicated his approval. Several months later representatives of the southern factories met in St. Petersburg under the chairmanship of Greiner, another director of the Dnieper Metallurgical Company. After detailed discussion and acceptance of the statutes, they were submitted to the government for approval.

In its final form the scope of Prodamet's activities was altered. As originally constituted, Prodamet embraced the sale of all metallurgical products manufactured by southern factories only, but later it limited

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8 Prodamet is an abbreviation of the Russian words prodazha (sale) and metallurgicheskie izdeliia (metallurgical products).

9 Moniteur, December 15, 1901.
itself to the sale of certain products and included some factories in other parts of Russia. These changes were made because not all producers could agree on the quota distribution of orders for all metallurgical products; and in order to insure the success of agreements reached for the sale of certain products, it proved necessary to include as many factories as possible in other industrial centers. Originally fifteen companies affiliated to form Prodamet, but gradually its membership expanded to twenty-three. Most of the companies participating in this organization were of foreign origin and included all the major Belgian companies.

In its operation Prodamet assumed a complicated form of organization disposing of various iron and steel products through sales agencies under its control. When the manufacturers of a certain product reached an agreement on the distribution of orders, Prodamet then acquired exclusive sale of this product, according to a contract between the management of each company and the director of the central sales agency. All orders were then distributed by special agencies in the proportion agreed to by the members.

For example, the manufacturers of girders decided that since the price of this product had fallen drastically, its sale should be regulated by Prodamet. The first step required an agreement between interested
producers located in the south and in the Dombrova basin. After differences between the representatives of the Dnieper and Russo-Belgian companies on the distribution of quotas were settled, nine producers reached an agreement among themselves. On the basis of total production of girders in previous years, five Belgian companies received the largest percentage of quotas. The management of these companies in turn reached an agreement with the director of the central sales agency, thereby committing the sale of girders to Prodamet. Henceforth, local commercial agencies received all orders for girders and these were in turn distributed among the participating factories in the proportion commonly agreed to in their contracts. These orders for girders were filled by Prodamet at a fixed price which was acceptable to all members.

As a result of similar agreements, producers entrusted Prodamet with the sale of other products, including U-iron, sheet metal, flat billets, beams, and steel rims and axles. At the end of each year, the syndicate computed the average tonnage price obtained on its orders and distributed its receipts to members according to the amount of production furnished by each.

Prolonged negotiations in 1904 for the centralized sale of pig iron failed because of the disagreement on the distribution of quotas.
In cases where members received an exceptionally small quota or agreed to abstain from production completely, these received compensation from the syndicate in accordance with their agreements. For the services rendered to its members, Prodamet received a commission of approximately 1.5 per cent of its sales price plus an additional 0.5 per cent premium to cover losses on bad debts.

On the whole the companies participating in Prodamet were satisfied with the results, but its success was sometimes hampered by other factors. Some manufacturers, particularly the more recently established ones, refused to enter agreements on the sale of certain products because of the small quotas which the older companies assigned them. Non-members sometimes undermined the effectiveness of Prodamet—while at the same time profiting from the higher prices charged by the syndicate—by selling at slightly lower prices. The failure of Prodamet to include the sale of all metallurgical products under its control, provoked factories to increase the manufacture of non-syndicated products until supply forced prices down to a non-profitable level.

To offset these disadvantages, Prodamet offered certain decided advantages. Centralization of sales increased prices and maintained them at more profitable levels, although other factors were also responsible for price increases. The commercial expenses of producers
were reduced, thereby decreasing cost price. Prodamet also centralized financial information with regard to the solvency of clients and cut down losses from non-recoverable credits.

Prior to 1905, a number of other syndicates, affecting Belgian interests in Russia, were formed among the manufacturers of various metal products. In 1901 the manufacturers of iron pipes organized a syndicate, Truboprodazha, for the sale of this product. During this same year, five of the principal producers of special cast iron grouped together to confine their sales to a central agency. The following year eleven of the most important firms involved in the production of metal used in bridge construction joined together in a syndicate. In addition, a non-official agreement, which existed among a dozen railway car manufacturers, emerged in 1904 under the name Prodvagon. 11

Donets coal producers also regarded the organization of a syndicate as the most effective solution to the chronic difficulties which faced the coal industry during the last quarter of a century. In the early part of 1904, the coal producers submitted and the Russian government approved statutes for a Corporation for the Foreign Export of Donets Coal and a Corporation for the

11According to Moniteur, December 8, 1904, Prodamet centralized the sale of freight cars, locomotives and streetcars.
Sale of Donets Mineral Fuels. The two of them, formed with a capital of one million rubles, were responsible for the common sale and export of coal products, for the acquisition and rental of warehouses and docks, and for the operation of various agencies and bureaus.

Once the syndicate was approved, its founders began to work out the contract terms for members and determine the quota of each. There were differences among the producers on the distribution of quotas, and, after extended negotiations, only half of the twenty-eight major producers agreed. Since it proved ineffective, it was reorganized in 1906. Most of the Belgian companies refused to become members of Prodougo1 because they objected to the quota distribution, the 3 per cent commission charged by the syndicate, the restraints placed on members, and because they could profit from the higher prices charged by the syndicate without paying the fees levied on members.

Solutions adopted by individual Belgian industrialists

In addition to these measures affecting Russian industry as a whole, individual Belgian industrialists

\[\text{12} \text{Gruner, secretary of the Committee of French Coal Mine Operators, and Desprez, a director of Belgium's Société Générale were named as founders.}\]

\[\text{13} \text{Tbid., June 30, July 21, November 10, November 20, November 27, 1904; Marcel Lauwick, L'Industrie dans la Russie Méridionale (Brussels, 1907), 191 et seq.}\]
also took steps to re-establish their companies on a sound financial basis. Generally this involved financial reorganization of the company and reduction of production costs. Manufacturers sought to reduce their expenses from the initial purchase of raw materials to the final shipment of products to the consumer. Expenses were also reduced by cutting employees' salaries and by removing superfluous personnel from the payrolls.

In order to survive some companies found it necessary to secure additional capital or to undergo financial reorganization. Short-term loans meant survival for some companies, but in the case of others failed to prevent liquidation. In order to secure all financial resources possible, interest payments on bonds were often suspended. A large number of companies received additional capital from banks upon agreement to reduce the value of existing stock and then issue new bonds and shares.

Companies under judicial administration generally found it necessary to reorganize the financial base of the company. Russian law provided that commercial tribunals could place companies possessing a good possibility of recovery, but temporarily unable to meet the demands of their creditors, under judicial administration. The courts had the power to name the company's administrators, usually the director of the company and lawyers representing the creditors, and to fix their powers and
responsibilities. Once a company reached the stage where it could satisfy its creditors, it was released from administration by the courts. As a result of this law and the process of financial reorganization, a number of Belgian companies were assured of survival.

Solutions adopted in individual industries in the south and effects of the depression on Belgian investments in these industries

A survey of heavy industries in southern Russia illustrates specific developments which were helpful in overcoming the problems facing individual industries. But in spite of these developments, the depression held grave consequences for Belgian companies in certain industries, particularly metallurgy and coal.

Coal.—The depressed price of coal in the market place represented the most acute problem confronting the coal industry. When the depression reached its lowest level, southern coal producers were sometimes forced to sell just above cost in order to secure ready cash immediately. In an effort to increase their profit margin, individual companies cut their production costs as much as possible. An increase in the annual output per worker also helped to decrease the cost price of coal. In 1903 each worker mined 9.4 thousand poods or one thousand poods more than in 1900, and in 1904 production increased by

14Ibid., 34 et seq. See the issues of L'Économiste International for the years 1902 and 1903 for detailed
another thousand poods. Producers also encouraged higher prices by reducing their output.\textsuperscript{15}

As prices increased the situation in the coal industry gradually improved, but the effect of the depression on coal companies controlled by Belgian capital was disastrous. Generally these corporations suffered from a lack of capital for current operations. Most of the coal companies that were able to continue production operated at a loss, although a few managed to show a profit.\textsuperscript{16} In the course of a few years Belgians lost approximately one-half of their investments in the coal industry, even though most of the companies in southern Russia managed to survive.

While some companies, like Lugan Coal Mines, were liquidated; other, like Central Donets Coal, were absorbed by metallurgical companies. A few companies, like Uspensk Coal and Metallurgy, rented their mines, and a small number, like Ruchenko Mining and Industrial, continued to operate normally and yield dividends. Most of the companies, like Donets Coal and Metallurgical Company, survived, but only after they reduced the value of their securities and accepted the need for financial reorganization.

\textsuperscript{15}Moniteur, April 30, 1903; July 21, 1907.

\textsuperscript{16}Of the thirty-five most important coal companies in the south, including those of Belgium, only five distributed a dividend in 1902. Moniteur, December 24, 1903.
Developments in the Prokhorov Coal Corporation illustrate the importance of financial reorganization and the struggle for survival. Prior to 1900 this company distributed generous dividends, but when the depression struck the company lacked sufficient reserves. As a result the directors suspended interest payments on bonds and negotiated a loan. But financial difficulties continued to plague the company. By the end of 1901, Prokhorov shares, quoted at 530 francs at the close of 1899, fell to 80 francs. Early efforts to reorganize the company failed, and, because of its enormous debts, the company was threatened with dissolution in 1903. Two years later the company was reorganized by Belgian and French banks with a capital of 3.5 million francs.\footnote{Material on Belgian investments in the coal industry taken from the following sources: Lauwick, op. cit., 23 et passim; Moniteur, October 31, 1901; October 18, 1903; Le Recueil Financier Annuel, 1902-03, 925; 1914, 1395; L'Economiste International, August 16, 1902; May 9, November 8, 1903.}

Iron ore.—The unfavorable situation in the coal industry stemmed largely from the decline in metallurgical production which had even more harmful effects on the iron-ore industry, particularly in the Krivoi-Rog region. Nor were the iron-ore companies able to build up other internal markets like the coal producers. As the iron and steel companies decreased their demands for iron ore, producers began to increase their foreign exports. By 1904 these
exports, particularly to England, expanded to such an extent that a government conference was called to decide "the necessity of measures to take against the exportation of... the deposits of Krivoi-Rog" in order to conserve this ore for domestic industry. 18

The losses inflicted on Belgian companies in the iron-ore industry were large but not as great as might be expected under the circumstances. As the needs of the domestic market fell, Belgian companies in the Krivoi-Rog region reduced production to a minimum or closed down their mines. This perilous situation was aggravated by the excessive contractual charges to which they had agreed in earlier years. By contrast the demand for the cheaper grade of Kerch iron ore increased, and the Belgian companies in this area faced a less critical situation. In many cases losses sustained by iron-ore enterprises in various districts in the south were absorbed by the hardier metallurgical companies with which they were associated. 19

Metallurgy and metal-work.— The metallurgical corporations in the south, along with those engaged in metal-working, succeeded to some extent in coping with the depression by manufacturing new products and by finding

18 *Moniteur*, April 7, 1904; December 2, 1900; November 14, 1901; April 19, 1903.

19 *Lauwick*, op. cit., 81 et seq.
new markets at home and abroad. Government orders con-
tinued to be the basic factor in the activity of iron and
steel factories, but producers also competed with one
another in the manufacture of certain products and with
the iron and steel industry in the Urals in the hope of
getting a bigger share of the private market. Efforts to
obtain new customers by diversification of production had
only limited success, as illustrated by the following
example. Some iron and steel plants hoped to increase
their production by duplicating the success of earlier
pioneers in the manufacture of special cast iron. But
in a short time both the old manufacturers and the new-
comers pushed production with such intensity that prices
fell drastically and the producers found it necessary to
regulate production. With or without syndicate action,
manufacturers regulated the production of various products
to decrease existing stockpiles and bring supply in line
with demand.

During this period the metallurgical industry in
the south began to compete with the Urals in the manufacture
of a number of iron and steel products. When the govern-
ment decreased its orders for railroad material, the iron
and steel plants in the south increased their production
of the principal products of the Urals: roofing sheets,
commercial iron, and flat billets. Competition with the
Urals became more intensive in the second half of the
decade, but the following table illustrates the gains made by the south during this early period.

**TABLE 7**

AVERAGE ANNUAL OUTPUT OF FINISHED AND SEMI-FINISHED IRON AND STEEL PRODUCTS IN THE URALS AND SOUTHERN RUSSIA COMPARED TO TOTAL RUSSIAN PRODUCTION, 1895-1904 (in per cent)

<table>
<thead>
<tr>
<th></th>
<th>1895-99</th>
<th>1900-04</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Semi-finished products:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>33.5</td>
<td>42.6</td>
</tr>
<tr>
<td>Urals</td>
<td>18.9</td>
<td>24.8</td>
</tr>
<tr>
<td>Others</td>
<td>47.6</td>
<td>32.6</td>
</tr>
<tr>
<td><strong>Finished products:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>33.9</td>
<td>44.9</td>
</tr>
<tr>
<td>Urals</td>
<td>27.7</td>
<td>22.6</td>
</tr>
<tr>
<td>Others</td>
<td>38.4</td>
<td>32.5</td>
</tr>
</tbody>
</table>

**Source:** Russie et Belgique, V, 210.

Although the Urals managed to increase their production of semi-finished products compared with the previous five year period, it fell behind in the manufacture of finished products. On the other hand, the south was able to increase its share in the total output of finished products thereby conquering new markets to the detriment of the Urals.

In spite of various attempts among industrialists to increase their markets at home and abroad, most of them, for one reason or another, were not realized. Nevertheless,
the growing interest of the farming population in the use of agricultural equipment stimulated internal markets to some extent. As a result of agreements between industrialists and zemstvo leaders, who acted as intermediaries, farm equipment and machinery were collected in depots and rented to the peasants. The imperial government not only sanctioned the creation of these depots but also permitted the zemstvos to secure loans from the State Bank for the purchase of agricultural equipment. But despite various proposals for the shipment of metallurgical products to other countries, foreign exports remained relatively unimportant until 1906.20

These and other measures discussed earlier gradually improved the status of metallurgical and metal-processing companies, but the depression proved to be almost as disastrous for Belgian-controlled companies in this group as in the coal industry. In an effort to stabilize financially as many enterprises as possible, millions of francs in new investments and loans were poured into these corporations. Although none of the major metallurgical enterprises were liquidated, some were required to reorganize or to undergo financial

20 Sources for developments in southern metallurgical and metal-working industries: Moniteur, May 15, October 30, 1902; November 22, 1903; February 7, 1906; Russie et Belgique, V, 208-10; Lauwick, op. cit., 227.
administration. Of the minor iron and steel companies, a number of them stopped production completely, while others were liquidated or absorbed by other companies. More than a hundred million francs invested in metallurgy and metal works were lost in the course of several years.\footnote{Ibid., 18 \textit{et seq.}}

By contrast with the less successful corporations, Dnieper Metallurgy continued to yield profits and to expand its production facilities. Just prior to and during the course of the depression the company acquired control of several coal companies and undertook the expansion of its metallurgical plant. The capital increase of 1899 failed to cover these new expenditures; therefore, new shares for an additional 1.5 million rubles were issued. By 1902 Dnieper Metallurgy began to feel the effect of the depression: total metallurgical production declined by several million poods and sales fell by 3.6 million rubles compared with 1901. In 1903 profits and dividends fell by more than one-half compared with 1900, but the company was still financially able to absorb the Central Donets Coal Company and further expand its coal-mining operations.\footnote{\textit{Le Recueil Financier Annuel}, 1902-03, 1076; 1914, 1591; 1915, 1693-94; \textit{Moniteur}, November 22, 1900; 1901}

The Russo-Belgian Metallurgical Company occupied a unique position among Belgian enterprises during the
depression. While all other iron and steel companies were required to cut back production, Russo-Belgian expanded its output. In 1900 the company increased its capital by 5 million rubles, acquired new coal mines, and constructed some sixty coke furnaces. The following year a new blast furnace was put into production, and in 1902 the total output of iron and steel products far exceeded that of previous years. These operations yielded large profits and the corporation managed to pay dividends of 9 per cent on the face value of its shares throughout the course of the depression. While other companies were forced to economize as much as possible, the Russo-Belgian Company was also able to construct a large number of homes and barracks for its workers.23

Developments in the Russian Providence Metallurgical Corporation illustrate the financial difficulties suffered by some enterprises in this category. In spite of loans of several million francs by the parent company in Belgium, Russian Providence was still unable to satisfy its creditors. Since the parent company refused to advance additional loans, the Russian branch was placed under judicial administration in 1903. It remained under court administration until 1906

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23Le Recueil Financier Annuel, 1915, 1813, 1919, 1878; Moniteur, 1900, 1901, and 1902 Suppléments.
when the Parisian Union Bank, a subsidiary of Société Generale of Belgium, agreed to undertake the financial reorganization of the enterprise. Part of the original capital was suppressed, and the Paris bank subscribed the entire issue of 6 million francs in new preferred shares.\textsuperscript{24}

The Belgian companies involved in the manufacture of metal products and machines suffered even greater losses than those in metallurgy. A number of companies, like Gorlovka Shops, reorganized their finances. Several enterprises, including Donets Metal Stamping, survived after being placed under judicial administration temporarily. Others, such as Kharkov Shops, were less fortunate and underwent liquidation.\textsuperscript{25}

The heavily financed Nikolaiev Naval Yards, Shops and Founderies, after being plagued by further financial difficulties, survived with the assistance of Belgian banks. Largely because it lacked the full confidence of the Russian government in the placement of naval orders, the company continued to operate at a loss. These losses required additional loans and by 1902 the bank credits of Nikolaiev Yards reached 10 million francs. The following year the company was reorganized and

\textsuperscript{24}L'Économiste International, July 19, August 22, 1903; March 6, 1912; Lauwick, \textit{op. cit.}, 19 et passim.

\textsuperscript{25}\textit{Ibid.}, 18 et seq.
three-fourths of the new preferred stock issues of 7.6 million francs was subscribed by the International Bank of Brussels and the Sambre Central Bank. This new capital plus an additional 12 million francs secured through new bonds floated in 1904 enabled the company to meet its financial obligations and continue operations.26

Petroleum.—Since large stocks of petroleum, the result of decreased internal consumption and American competition, constituted the principal difficulty in this industry, producers found it necessary to reduce their output. They also realized that an organization for the sale and export of petroleum abroad would improve the situation and reached an agreement to this effect. On the whole the Baku producers underwent the worst reverses, but the companies in the Grozny region were also affected. Companies with Belgian investments, like others in these two regions, experienced losses, but they were able to maintain their existence.27

Effect of the depression on Belgian companies in other Russian industries

The industrial and financial depression had varied effects on Belgian companies in the chemical, 26Le Recueil Financier Annuel, 1902-03, 298; 1910, 1186-87. L'Economiste International, June 6, 1903; Moniteur, March 29, 1900; 1901 and 1902 Suppléments.

27L'Economiste International, August 24, 1901; Moniteur, June 6, 1901; 1901 Supplément; November 27, 1904.
construction, and glass industries scattered throughout Russia. On the whole the chemical industry in Russia escaped the ill effects of the depression, and Belgian industrialists in this field kept their losses down to a minimum. By comparison, the construction industry, more closely dependent on the prosperity of the metal industries, encountered severe hardships. Several Belgian companies involved in the manufacture of construction material, including Odessa Cement, were liquidated, while a number of others experienced heavy financial losses. Since the glass production of Belgian companies in Russia far exceeded consumer demand, these manufacturers also had financial difficulties, and several, including the Russo-Belgian Glass Industry were liquidated.

Public utilities.—Since public utilities were little affected by the general business decline, almost all Belgian enterprises in this area of activity continued to function. In the operation of electrical installations, the liquidation of Russo-Belgian Electrical Enterprises in 1903, with a capital of 8.5 million francs, represented the greatest loss to Belgian investors in this field. Among the many streetcar companies, only a few found it necessary to suspend interest payments on their

28 Lauwick, op. cit., 25.

29 Not to be confused with the Belgo-Russian Plate-Glass Manufacturing Company discussed in Chapter III.
bonds. Most of the companies which paid dividends prior to 1900 continued to yield a return for their investors. For the five year period ending in 1904, the average dividend paid by Kharkov Streetcars was lower than in the previous five year period, but a rare company, like Odessa Streetcars, was able to increase its dividends. 30

**Events of 1904-06 and Their Effect on Belgian Investments**

**Russo-Japanese War**

By the beginning of 1904 Russian industry as a whole, and especially heavy industries in the south, improved and began a new period of development. As demand continued to increase, large stocks of coal and metallurgical products declined and prices increased to more profitable levels. The shares of the more stable Belgian enterprises began to climb upwards. Only one cloud appeared on the horizon. Industrialists began to fear that the growing complications in the Far East would lead to war and force the Russian government to suspend temporarily some of its railroad-construction program. Their apprehensions were not altogether justified.

Generally speaking, the Russo-Japanese War affected Russian industries, and consequently Belgian

30 *Moniteur, 1900-01, 1901-02, 1902-03 Suppléments; Le Recueil Financier Annuel, 1910, 222; 1919, 353, 394.*
interests, in different ways: the war had harmful effects on some industries, but heavy industry in the south continued to make progress. When the news of the war first broke, the stock quotations of Belgian companies in Russia, including the older and more reliable enterprises, fell. As industry improved in the months that followed, Belgian shares recovered. By the end of the year many of them, excluding the less stable enterprises, surpassed their pre-war prices. Although the war closed markets for certain products, complicated transportation, and reduced railroad construction, the government increased its orders for various industrial products. By the end of the year the total iron and steel output in the south, and in Russia as a whole, exceeded production levels for 1900.31

Strike Movement of 1905-06

By comparison with the first year of the war, the internal disturbances of 1905-06 had some very unfavorable economic consequences. As the number of strikes reached their peak in the last three months of 1905, shipments of raw materials decreased by approximately two-thirds of the amount shipped the previous year. The situation was further complicated by the exodus of Russian capital and

31 In 1904, according to the report of the Kherkov Assembly of Industrialists, coal production in the south increased 12 per cent over the previous year, coke production --45 per cent, pig iron--30 per cent, various iron and steel products--20 to 40 per cent. Moniteur, January 12, 1905. Other sources on the Russo-Japanese War period: Ibid. January 28, February 14, 1904; June 30, September 13, 1905; Belgium, Ministere des Affaires Etrangéres, February 16, 1904.
the restriction of foreign credits to Russian enterprises. A lack of state funds forced the government to reduce its contracts for rails and rolling stock.

As a result of these developments, the manufacture of metallurgical products in the south, and Russia as a whole, declined in comparison with 1904. By contrast, the production of coal in the Donets, even though work in the mines was disorganized, increased to meet the demands of new consumers. The decreased output and increased prices of petroleum, caused by the destruction of installations in the Baku region, forced many consumers of petroleum products to switch to coal. In 1906 the total output of iron and steel products declined still further, but the production of coal and petroleum showed a slight increase over the previous year.

On the whole, the strike movement of 1905-06 subjected most Belgian enterprises to further hardships. Although the hardier enterprises also experienced some difficulties, this period of internal disturbances precipitated the liquidation of less stable enterprises which had not yet recovered from the depression. To some extent the Belgian press inadvertently aided the process. Its pessimistic analysis of the situation in Russia undermined the confidence of businessmen and prevented some companies from obtaining the additional capital necessary for reorganization. Furthermore, some Belgian factories
were directly attacked by the strikers. Altogether, there were some eighty-four requests for protection and thirteen claims for damages by Belgian enterprises. When the strikes came to an end and industry looked forward to a new period of recovery, the critical years for Belgian investments in Russia finally came to a close.32

Summary

The year 1900 marked the beginning of a critical period for Belgian investments in Russia. During that year a commercial-industrial depression, provoked by many general and specific causes, broke out in Russia and continued through 1903. Its greatest impact was on the new industrial center in the south, with its heavy concentration of Belgian investments. Causes similar to those in Russia were also responsible for a depression in Belgium. As a result of these depressions, which occurred simultaneously and interacted on each other, Belgian investors in Russia suffered heavy losses. In view of the harmful effects of the Russian depression on her industrial development and on the heavy investments of Belgians, official and private circles in both countries launched

32Sources for the strike movement of 1905-06: Lauwick, op. cit., 46 et passim; Moniteur, May 6, June 6-8, 1906; Belgium, Ministère des Affaires Étrangères, Dossier No. 2900, October 3, 1906.
a great debate on the causes of the decline and proposed various remedies for industrial recovery.

A number of proposals, which gradually helped to bring the depression to an end, were implemented by the Russian government and by the industrialists. In addition, many of the Belgian companies in the south were reorganized and directors cut production and management costs. By the beginning of 1904 Russian industry was well on the road to recovery. The Russo-Japanese War further stimulated development of the iron and steel industry and Belgian enterprises in this field were generally favorably affected. However, the labor unrest of 1905-06 resulted in unfavorable consequences for most Belgian companies and hastened the liquidation of less stable enterprises. Throughout the course of the depression and its immediate aftermath Belgians lost approximately one-half of the capital which they had invested in earlier years. These losses radically changed the general character of Belgian investments in Russia in the years that followed.
"Au moment où éclata la grande guerre, l'initiative et les capitaux belges avaient donc créé en Russie un ensemble industriel remarquable."

B. S. Chlepner,
Le Marché Financier Belge, p. 83.
CHAPTER VI

GENERAL SURVEY (1907-1917)

The events prior to 1907 and economic developments in Belgium and Russia from that year to 1914 altered the status of Belgian investments in Russia. During the years preceding World War I Belgians invested little capital in new Russian enterprises and lost their ascendancy among foreign investors in Russian industry. Instead Belgians were primarily concerned with the correction of past mistakes and the stabilization and development of those enterprises which survived the critical years. After a brief review of these major trends, the evolution of those aspects of Russian industry which had a pronounced effect on Belgian enterprises will be surveyed.

Efforts to correct past mistakes

In an effort to decrease further losses among Belgian enterprises in Russia, such earlier faults as excessive speculation and over-capitalization were minimized
or eliminated, and more information on Russia was made available to industrialists and investors.\(^1\) A major step in this direction was made in 1906 when the Belgian Minister of Industry and Labor commissioned Marcel Lauwick—a Brussels lawyer, businessman, and author—to make a trip to Russia to examine the status of Belgian enterprises. His report to the minister was published as a book—

*L'Industrie dans la Russie Méridionale—Sa Situation—Son Avenir* (Brussels, 1907).

In the study, Lauwick admonished his countrymen for their failure to study the various facets of Russian life and encouraged individual or collective missions to study conditions in Russia. Belgians were cautioned against the folly of abandoning their investments now that Russia was on the road to industrial recovery. According to Lauwick, Belgian enterprises in southern Russia were also important because they constituted a kind of safety valve for skilled personnel when Belgian industry at home faced a future depression. To preserve these interests against "the return of the cruel setbacks which have characterized our first expansion into Russia," Lauwick

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\(^1\)As early as 1903, the Russo-Belgian Commercial Agency began publication of *L'Exportation*, a semi-monthly journal of industrial, commercial and financial developments within Russia. The previous year the Belgian government subsidized the publication of the *Société Belge d'Études et d'Expansion*, although this quarterly concerned itself with Belgian economic expansion as a whole and was not restricted to Russian interests.
advised the creation of a center of information on Russian industry and commerce.\(^2\)

This recommendation was taken up in the summer of 1907 by a group of businessmen who decided to form the Société d'Études Belgo-Russe, equivalent to a chamber of commerce and industry. When a general assembly of interested Belgians convened in December, they approved the statutes and named the board of administration composed of prominent industrialists, financiers, and government officials. Its founders hoped that the organization would foster good relations between Belgium and Russia, develop commerce between the two countries, and furnish interested Belgians with information on all questions concerning Russian industry.

To achieve this comprehensive program, the Société d'Études Belgo-Russe published a wide variety of materials, established an information bureau, and organized conferences on Russia. When some prominent industrialist visited Russia, he gave his impressions before a group of businessmen and discussed with them the factors necessary for industrial success in Russia. The information bureau received hundred of requests for industrial, commercial, financial and legal information which it furnished without cost to anyone who was interested. Information or assistance

\(^2\)Marcel Lauwick, L'Industrie dans la Russie Méridionale (Brussels, 1907), 311 et passim.
of a specialized nature was available only to members. Since the Société d'Études Belgo-Russe was a non-profit and non-official agency, it depended on its members for financial support through the payment of fees.\(^3\)

The Société d'Études Belgo-Russe published a review, brochures, translations of Russian laws, and circulars. Its most important publication, a monthly review entitled Russie et Belgique, contained official documents, original articles, and extracts from the Russian press. This periodical reviewed publications on various phases of Russia's economic life, and carried discussions on a number of subjects including Russian railroads, markets, public utilities, banks, budgets, jurisprudence, industrial taxes, and developments in individual industries. In addition, this organization published bi-monthly circulars on questions of common interest in the mining and metallurgical enterprises of southern Russia. These regular publications were supplemented with special manuals which codified Russian legislation on industrial patents, workers' insurance, and industrial taxes. From this wide variety of materials

\(^3\)When Société d'Études Belgo-Russe was first organized it had approximately eighty members, but two years later there were more than two hundred members.
Belgian industrialists and investors obtained a wealth of information on economic and legal developments in Russia.\(^4\)

To complement the Société d'Études Belgo-Russe, Lauwick, as secretary of the organization, worked for the creation of a Russian counterpart. After he made a trip to Russia to secure official and private support for such an agency, the Russo-Belgian Chamber of Commerce was founded in 1909 in St. Petersburg and was placed under the jurisdiction of the Russian Ministry of Commerce and Industry. The purpose of the organization was to break down the isolation of Belgian businessmen in Russia by increasing their contracts with Russians and to render additional service to businessmen. Its statutes provided that information would be furnished to the Belgian agency on a reciprocity basis. Since Belgian industrialists in Russia neglected to give the Russo-Belgian Chamber of Commerce the required support, it failed to make the same progress as its Belgian counterpart.\(^5\)

\(^4\)In addition to the publications of Société d'Études Belgo-Russe, Belgians were kept informed on developments in Russia by other publications. As a result of the visit of a commercial delegation to Russia in 1912, Leon de Litwinsky published a brochure, Le Belge en Russie (Liege, 1912), intended to explain the role of Belgium in Russian industry and commerce. During that same year Belgians began publication of a monthly revue entitled La Vie Internationale and an annual revue Annuaire de la Vie Belge à l'Etranger; both of these dealt with Belgian economic expansion as a whole, and, consequently, included material on Russia also.

Extent of Belgian investments

Although Belgians were better informed on the Russian scene, they lost their former taste for Russian investments. Between 1904–06 the Brussels stock exchange enjoyed a revival of trade in foreign shares, but there was little interest in Russian stock. In 1908 Russia became more interested in attracting new foreign investments, but from 1907 through part of 1909 the Brussels stock exchange entered a period of depression. Although some investments in Russian securities continued during these lean years, this capital was largely used to stabilize and develop existing enterprises. By the end of 1909 Belgian investments in Russian industry were estimated at 633.6 million francs. Investments in individual industries, excepting public-utility enterprises, continued to remain below their 1900 levels. In the meantime, French, English, and German investors increased their flow of capital into Russia.

Beginning in 1910 Belgium embarked on a new period of financial expansion which coincided with more intensive

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6 *Ibid.*, III, 238. According to the figures of a Belgian consul, based on a publication of the Russian Ministry of Finance (*Torgovo-Promyshlennaya Gazeta*), 473 Belgian joint-stock companies were authorized to operate in Russia between 1880 and 1909. Of these, 265 suspended or never began operations. It was estimated that Belgians invested 1.2 billion francs in Russian enterprises between 1880 and 1909. Belgium, Ministère des Affaires Étrangères, Dossier No. 2900, December 23, 1909.
industrial development in Russia. The happy combination of renewed activity on the Brussels exchange and the payment of more satisfactory dividends by Belgian enterprises in Russia resulted in a revival of interest in Russian shares. Nevertheless, Belgians still exercised a great degree of caution, and a large part of the capital directed toward Russia during these years was devoted to the expansion of existing enterprises. Part of this capital was invested in iron and steel enterprises which yielded handsome profits, but some new companies—particularly electric light and power, and municipal transportation—were also created.

Although Belgian capital in Russia continued to constitute an important part of her total investments abroad, the cautious attitude of Belgians reduced them to a secondary role among foreign investors in the development

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7 In 1910 Belgian enterprises distributed an average dividend of 6.1 per cent of capital stock value and 8.2 per cent in 1911. *Russie et Belgique*, V, 247.

8 Between 1910 and 1912 the net profits of Dnieper Metallurgy increased from 2.5 to 6 million francs and Russo-Belgian Metallurgy from 2.4 to 4.7 million francs. *Ibid.*, VI, 124. From 1911 through 1913, fifteen of the major metallurgical enterprises in the south increased their capital by 58 million rubles, or 42.7 per cent. Among these, three companies with heavy Belgian investments—Dnieper, Russo-Belgian and Taganrog—increased their capital by 20.3 million rubles. *Ibid.*, VII, 152-53. In 1913, there were a total of four new Belgian corporations with a capital of 3.9 million rubles authorized to operate in Russia. *Ibid.*, 279.
of Russian industry. Nevertheless, Belgians still retained sizable investments in a variety of industries. On the eve of their confiscation by the Bolsheviks, these investments in 107 corporations operating throughout Russia totalled 321.6 million rubles. Over 50 per cent of this capital, or 164.1 million rubles, was invested in forty-eight mining, iron and steel, and metal-working industries. Approximately one-third, or 109 million rubles, was invested in twenty-nine municipal enterprises, particularly streetcars and electric light and power. The remaining 15 per cent was invested in glass, chemical, textile, and other

9Based on different methods of calculation, Belgian investments abroad have been variously estimated from under 5 to 8.7 billion francs. Charles Clavier, La Fortune Belge à la Veille de la Guerre (Brussels, 1919), 35-36; and Fernand Baudhuin, "La Balance Économique de la Belgique avant et après la Guerre," Bulletin d'Études et d'Informations de l'École Supérieure de Commerce St. Ignace, II (November-December, 1924), 11-12.

10P. V. Ol, Innostranye Kapitaly v Rossii (Petrograd, 1922), 218 et passim. The most important Belgian study of their investments in Russia was made by the Committee for the Defense of Belgian Interests in Russia formed in 1918 "on the suggestion and under the patronage of the Belgian government." This committee admitted the shortcomings of its report, but concluded that "it suffices to prove the very great importance of our interests in Russia." According to its calculations, Belgian investments in 161 enterprises in Russia totalled 2.3 billion francs (881.2 million rubles). Investments in state, municipal, and railroad bonds added another 640 million francs, while commercial credits, bank deposits, and personal property increased the grand total to 3.5 billion francs. E. Witmeur, "Les Avoirs et Interêts Belges en Russie," Revue Économique Internationale (May, 1922), 296-324. Although this figure is often cited by leading Belgian economists, they regard the estimate as too high.
miscellaneous industries. Most of the investments, especially those in heavy industry, remained concentrated in the south.

Altogether foreign capital in Russian corporations during World War I constituted 43.4 per cent of all investments in joint-stock companies. Belgian investments fell to 14.3 per cent of all foreign capital, compared with approximately 33 per cent in 1900. Although Belgians ranked fourth among foreign investors, most of their capital, like that of the British, was invested within the boundaries of Russia as agreed on in the treaty of Brest-Litovsk. By contrast a larger percentage of German and French capital was invested in territories lost under this treaty and, consequently, not confiscated by the new Soviet state.11 Belgian investments in iron and steel, machine, and metal-working enterprises were second only to those of France. This was also true of the coal industry, but the percentage was much lower. In the production of construction materials, including glass, Belgian capital occupied the first rank. The field of municipal public-service enterprises was also dominated by Belgians.

11French investments totalled 731.7 million rubles of which 83.6 million, or 11.4 per cent, were not confiscated; British investments—507.4 million (6.7 million or 1.3 per cent not confiscated); German investments—441.5 million (124.1 million or 28.5 per cent not confiscated); and Belgian investments—321.6 million (9.9 million or 3.1 per cent not confiscated). 01, op. cit., 292-97.
Reasons for lack of heavier investments

There are a number of factors, other than earlier losses, which may help to explain why Belgians failed to invest more heavily in Russian enterprises. In the years prior to 1910, a decision of the Russian courts, increased industrial taxes, and low returns on investments probably discouraged some investors. From 1907 through 1909, the net profit of all domestic and foreign corporations in Russia averaged 4.6 per cent. During these years Belgian enterprises also yielded small profits and small dividends. Although industry in southern Russia showed definite signs of recovery in 1909, dividends paid by Belgian corporations averaged only 3.2 per cent of capital stock. On the other hand, the Russian government, in need of more revenue, levied additional taxes on industrial profits. Such action provoked some complaints among Belgian investors and industrialists who also opposed a court decision on the rights of Belgian bondholders in liquidated companies. When the Belgian company, Kharkov Shops, failed, the Russian courts decided that the claims of Russian creditors had preference over those of Belgian bondholders.\(^{12}\) Some Belgians believed that bondholders should have more

\(^{12}\)This case was reviewed by local courts and the Court of Appeal of the Senate which decided, among other legal points, that the Belgian company operated in Russia exclusively by virtue of the ukase of authorization and not by virtue of its statutes of which Russian law does not take cognizance.
security on the reimbursement of their bonds and should receive equal consideration with Russian creditors.  

From 1910 through 1914 the desire of Russian cities to control public-service enterprises and the criticism of foreign capital by some Russian journals also acted as a deterrent to heavier Belgian investments. Official and local journals criticized certain characteristics of foreign investments as a whole, but also singled out the investments of individual countries for specific developments. With respect to Belgium, some claimed that Belgian enterprises were organized under the more favorable laws at home in order to remain outside the sphere of Russian law. Others charged that certain Belgian enterprises tended to fall under the control of holding companies and


14 During this period some Belgian economists also began to oppose the heavy investments in all foreign enterprises on the grounds that this drainage of capital jeopardized Belgium's internal economic development since some enterprises found it difficult to find the necessary capital to improve their technological equipment. La Vie Internationale, III, 546; Maurice Ansiaux, "De la Nécessité d'une Enquête Monétaire en Belgique," Revue Économique Internationale (November, 1911), 266-89. From 1910 through 1913 the issue of new securities, both for new companies and capital increases of existing companies, reached approximately 1.5 billion francs for companies operating in Belgium and approximately 2 billion francs for companies operating abroad. B. S. Chlepner, Le Marché Financier Belge Depuis Cent Ans (Brussels, 1930), 86.
that some of the new companies were formed with small capital outlays for the purpose of speculation. 15

The Russian press was particularly critical of Belgian streetcar corporations and their tendency to levy new bond issues which exceeded limits fixed by their contracts concluded with municipal authorities. Perhaps these activities largely accounted for the opposition to granting concessions for the operation of public utilities to the nationals of other countries. Public opinion also approved the control and operation of these facilities by local authorities. As these views gained wider and wider acceptance, local officials negotiated loans to create and operate their own public-service enterprises. In 1913 fifteen cities contracted loans totalling 118.9 million rubles to be used especially in the construction of streetcar, and electric light and power enterprises. 16

15 For examples of Russian criticism of foreign investments in general: Russie et Belgique, III, 189-98; Moniteur, May 15, 1910; Gazette de Saint-Pétersbourg, April 2, 1914. Examples of criticism of Belgian enterprises in official and local Russian press: Moniteur, April 14, 1911 (reprinted from Torgovo-Promyshlennaiia Gazeta); Ranee Utro (Moscow), June 5, 1911; St. Peters-burgskiiia Vedmosti, June 14, 1911; Birzhevye Vedomosti (St. Petersburg), June 22, 1911; Utro, (Kharkov), October 28, 1911; Golos Moskvy, February 27, 1912.

16 Russie et Belgique, VI, 218, 254, 315; VII, 55, 121; M. S. Boeye, Russie Méridionale--Situation Economique, Industries, Commerce (Brussels, 1911), 43.
Changed characteristics of Belgian investments

In the years following 1906, Belgian investments in Russia underwent certain marked changes. Compared with the years prior to 1900, a large number of the companies formed after 1906 were reorganized from individual proprietorships or partnerships. During the few years prior to World War I this trend reversed itself, and in 1913 four of the five corporations authorized to operate in Russia represented new undertakings.\(^\text{17}\) Largely because of the immense losses sustained by investments in heavy industries during the depression, Belgian capital failed to create any new companies in these fields of enterprise. On the other hand, since public utilities demonstrated their stability throughout the years, some new corporations in this area of activity were organized.

Although Belgian banks had played an important role in the refinancing of some Belgian corporations in Russia following the depression, in the years after 1909 their investments in these companies increased more rapidly. This development was not limited to enterprises in Russia. During this period a number of Belgian banks doubled their capital and began to invest more heavily in domestic and foreign industrial securities.\(^\text{18}\) Part of this

\(^{17}\text{Russie et Belgique, VII, 276-79; Moniteur, April 14, 1911. See Livre d'Adresses des Entreprises Industrielles Belges et Françaises en Russie published by the Société d'Études Belgo-Russe in 1911 and 1914 for a listing of Belgian companies formed in Russia after the depression.}\)

\(^{18}\text{Moniteur, May 27, 1914. In 1913 Belgian banks held securities in domestic and foreign industries valued}\)
capital was invested in public-utility and metallurgical corporations in Russia. By 1913 the Bank of Liége held securities in at least twelve Belgian enterprises in Russia, and the portfolio of Société Générale included 30 per cent of the shares of the Russo-Belgian Metallurgical Company. Altogether some dozen banks held securities in a variety of Belgian enterprises operating throughout Russia.  

Between 1904 and 1914, in addition to the organization of new investment companies, a number of holding companies were also created in Belgium. The principal objective of these holding companies was to combine street-car or electric companies in a certain region in order to secure their control and direction. One such company, Auxiliary Electric Enterprises—founded by Société Générale, the Bank of Brussels, and the Central Electric Company—was organized for the purpose of controlling the Russian Electric Corporation. By 1914 there were some twelve companies which had an interest in most of the Belgian enterprises devoted to public utilities in Russia. Included among these was the Mutual Streetcar Company which had "control or...important interests" in five Russian

at 400 million francs. B. S. Chlepner, Belgian Banking and Banking Theory (Washington, 1943), 46.

19Other Belgian banks with a substantial part of their foreign investments in Russian securities: Bank of Brussels, Overseas Bank, International Bank of Brussels, Crédit Général de Belgique, and Crédit Général Liégeois. For a detailed breakdown on these investments see Moniteur and Le Recueil Financier Annuel for the years 1913 and 1914.
electrical and streetcar enterprises and participated in six others.20

Increasing investments by non-Belgians in various Belgian enterprises throughout Russia represented another significant change. The largest part of these investments came from France. Ever since the depression French capital played a more important part in the financing of Belgian enterprises and a few of them came under French control. The largest part of this French capital was directed into mining and metallurgical enterprises. By 1914 French capital was interested in all the major Belgian and Russo-Belgian iron and steel plants in southern Russia. Of the four major companies with a capital stock of 70.6 million rubles, the French owned 19 million or approximately 27 per cent.21

20 Russie et Belgique, IV, 119; Chlepner, Le Marché Financier Belge, 112. Balance sheets published in Moniteur for the years 1910 through 1914 list these holdings in greater detail. Interlocking directorates form another example of the centralization of control in public utilities. One financier was a member of the board of directors of ten Belgian streetcar, and electric light and power companies in Russia. Le Recueil Financier Annuel, 1914, 1726. All together there were 113 industrialists and financiers who served as board directors of two or more Belgian corporations in Russia. Many of these served on boards in the same industry, but one industrialist served as board director of eight coal, metallurgical, ceramic, and electric light and power companies. See Livre d'Address...1914.

21 Chlepner, Le Marché Financier Belge, 87; Russie et Belgique, III, 129; Alexander Krimmer, Sociétés de Capitaux en Russie Impériale et en Russie Soviétique (Paris, 1934), 149-50. It should be pointed out that French interests in Belgian companies were not included in the total
Effect of major developments in Russian industry on Belgian enterprises

Improved techniques of production, an increase in syndicate activity, and larger foreign exports constituted major developments in Russian industry which most strongly affected Belgian companies. In order to increase production and to take advantage of a growing demand in other countries, the iron and steel mills in the south exported some of their products abroad. The products most frequently exported included pig iron, rails, girders, and metal sheets. Foreign exports reached their peak in 1907—approximately one-quarter of a million tons—and declined gradually by 1910. Although the largest proportion of these products was shipped to European countries, some were sent as far as North and South America, China, and the East Indies. Since most of the Belgian metallurgical plants in the south were located near ports on the Black Sea, they also participated in this expansion of foreign commerce. In less than two years, the Dnieper Metallurgical Company shipped approximately 38 thousand tons of rails throughout the world, including such far-distant countries as Japan and Australia.22

Belgian investments of 321.6 million rubles cited earlier in the chapter, and that Belgians still retained some investments in French companies operating in Russia.

During the years 1907-14 new syndicates were organized and some of the older ones expanded their membership and operations. The metallurgical syndicate, Prodamet, received the authority to centralize the sale of additional iron and steel products. By 1911 thirty companies—including most of those located in the south along with others in the Dombrova, Moscow, and St. Petersburg regions—were members of this organization. The major Belgian companies continued to play a leading role and committed the sale of a wider variety of their products to Prodamet. New syndicates were also formed, and, according to the Russian Ministry of Commerce and Industry, by 1911 there were 120 syndicates in various industries throughout Russia. Belgian companies also participated in a number of these, including those organized for the sale of various products manufactured in the construction, mining, and chemical industries.\textsuperscript{23}

Although the organization of new syndicates met with little opposition, some combinations in the form of trusts were still resisted by official circles. In 1908 the eight largest iron and steel corporations in the south, led by the Belgian enterprises, discussed the need for the formation of a trust to reduce costs and control production. The project called for the dissolution of

\textsuperscript{23}Moniteur, February 17, March 24, October 13, 1911; February 14, 1913; Russie et Belgique, II, 316; VI, 93.
existing companies and the distribution of the shares of the trust to members in proportion to the value attributed to each enterprise. Because the prospective members manufactured approximately one-third of the metallurgical products of Russia, there were loud protests from consumers and industrialists in other areas. The campaign against the trust spread from the local press and zemstvos to the Duma itself, and the plans for this combination were dropped.²⁴

Attempts to control production resulted in the demand for restrictive legislation, and in 1913 the government took steps to curb these activities among syndicates. In the early part of that year, two Belgian companies appealed to the commercial court of St. Petersburg to annul their contracts with Prodougl on the grounds that this coal syndicate violated its contract by reducing production for the purpose of regulating prices. A large part of the Russian press and some government bodies attacked the coal and oil syndicates and charged that the high price of fuel was the direct result of voluntary restrictions on production. Despite industrial opposition, the government passed a law authorizing state and private railroads to extract their own coal and oil supplies. Heartened by this victory, the railroads also requested approval to supply their own needs for railroad materials,

²⁴Ibid., II, 181-82.
including rolling stock, on the grounds that Prodamet and Prodvagon delayed deliveries and artificially increased prices. Southern industrialists were even more critical of this proposal to transform railroads into industrial enterprises; nevertheless, a few months before the war, the railroads received official authorization to build their own shops for the construction of rolling stock.  

Notwithstanding the charges brought against the metallurgical syndicate, the continued modernization and expansion of iron and steel plants in southern Russia resulted in a more rapid increase in production during the years 1910 through 1913. Bessemer furnaces were replaced by open hearths and the average yield of furnaces in the south was greater than that of any other industrial country with the exception of the United States. The Donets continued to hold first place among all other Russian industrial centers. In the manufacture of pig iron in 1913, the south accounted for 67 per cent of Russia's total production and 57 per cent of all finished iron and steel products. Belgian companies continued to dominate iron and steel production in the south and, according to one estimate, in 1914 smelted 40 per cent of the pig iron and

\[25\text{Ibid.}, \text{VI, 98-100, 188, 265-72, 295-300; VII, 105-13; Moniteur, January 18, 1914.}\]
manufactured 44 per cent of the finished iron and steel products of this region.26

**World War I and the confiscation of Belgian investments**

Since Belgium was occupied in the course of World War I, there is little information available on her Russian investments during these portentous years which ended in the Bolshevik revolution and the confiscation of foreign investments. Perhaps some idea of the status of Belgian companies engaged in heavy industry can be obtained by indicating the course of fuel and metal production in southern Russia. Although the war created some transportation and manpower problems for industrialists, the output of coal, iron ore, and oil gradually increased until 1917. By contrast the production of iron and steel products declined somewhat. In 1917 revolutionary activities added further problems for producers and the decline in the various branches of heavy industry was more marked.

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26*Ibid.*, 1913 Supplement; June 26, 1914; de Loisy, *loc cit.*, 577-79; *The Russian Economist*, I, 134-36. With production figures for 1916 as a base, the latter source estimated that Belgian companies produced 36.9 per cent of the iron ore and 14 per cent of the coal produced in the south. The Belgian committee which over-estimated Belgian investments in Russia fixed higher figures for the production of these companies: 20 per cent of total Donets coal production, 33 per cent of total Russian pig-iron production; 42 per cent of total Russian rolled iron and steel products; 40 per cent of all Russian glass production; 40 per cent of all sulfuric acid and sodium-sulphate production; and 40 per cent of all oil produced in the Groznyi basin. Witmeur, *loc. cit.*, 317-20.
Toward the end of 1917 the Bolsheviks seized power, and, shortly after, all foreign investments were confiscated. The multiplicity of enterprises created by Belgian capital passed into the hands of the revolutionary Soviet state. The nationalization of these enterprises brought Belgium's l'aventure russe to a close, but the transformed steppes of southern Russia still bore the evidence of the important part played by the investments of la petite Belgique.

L'extension de nos industries dans le Donetz date...de 1895, et il est incontestable notamment que les usines modernes, que les métallurgistes belges ont contribué à établir dans cette région, est [sic] une des causes de la place important prise par la Russie dans la production mondiale de l'acier, production qui la classait, en 1913, au cinquième rang des pays producteurs d'aciéris....

Summary

After having appraised the reasons for their heavy losses in Russia during the earlier critical years, Belgian investors and industrialists tried to minimize or eliminate their mistakes and shortcomings. To permit a wider distribution of information on economic developments in Russia, the Société d'Études Belgo-Russe was founded.

27 In December of 1917 all foreign debts were repudiated, and on December 28, 1918 the nationalization of industry was extended to foreign enterprises.

28 Ibid., 319.
But with the revival of Belgian interest in Russian investments, most of the capital was devoted to the development of existing enterprises. Beginning with the year 1910 this flow of capital increased and when World War I broke out Belgian capital still constituted an important part of total foreign investments in Russian industry.

In comparison with the years prior to 1900, Belgian investments in Russia also underwent certain marked changes after 1906. The creation of only a few new enterprises, the result of a cautious attitude stemming from earlier losses, represented an important characteristic of this later period. In the expansion of various enterprises, Belgian banks began to play a more important role, while holding companies acquired a growing interest in public utilities. A more significant development was the increase of investments by the nationals of other countries in Belgian enterprises.

On the other hand some developments in Russian industry had a pronounced effect on Belgian enterprises located in Russia. In the years following the strike movement of 1905-06, Belgian iron and steel plants in southern Russia shipped a variety of products throughout the world, and, a few years later, they increased their production levels by introducing technological improvements. Enterprises in other industries participated more actively in the growing number of syndicates. With the onset of
World War I and the success of the Bolshevik revolution, foreign investments were confiscated and the role of Belgian capital in Russian industrialization was brought to an abrupt end.
CONCLUSION

Essentially this dissertation demonstrates that Belgian capital—along with that of France, England, and Germany—played a significant role in Russian industrialization, particularly in the Donets basin, and that for a number of years Belgian capital exceeded that of other foreign investors. In addition, this study offers some other important conclusions and evaluations of the effect of these investments on Belgium on the one hand and Russia on the other.

Certain patterns in the economic evolution of Belgium help to place l'aventure russe in historical perspective. The rapid growth of the population of Belgium within a very limited land area forced its people to emphasize industrial development and foreign trade. But in spite of the increased shipment of manufactured goods abroad, Belgian imports, largely food products, continued to exceed exports. In order to make up this trade deficit and balance its accounts, Belgians found it necessary to create new industrial plants abroad and to secure additional revenue through dividends from foreign investments. Toward the end of the nineteenth century, this emphasis on industrialization and foreign investment was a well-established part of her
economy, and like England, Belgium became essentially a manufacturing and exporting country.

As a result of the economic expansion of earlier years, Belgium literally "spilled over" into southern Russia during the years 1895-1900. This was achieved in several ways. Some Belgian industrialists established branches of their factories in Russia, others joined with Russian industrialists in expanding existing enterprises and still others joined with Belgian investors and financiers in the creation of new companies. Not only was this capital, along with technologically trained personnel, used to create enterprises in heavy industry in which Belgians were well experienced, but they also invested in a few fields of enterprise which were non-existent in Belgium. By 1900, as a result of this rapid expansion of capital and personnel, Belgians controlled a wide array of industrial enterprises in the Donets basin and had more capital invested in all of Russia than the French, the British, or the Germans.

This study also supports the view that the growing dependence on foreign investments subjected Belgium's economy to a rapid succession of periods of prosperity and depression. In other words, the economy of Belgium became more closely linked with financial and industrial developments in other countries. When the depression of 1900 broke out in Russia, it intensified the depression in Belgium. But the general money stringency and the resultant depression
were not the only reasons for the heavy losses of Belgian investors: the lax legislation on the organization of joint-stock companies and the failure to study thoroughly the needs of the Russian market were partially responsible for the debacle which wiped out approximately one-half of the capital invested by Belgians in Russia. As individual Belgian investors lost their taste for Russian investments, a number of the enterprises which they had created were able to retain their identity only because of the increased investments by Belgian banks and holding companies. In the case of some Belgian enterprises, they fell under the control of the nationals of other countries. Just as Belgian investors had earlier become disillusioned over their investments on the American continent prior to 1895, when they turned their attention toward Russia, they now focused their attention on the Belgian Congo as the most promising area for expansion beyond their national boundaries.

The question arises whether Belgium found her Russian investments economically profitable. With the exception of the years of the Russian depression and its immediate aftermath, these investments, on the whole, yielded satisfactory dividends. Belgium's heavy Russian investments also resulted in increased exports to Russia in the closing years of the nineteenth century, but after 1900 these exports declined and constituted a progressively smaller proportion of total Russian imports. Gradually, the factories established by
Belgians in Russia developed their own markets which, to some extent, were previously supplied by imports from Belgium. In later years, the confiscation of Belgian investments by the Bolsheviks added to the problems of economic reconstruction in Belgium in the years following the devastation of World War I. Confiscation without compensation left a bitter memory in the minds of many Belgian investors who, in later years, often eschewed investments outside their colonial empire. For almost twenty years after the revolution of 1917, during which time efforts were made to obtain some form of restitution for her investments, the Belgian government withheld recognition of the new Soviet regime.

To some extent, a parallel can be drawn between the experience of Belgians and the nationals of other countries with investments in Russia. Basically the reasons for the capital exports of foreign investors other than those of Belgium were the same, and each nationality, for one reason or another, tended to emphasize certain industries in particular. British investors were especially interested in oil wells and copper mines, German companies were active in the chemical and electrical industries, while French capital was concentrated in coal, metallurgical and banking enterprises. Since British, German, and French investments in Russia were smaller than those of Belgium prior to 1900, so were their losses in the depression. Consequently, with the
recovery of Russian industry in the half-dozen years prior to World War I, the French, British, and Germans hesitated less in expanding their investments during these years. With the revolution of 1917, the investments of the nationals of these countries met the same fate as those of the Belgians, although some individual companies made private arrangements for compensation.

Although various internal factors help to explain Russia's intensive industrialization in the closing decade of the nineteenth century, Russia lacked sufficient native capital, and, consequently, the influx of foreign capital determined the speed and extent of this industrial movement. Capital imported from abroad was also accompanied by the spirit of enterprise and the technological skills of western Europe. Foreign investments in heavy-industry enterprises not only assisted in the construction of a larger railroad network but in the industrial expansion of Russia as a whole. While a number of foreign enterprises worked to supply government contracts, others satisfied the needs of the private market. This resulted in greater employment and an improved standard of living. In essence, foreign capital with the assistance of native capital was instrumental in developing Russia's economy.

The importance of foreign capital in the development of Russian industry was especially true with regard to the Donets basin. As a result of this support, the rich soil of
the southern steppes not only yielded large quantities of grain for the Russian table and foreign export, but it also supported a heavy-industry complex which provided the empire with manufactured goods. It was in the Donets basin particularly that Russia shared in the benefits of the industrial revolution of western Europe. Here foreign enterprise constructed factories which employed the latest techniques of production utilized in the West. Since these factories were superior to existing Russian enterprises, the latter were sometimes forced to modernize their plants to meet the new competition.

Although the influx of foreign capital undoubtedly had some effect on the political and social evolution of Russia also, it would be difficult to generalize on these developments on the basis of the Belgian experience alone. However, certain possibilities may be suggested. Since the influx of foreign capital accelerated the industrial movement of the nineties, foreign investments may have intensified the stresses and strains within Russian society which resulted in numerous strikes and the revolutionary movement of 1905. Extensive foreign investments may also have been partially responsible for the failure to develop a large middle class in Russia and may explain the reluctance of the government to extend political power to this segment of society. Then too, the presence of foreign capitalists and technicians may have
heightened the agitation of radical groups and disposed the masses more favorably toward their propaganda.

Whether the industrial progress of Russia, assisted by foreign capital, would have presented a brighter economic picture today if World War I and the revolution of 1917 had not intervened, remains in the realm of speculation. On the other hand, it is evident that the industrial development of Russia prior to 1917, notably in the Donets basin, provided the foundation for the superstructure built by the Soviet state. Today, the Donets basin remains what it was in pre-revolutionary times: the most important center of heavy industry in Russia.
APPENDIXES
APPENDIX A

PROCEDURE ON FORMATION OF JOINT-STOCK COMPANIES IN RUSSIA

"Any persons who wish to form a joint-stock company in Russia must forward a copy of the proposed articles of association to the Minister of Finance, who revises them after consulting any other Ministers whose department may be connected with the subject of the concern. If he makes any changes in the articles which are required by the general law or interest, he informs the promoter of those changes, and when the promoter has agreed and given effect to these, the articles are presented again for revision to the Committee of the Ministers. Should there be any special rights required for the company, they are submitted to the revision of the Council of State. The articles are then submitted to the Emperor, with whose August sanction alone the joint-stock company may be allowed to be brought forward and the articles confirmed. When the Imperial sanction is received, the articles are published in the Government Gazette by order of the Senatus, and then they receive the strength of a law and are obligatory on everybody. Any substantial changes that are required in the articles can only be introduced by the same legal procedure. The articles must contain the substance and aim of the enterprise and the results that are expected to follow from it, the name of the company the town or place where the registered office is situated, the capital of the company, the number and price of the shares, the method in which the capital is to be issued, any special privileges desired by the company, the way in which the business of the company is to be conducted, the degree and powers of the board of directors and the shareholders, the degree and the remuneration of the directors, the mode of liquidation of the company should that be found necessary, and all other stipulations that it is found necessary to include. Those are the regulations for joint-stock companies which are floated in Russia. Companies which are floated in foreign countries are allowed to work in Russia, but they also required to receive special sanction in the same way as has been mentioned with regard to the Russian companies, with this difference, that the Government does not interfere with the way in which the capital is issued; they only require to have the articles of such a company brought under their revision and subject to their sanction. After a company has been permitted to go on, the Government doesn't interfere at all with the way in which its business is managed. The company and its board of directors are only submitted to the general laws of the country. The Government
only interferes in cases where there has been illegal proceedings on the part of the board of directors and in cases of complaint on the part of the shareholders as to illegal actions. In such cases there may be an inquiry by the agents of the Minister of Finance, and if the complaint is found to be well grounded, then the Government interferes, either by putting things to right or in very grave cases bringing the matter before the Law Courts."

Source: Russia, Ministry of Finance, Russia: Its Industries and Trade (Glasgow, 1901), 154-55.
APPENDIX B

TABLE 8

BELGIAN, FRENCH, ENGLISH, GERMAN, AND AMERICAN INVESTMENTS IN RUSSIA, 1890-1915
(in million rubles)

<table>
<thead>
<tr>
<th></th>
<th>1890</th>
<th>1900</th>
<th>1915</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgian</td>
<td>24.6</td>
<td>296.5</td>
<td>318.7</td>
</tr>
<tr>
<td>French</td>
<td>66.6</td>
<td>226.1</td>
<td>687.9</td>
</tr>
<tr>
<td>English</td>
<td>35.3</td>
<td>136.8</td>
<td>535.4</td>
</tr>
<tr>
<td>German</td>
<td>79.0</td>
<td>219.3</td>
<td>436.1</td>
</tr>
<tr>
<td>American</td>
<td>2.3</td>
<td>8.0</td>
<td>114.0</td>
</tr>
</tbody>
</table>

Source: P. V. O1, Innostrannye Kapitaly v Narodnom Khoziaistve Dovoennoi Rossii (Leningrad, 1925), 15.

TABLE 9

BELGIAN INVESTMENTS IN RUSSIAN ENTERPRISES ON THE EVE OF THEIR CONFISCATION
(in rubles)

<table>
<thead>
<tr>
<th>Field of Investment</th>
<th>Total Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and metallurgy (includes petroleum)</td>
<td>116,934,200</td>
</tr>
<tr>
<td>Municipal enterprises</td>
<td>109,064,900</td>
</tr>
<tr>
<td>Metal-working and machinery</td>
<td>47,231,300</td>
</tr>
<tr>
<td>Mineral products</td>
<td>11,475,200</td>
</tr>
<tr>
<td>Chemical products</td>
<td>11,206,200</td>
</tr>
<tr>
<td>Transportation (rolling stock)</td>
<td>10,500,000</td>
</tr>
<tr>
<td>Textile</td>
<td>9,363,600</td>
</tr>
<tr>
<td>Banks</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Animal products</td>
<td>1,950,000</td>
</tr>
<tr>
<td>Food products (includes tobacco)</td>
<td>738,700</td>
</tr>
<tr>
<td>Woodworking</td>
<td>638,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>321,602,100</strong></td>
</tr>
</tbody>
</table>

Source: P. V. O1, Innostrannye Kapitaly v Rossii (Petrograd, 1922), 292-93.
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