Introduction

> My Aunt Léonie had bequeathed to me, together with all sorts of other things . . . almost all her unsettled estate. . . . My father, who was trustee of this estate until I came of age . . . consulted M. de Norpois with regard to several of the investments. He recommended certain stocks bearing a low rate of interest, which he considered particularly sound, notably English consols and Russian four per cents. "With absolutely first class securities such as those," said M. de Norpois, "even if your income from them is nothing very great, you may be certain of never losing any of your capital."
>
> —MARCEL PROUST, *REMEMBRANCE OF THINGS PAST*[1]

THE 1918 BOLSHEVIK REPUDIATION of debts contracted by the Tsarist and Provisional governments—the largest default in history—punctuated the end of an era during which Russia had become the leading net international debtor in the world.[2] The French writer Marcel Proust's addiction to financial speculation was prodigious; at various points his portfolio consisted of positions in securities from a diversity of places, including Mexico, Egypt, and Russia, as well as in volatile commodity markets—often with disastrous results.[3] Proust's reference to Russian bonds in his *Remembrance of Things Past*—published after the Bolshevik default—underscores his own notoriously unpredictable personal finances, and the default's deep impact on French society. Although he sold a significant holding in a Russian iron ore mine at a profit nine months before the February Revolution, others in Proust's social circle were less fortunate.[4] The last years of his life saw the French author supporting friends left destitute from the loss of their life savings in Russia; indeed, the scene where he shows M. de Norpois pushing Russian bonds as a safe investment mirrors the experience of at least one couple Proust was supporting at the time.[5]

The Russian default of 1918 is more than a footnote in French cultural history. It is at once central to modern financial history and to the history of the Russian Revolution. The players in the drama included the financiers who poured money into Russia through the ebbs and flows of industrial booms, wars and revolutions, the bureaucrats and politicians in both Russia and the West who sought to exploit and control these flows, as well as—of course—the revolutionaries who, seeking to transform Russia and the world, triggered the largest default in history and one of the greatest hyperinflations of the twentieth century. Yet, remarkably, these events remain understudied.

This account of the Russian investment boom and bust of the late nineteenth and early twentieth centuries is based on, among other things, financial and economic data, as well as the correspondence, reports, and other documents in government and private banking archives in Moscow, Saint Petersburg, Paris, London, and New York. It is relevant to an extensive academic literature that stretches across the disciplines of history, economics, and political science. The secondary literature cited here relates to the Russian Revolution, banking and business history, the historical sociology of revolutions, and international capital flows. Given the crucial importance of the last of these, the story is international, touching on aspects of the histories of Russia, France, Germany, Britain, the United States, China, and Japan, among others.

The Bolshevik Conception of International Finance

Imperialism, the Highest Stage of Capitalism (1917), written in early 1916, and published in mid-1917, was Vladimir Lenin's last major work before the October Revolution of 1917, during which the Bolsheviks took power.[6] In the work, Lenin critiqued capitalism as he saw it operating globally and in Russia, focusing on the growing power of banks at the dawn of the twentieth century.[7] Lenin's critique drew extensively on the contemporaneous work of English economist J. A. Hobson and Austrian Marxist and future German minister of finance Rudolf Hilferding and their respective works, *Imperialism: A Study* (1902) and *Finance Capital* (1910).[8]

Lenin's *Imperialism* distills key points of the Bolshevik view of international finance in the Russian context. First, Lenin saw the growth of banks and the growing concentration of the financial industry as increasing their power within the broader economy.[9] Specifically, he seized on how increasingly powerful banks displaced the stock market—indeed, market forces more generally. In the process, masses of individual investors acting through the stock market ceased to be the primary drivers of capital flows, with a small number of powerful banks and bankers instead becoming the chief drivers of markets. While bourses remained, then, their function fundamentally changed, from an arena in which capital allocation decisions were really made to a channel through which major banks expressed and implemented their decisions.[10]

Second, Lenin saw both what he called finance capital and the associated rentier state as pernicious. Such disdain is evident in his discussion of the subjugation of industry to finance, of the informational asymmetries banks develop and exploit, and of the foreign policy decisions finance capital drove.[11] Far from just noting the growth of finance capital as an accelerant in the development of capitalism along the road to the inevitable achievement of socialism, Lenin highlighted the retarding effect of finance capital. His later discussion of rentierism and its social effects—not least the splitting of the working classes in the developed economies—evidenced this concern.[12]

Finally, even if *Imperialism* was an analytical work more than a call to arms, the policy implications of Lenin's thinking are clear. In Lenin's view, finance capital—embodied in the banks, industrial cartels, rentiers, and even finance ministries that both regulated lenders and solicited loans—was the primary engine of the global capitalist system and the driver of the crises tormenting the colonized and downtrodden. Destroying finance capital by controlling the banking system and tearing apart the rentier state on which it depended—including its shares, bonds, and bourses—thus became a top priority of the revolution. Indeed, finance capital and its destruction would become a central theme in Lenin's speeches and writing leading up to the October Revolution in 1917 and in his policy actions in the aftermath of the coup.[13] For Lenin—and, as this book shows, other revolutionaries outside the Bolshevik camp—there was no question: the revolution would be explicitly financial.

International Finance and the Russian Revolution

It is particularly striking, considering all the attention Lenin devoted to finance capital and financiers in *Imperialism*, that questions of finance and the role of international financiers in particular play a peripheral role at best in the mainstream historiography of the Russian Revolution. Over the past two generations, historians of Russia have branched out in a wide range of directions, moving away from questions of high politics and ideology to devote more attention to social, cultural, and even environmental history. Peasant history has been a notable focus of major research by scholars like Orlando Figes and Lynne Viola. The irony is that after decades of the focus on formerly marginalized groups, financiers are now the voiceless and ignored in the grand narratives of the revolution.

Indeed, over time such narratives have deemphasized questions of finance and the role of financiers. Conservative historian Richard Pipes's *The Russian Revolution* (1990) touches on financial issues, but they occupy a secondary place in a narrative focused on politics and ideology, while his contemporary and ideological opposite, radical social historian Sheila Fitzpatrick, devotes even less attention to finance. The paradox is that for all their ideological and historiographical differences, the two historians end up sharing a common interpretation and treatment of key financial questions such as the 5 Percent Russian Government Loan of 1906, which is the focus of Chapter 2.[14] In his otherwise excellent history of the revolution, *A People's Tragedy*, representing a younger generation of scholarship, Figes continued the relative downplaying of financial questions in the broader story of the revolution. To the limited extent that they appear in these grand narratives of the revolution, bankers and finance ministers serve as contemporary observers of politics and even court culture, rather than as historical actors in their own right. The contrast with Lenin's conception of the role of bankers in the world at the time is striking.

True, a second and newer line of more specialized scholarship has shown greater engagement with the financial history of the revolution and early Soviet period. One notable Anglophone scholar in this regard is historian Sean McMeekin, whose work on the early Bolshevik period includes two monographs related to finance—*The Red Millionaire* (2004) and *History's Greatest Heist* (2009).

Russian scholars, too, have been particularly active in this vein. In his 2008 work *Den'gi Russkoi Emigratsii* (Money of the Russian Emigration), Oleg Budnitskii takes up one of the great financial mysteries of the Civil War: the fate of approximately 480 tons of gold, moved in 1915 from the State Bank in Petrograd to Kazan for safekeeping, captured by the anti-Bolsheviks during the Civil War, and ultimately transferred to the White government of Admiral Kolchak in Siberia.[15] Ekaterina Pravilova's *Finansy Imperii* (Finances of Empire) is a recent financial history of Russia over the long nineteenth century.[16]

While McMeekin and Budnitskii deal with colorful financial characters and incidents in Russian history and mined the archives to uncover interesting new evidence, their narratives do not grapple with major questions of Russian financial policy and their relationship to the events of 1917. Pravilova's work, while engaging the theme of public finance in the context of center-periphery relations within the Russian Empire, is less concerned with the revolution per se in the core of the empire.

Jennifer Siegel's *For Peace and Money* (2014) is perhaps the specialist book closest to this one. Siegel's work draws on some of the same archives used in this book but is fundamentally a work of diplomatic history, focused primarily on questions of great power politics rather than the drivers of capital flows and their interplay with the story of the Russian Revolution.

Thus, while this more specialized literature sheds new light on interesting details, notably money laundering and smuggling in the cases of McMeekin and

Budnitskii, or the interplay between diplomacy and high finance in the case of Siegel, the reader looking for a tie-in with the broader arc of Russian history and the revolution itself is likely to be disappointed. The gold reserves McMeekin and Budnitskii both discuss were large; and while both authors stress the size and ultimate fate of the funds, they say little about the factors that created such reserves in the first place, which arguably conditioned the inability of either the Reds or the Whites to utilize the bullion to maximum effect.

Insofar as the narratives of Pipes, Fitzpatrick, and Figes are representative of major narratives of the Russian Revolution, the relative lack of attention to financial questions is also striking. Drawing in part on revolutionary rhetoric of the time, these narratives acknowledge a sense of economic and financial crises in the waning days of the ancien régime, but they are limited in their exploration of the financial and economic factors that led to these crises, and in particular leave crucial financial-historical counterfactuals unexamined. The absence of such discussion in this literature is particularly striking given that the revolutionaries themselves—not least Lenin in *Imperialism*—were obsessed with questions of finance and banking. More recent specialized scholarship touches on financial history in the context of the revolution and Civil War, but leaves unexamined important themes relating to the connections between international finance and the revolution.

The Sociology of Revolution

While a lack of historical literacy often contributes to financial crises, military disaster, and other such dislocations, modern revolutions stand out for the degree to which their participants look to earlier revolutions and revolutionaries in world history. Much of the research for this book took place as the events of the Egyptian Revolution of 2010–11 unfolded, with revolutionaries, figures of the ancien régime, and external commentators all wondering if the events in Cairo would turn the way of those in Tehran in 1979. Russia's revolutionaries were cognizant of the revolutions of 1789 and 1848 in particular; and, indeed, Leon Trotsky's own writings about the course of events in Russia would draw on the terminology of the French Revolution in his adoption of the term "Thermidor" to describe the rise of his rival and ultimate murderer, Joseph Stalin.[17] In the early days of his revolution, Lenin measured himself against the yardstick of the Paris Commune.[18] Revolutions have themselves, in turn, become the subject of comparative scholarship by historians and historical sociologists.

Harvard historian and president of the Society of Fellows Crane Brinton penned one of the classic works on the historical sociology of revolutions, *The Anatomy of Revolution*, in 1938—at a time when, by his own admission, the Russian Revolution was arguably still in progress.[19] Brinton offers what he considers an outline of the "uniformities" observed in revolutions across time and space by drawing on the cases of the English Revolution of the seventeenth century, the American and French revolutions of the eighteenth century, and the Russian Revolution of the twentieth century. Using the analogy of the revolution as a fever—which he employs in a clinical sense and thus without any normative connotations—Brinton walks the reader through the commonalities of the crisis of the ancien régime in his various cases, and then through the different stages of revolution and some of the characteristics shared among the revolutionaries themselves.[20]

In the generations since Briton's classic work on revolutions, scholars in both the West and Russia have grappled with the commonalities, differences, and causes behind the great revolutions of world history. Several central issues and questions appear across this literature. The first is one of scope—both temporal and geographic. Whereas Brinton's work was highly Eurocentric, later work by Theda Skocpol cast a broader net, notably including China.[21] An analogous issue of temporal definition also underscores all these discussions insofar as scholars differ on starting and ending dates of processes they otherwise agree to be revolutions, with often deep analytical consequences. In the case of Russia, even major Russian scholarship in the field of comparative revolutions perpetuates Brinton's focus on the events of 1917 to 1921, comparatively downplaying the events of the 1905 Revolution, which Chapter 2 shows to have been crucial to the broader story of the Russian Revolution.[22]

A second challenge the literature grapples with is definitional. As the Russian economists Vladimir Mau and Irina Starodubrovskaya show in *The Challenge of Revolution* (2001), definitional questions can determine both the subjects of analyses and the results. The authors thus set out to examine the experience of Russia in the 1980s and 1990s within the context of earlier theories of revolution, in the process suggesting ways that the most recent revolution in Russia may modify such theories.[23]

Devoting limited attention to the causal factors driving societies into revolution in the first place, Brinton focused more on the process and stages of the revolution itself. He sought to tease out the "uniformities" among his four cases—uniformities that, if not quite offering a general theory of revolution, still suggested some broad outlines of how revolutions work.[24] Much of the subsequent literature continued this tradition, operating within a social-scientific framework, but also recognizing that unlike comparatively mundane subjects such as recessions or elections, revolutions have deep distinctions and are processes pregnant with historical contingency. A seven-stage schematic of revolution developed by Mau and Starodubrovskaya elaborates from

Brinton, but offers a similar arc that begins with the crisis of the ancien régime, continues through the rule of the moderates and the *dvoevlastie* (dual power) and the rise and crisis of the radical regime, Thermidor, and ends with the consolidation of the postrevolutionary dictatorship.[25]

Questions of economics also course through much of the comparative literature on revolutions. While economic determinism is the bedrock of much classical Marxist literature, narratives stressing mechanistic relationships between economics and political change have been remarkably persistent—witness the myriad commentaries positing a relationship between a spike in global food prices and the Arab Spring. Much of the sociological literature on comparative revolutions jettisons the economic determinism of Marxist or popular journalistic discourse. As Brinton notes, "Our revolutions did not occur in societies with declining economies, or in societies undergoing widespread and long-term economic misery or depression. You will not find in these societies of the old regime anything like unusually widespread economic want."[26] In Briton's telling, "If businessmen in France had kept charts and made graphs, the lines would have mounted with gratifying consistency through most of the period of the French Revolution."[27]

Yet, as much as the sociological literature reflects a more nuanced view of the economic dimensions to revolutions, it may understate economic and especially financial factors. While the literature is rich in discussions of class conflict, much of it is silent on or ignorant of economic matters—especially so on financial matters.[28] Here, the work of Mau and Starodubrovskaya differs from earlier scholarship in that it stresses economic and financial causes and symptoms of revolution, setting it apart from Marxist analyses, in part by arguing that class conflict is not a driver of revolutionary events insofar as a precondition for revolution is the fragmentation of society that sees a breakup of the classes themselves.[29]

The literature on the historical sociology of revolutions is extensive, offering many frameworks within which to consider both historical and contemporary revolutions. The Russian Revolution features prominently in this literature. However, as much as the literature recognizes the broader importance of the events in Russia, it does not adequately frame them.

This book does not pretend to articulate a general theory of revolution applicable to all times and places. It does, however, engage with the literature on comparative revolutions by examining the story of the Russian Revolution—in a decidedly broader temporal scope than the theoretical literature does—in light of the existing models of revolution, and with a focus on many of the financial and economic themes Mau and Starodubrovskaya highlight. In this sense, this project seeks to help social scientists refine their thinking about revolutions.

Financial Globalization and Russia

Over more than three decades, the world has experienced a remarkable degree of globalization, in turn inspiring academic interest among social scientists and historians in the nature and drivers of this phenomenon. A large body of social science research comparing financial globalization in the present to that in the past—especially during what has been called the "first modern age of globalization" of the late nineteenth and early twentieth centuries—is of particular interest. While financial globalization can take a range of forms, the phenomenon of extensive cross-border capital flows is a salient feature of the contemporary global financial order, as it was of that in the late nineteenth and early twentieth centuries.

Economist Moritz Schularick compared both eras of financial globalization in quantitative terms in a 2006 study. He found that while contemporary globalization has seen much greater cross-border capital flow than in the past—with global cross-border investment stocks in 2001 representing 75 percent of world GDP, against 22 percent in 1913–14—the distribution of these investments tells a different story.[30] Specifically, the contemporary era of globalization has seen a higher degree of international investment within the developed world, while the earlier period of globalization witnessed a greater degree of foreign investment flowing from rich countries to poorer ones. As an example, according to Schularick's numbers, Russia was the second largest recipient of foreign investment in 1913–14—accounting for 8.4 percent of total cross-border capital flows, following only the United States, which had already become a major capital exporter.[31] By contrast, in his ranking of 2001 flows, the top eight recipients of cross-border investment were developed economies, with Hong Kong being the top-ranked "emerging market" with only 2.6 percent.[32] As Schularick argued, the contemporary period of globalization has thus been a manifestation of the "Lucas paradox," named after economist Robert Lucas, who observed that capital sometimes fails to flow from rich to poor countries, even though neoclassical growth models would predict that the returns to capital in poor countries would be very high, which would—according to theory—attract large capital inflows, all else equal.[33]

Of course, the 2001 figures Schularick presented in 2006 may now appear somewhat dated and are likely not as representative of rich-poor capital flows today, in light of the rising prominence not only of emerging markets but also of "frontier markets," including those of sub-Saharan Africa, in global portfolios.[34] Still, this trend is relatively recent, and hardly representative of the current era of globalization, which began in the 1980s and 1990s. Indeed, even data on global public offerings of new equity show a marked bias in favor of developed market issuance. Notwithstanding the increased interest

TABLE I.1. Initial public and secondary equity offerings from 1 January 2000 through 28 February 2018

	USD, trillions	% of total
North America	4.21	35
Asia and the Pacific (including Japan)	4.11	34
Europe	2.95	25
Latin America and the Caribbean	0.46	4
Middle East and Africa	0.22	2
Global total	11.96	100

Source: Bloomberg, 20 March 2018.

in emerging markets on the part of institutional investors from the turn of the millennium, the overwhelming amount of new equity capital raised by companies in global markets was raised by those in developed markets (see Table I.1). Equity market investments are of course only a portion of broader portfolio capital flows, but the underrepresentation of emerging markets—particularly in Latin America, the Middle East, and Africa—in this asset class is notable, not least given the increased prominence of equities in the contemporary era of globalization relative to the previous era. This underrepresentation of emerging markets in global equity issuance becomes clearer when taking into consideration that they accounted for approximately 54 percent of PPP-adjusted GDP in 2010, while accounting for only 35 percent of global stock market capitalization—itself a figure three times higher than in 2000.[35] Seen another way, in March 2018, the equity market capitalization represented in the 24-country MSCI Emerging Markets Index was only 14 percent of that of the MSCI World Index, which tracks 23 developed markets.[36] Thus, while less developed economies are increasingly being incorporated into global financial flows, they are still less integrated into global markets than were the poorer economies of the first modern age of globalization. The world is still in important ways not as globalized as it once was.

Russia in particular stands out as a significant player in both the historical and contemporary cases of financial globalization. Notwithstanding recent slowdowns, the Russian Federation is well known to investors today as one of the four BRICs—a term coined in 2001 by Jim O'Neill, then chief economist of Goldman Sachs, in a paper highlighting Brazil, Russia, India, and China as the four key economies that would experience a rapid rise in their share of global income from 8 percent in 2001 to as much as 27 percent over the course of the succeeding decade. Later research highlighted the BRICs as an even more significant driver of global growth, suggesting they would overtake the six leading developed Western economies by 2032.[37] As a BRIC economy, Russia enjoys a position as one of the most prominent "emerging markets" in which investors from "developed" markets invest their capital, accounting in early 2018 for more than 3 percent of the benchmark MSCI Emerging Markets Index. Even after several years of poor performance, Russia is a major component of the major international stock and bond indices against which institutional investors benchmark their performance.

Those with limited historical perspective are often surprised that Russia was in a roughly analogous—if not an even more prominent—position as a destination for foreign investment during the first modern age of globalization. In 1914, on the eve of the First World War, Russia was the largest net international debtor in the world, borrowing more money on international bond markets than Egypt, the Ottoman Empire, and Persia combined, and more than either Brazil or Argentina—all famous and frequently cited cases of debtor economies in history.[38] On a gross basis, Russian borrowing was second only to that of the United States—already a substantial exporter of capital to less developed economies in Latin America and elsewhere.[39] Russia was not only a major borrower, but also one with heavy representation in terms of traded securities on Western financial exchanges. The Paris Bourse—at the time one of the most active and liquid exchanges in the world—was by the closing decades of the nineteenth century a principal center of trading in Russian bonds.

The scale and volatility of global capital flows in both the first and second modern ages of globalization generated a great deal of interest among historically minded social scientists, as well as financial historians, in the key drivers of cross-border capital flows in a globalized world. Two of the leading scholars in the field articulated the puzzle in the following manner:

> Bond prices (or equivalently the corresponding yields premiums or default probabilities) may be seen as the left-hand variable of an implicit equation through which investors priced sovereign risks as a function of a number of variables. This equation serves as an excellent tool to identify the determinants of reputation and to study market perceptions of government policies before WWI. Once its existence in the minds of investors has been recognized, it is possible to use it by retrieving the information available at the time to back up these variables and their influence on bond prices.[40]

In a plethora of research published over the past quarter century, scholars have debated which variables attract investors to or repel them from markets and in turn drive the cost of capital for international borrowers. Although the explanations are multifaceted, it is perhaps useful to think of them as falling into two broad camps: those that stress monetary architecture and those that stress any range of macroeconomic or political fundamentals.

Monetary Architecture and the Gold Standard

Scholars stressing monetary architecture typically focus on fixed exchange rate regimes—represented in the historical case by the gold standard—as a major driver of access to cheap and plentiful capital through the international bond market. In a seminal 1996 paper, economists Michael D. Bordo and Hugh Rockoff spoke of the gold standard as the "Good Housekeeping Seal of Approval" for investors between 1870 and 1914. Using the case of nine "peripheral" borrowing economies, the authors argued that adherence to the gold standard was a signal of financial responsibility by a borrowing government to investors that prompted the latter to lend capital to such governments at more favorable rates than to those with a poor record of adherence to the gold standard.[41] According to Bordo and Rockoff, the value of adherence to gold was substantial, as evidenced in reduced borrowing costs in terms of both gold- and paper-denominated loans. Establishing a risk-free rate of 3 percent for the period, based on the yield of the UK 2.5 percent consol—the benchmark government bond of the time, equivalent in status to the US Treasury bond today—the authors argued that countries with a high, demonstrated commitment to gold convertibility, including Canada, Australia, and the United States, paid an interest premium of roughly only 1 percent over the benchmark rate. In contrast, less credible adherents to the gold standard, such as Argentina, Brazil, and Chile, paid a 2 to 3 percent premium over the benchmark rate on their gold-denominated loans.[42] These differences in rates were magnified in the case of bonds not linked to gold-backed currency. Whereas issuers of paper bonds such as the United States and Italy that showed stronger adherence to the gold standard paid premiums over the UK rate of 1.25 percent and 1.40 percent, respectively, Chile—a less scrupulous adherent to the gold standard—paid a premium of more than 4 percent.[43]

The Bordo-Rockoff work on the gold standard laid the groundwork for a slew of follow-on studies. While engaging with the central empirical question of whether or not adoption of the gold standard influenced borrowing costs, these subsequent works also raised deeper analytical questions that remain relevant to understanding the nature of financial globalization in the late nineteenth century.

On the basic empirical issue of whether or not adherence to the gold standard influenced sovereign borrowing costs, there is reason to believe that Bordo and Rockoff's thesis remains relevant. Drawing on a larger and more varied sample, Maurice Obstfeld and Alan Taylor confirmed Bordo and Rockoff's basic argument, finding that prior to the First World War, adherence to the gold standard reduced a country's sovereign borrowing costs by as much as 30 basis points.[44] Niall Ferguson and Moritz Schularick's subsequent work also concedes this point.[45]

These same follow-on studies that upheld the Bordo-Rockoff argument in a broad sense, however, raised important issues of periodization and location in the core versus periphery. Turning to the period of the interwar gold standard, Obstfeld and Taylor found that contrary to the prewar period, bond markets rewarded devaluers—countries that returned to convertibility at lower levels—rather than those that maintained convertibility at parity. The authors speculated that markets might have been seeing the maintenance of convertibility at parity to be unsustainable in the long run, making devaluation a more credible policy.[46]

Ferguson and Schularick revisited the debate about the gold standard's impact on the cost of capital for international debtors by highlighting development differentials. Distinguishing between advanced economies, colonial borrowers—who, as they rightly pointed out, were in many cases in de facto currency unions with more advanced borrowers and generally subject to strict financial discipline from the metropole—and independent, less developed countries, they argued that investors were able to quickly see beyond the "thin film of gold." In particular, their study found that while the gold standard did impact borrowing costs for more advanced countries, it did little to influence investors vis-à-vis independent developing countries, other than to the extent that monetary stability in core economies facilitated fund flows to the periphery. Ferguson and Schularick further argued that, even in the case of the advanced economies, the gold standard was simply "a proxy for improvements not properly reflected by other covariates; or it may merely capture the effect of low transaction costs." While supporters of the "Good Housekeeping" hypothesis would likely quip that the gold standard as a "proxy" for a range of other factors was part of their original argument, the broader point made by Ferguson and Schularick about the need to take into account the more conflicted evidence with respect to less developed borrowers is an important one.[47]

Macroeconomic and Political Fundamentals

Another body of capital flows scholarship deemphasizes monetary architecture, focusing instead on what can broadly be considered a variety of macroeconomic and political fundamentals. A range of scholarship across the social sciences and history has sought to highlight a variety of variables other than monetary architecture as the ultimate driver of capital flows across borders.

In a landmark 1989 article, economists Douglass North and Barry Weingast argued that political institutions are a key driver of capital flows. The authors contended that the institutions that grew out of the Glorious Revolution of 1688 drove a strengthening of private property rights that translated into lower borrowing costs for the British government, as well as higher economic growth more generally.[48] Specifically, they charted a drop in British government long-term borrowing costs from 14 percent in 1693 to 3 percent in 1739.[49] While North and Weingast admittedly dealt with an even earlier historical time frame, their article made an explicit link to what they at the time called "Third World" debt problems, and their work continues to influence the more recent debate on cross-border capital flows in both the historical and contemporary contexts.[50]

Economist Marc Flandreau has been a particularly prolific scholar of capital flows with respect to the first modern age of globalization. In one of his most widely cited works, coauthored with Frédéric Zumer, the two scholars argued that exchange rate regimes had a negligible effect on risk premiums in the international bond market, and that investors instead focused more heavily on macroeconomic and political fundamentals, specifically debt burdens. Investors today typically calculate debt burdens in terms of the ratio of debt to GDP, but in the historical case they focused on various ratios relating either the stock of nominal debt or the annual servicing costs to exports or tax revenues, as GDP statistics were not available at the time.[51] The authors further pointed out that this earlier period of globalization was not monotonic and that investors' analytical frameworks changed over time.[52] They cited as evidence of the sort of fundamentals investors studied the Service des études financières of Crédit Lyonnais—one of the most prominent financial institutions in the global bond market—and drew on many of this bureau's studies in developing both their conceptual framework and datasets.[53] They also highlighted default history and political instability as significant in the context of their regressions.[54]

Ferguson and Schularick famously argued that geopolitical frameworks were a key driver of the cost of capital during the first modern age of globalization. In their analysis, one of the principal determinants of investor perception of country risk in the London bond market was whether or not a peripheral economy was a member of the British Empire. Specifically, the authors found that peripheral economies that were also British colonies saw an average discount of 100 basis points—in the case of African and Asian colonies, as much as 175 basis points—in the risk premiums charged by the London market.[55]

Political scientist Michael Tomz approached the question of capital flows from the perspective of debtor reputations. Rather than focusing on macroeconomic fundamentals or exchange rate regimes directly, Tomz argued that the reputation of sovereign debtors conditions investors' propensity to lend to the borrowers in question, and the rates at which they lend to them. Drawing on earlier international political economy literature on reputations, Tomz developed a theory of debtor reputation suggesting that countries earn reputations over time, and that their behavior in specific political and economic contexts helps markets place them in one of three creditworthiness categories: stalwarts, fair-weathers, and lemons.[56] In this dynamic model, Tomz suggested that not all payments or defaults are equal—markets reward countries that decide to remain current on external debts in the depths of a crisis to a greater degree than those choosing to pay when times are relatively good; conversely, markets punish countries that default, even in good times, more than those that default in a crisis.

Economists Paulo Mauro, Nathan Sussman, and Yishay Yafeh offered a different story in a series of influential studies highlighting the importance of political violence as an influence on investor decision making. Drawing on a new dataset of bond prices and their automated skimming of the contemporary financial press, this group of authors argued that political stability is in fact the key distinguishing variable that investors in peripheral economy bonds focused on when assessing risk. More specifically, they found that political violence was a variable to which markets were especially sensitive at the time. They took particular issue with the institutional school, arguing that investors did not reward institutional changes, which could only prove their effectiveness over time, as the efficacy of parliaments or central banks is not self-evident at their birth. Markets were quick to overlook such institutional improvements, fixed exchange rate regimes, and other factors in the event of political violence, according to this view.[57]

While the above studies—which represent just a few of the more prominent examples of a rich field of scholarship in economics, history, and political science—offer interesting insights into the drivers of cross-border capital flows in both the historical and the contemporary contexts, they all share some common shortcomings. First, their temporal scope is in many ways artificially constrained. In considering the case of Russia, for example, it is far from evident that financial globalization suddenly stopped in 1914, let alone in 1913, which is a common breaking point in many of these studies. As Chapters 4 and 5 show, even private capital flows to peripheral economies continued in spite of—and indeed in some cases partly because of—the First World War.

Second, the studies broadly share—but rarely explicitly articulate—a common characterization of how bond markets and investor-debtor relations functioned. In essence, much of this scholarship assumes that the decision makers were fairly well informed, rational, individual/retail investors who lent directly to sovereign borrowers in competitive markets. Financial institutions in this schema are largely relegated to a utility-like technical function of merely connecting borrower and creditor. Many of the authors did not employ an analysis of qualitative factors. Those that did limited themselves mainly to the study of the financial press and related specialist publications for investors, like the *Investor's Monthly Manual* and *Fenn's Compendium* or contemporary published accounts. Flandreau and Zumer drew on some archival material from the Crédit Lyonnais archive, but primarily to pull data from the various spreadsheets of the Service des études financières.[58]

This approach is flawed in that it does not reflect how capital markets in fact worked during the first modern age of globalization or, for that matter, how they function in the contemporary era of globalization. At a fundamental level, the assumptions of investor rationality and perfect or near-perfect information are highly questionable. Reliance on the financial press is also not without its problems. Leaving aside the totally corrupt and venal French financial press, even its British counterpart was prone to jingoistic biases and the temptations of playing up political and financial crises.

More importantly, banks played a crucial role in facilitating—or preventing—the flow of capital across borders. Major financial institutions, like Baring Brothers & Co., the various Rothschild houses, and the institutions of the Parisian *haute banque*, were critical players in the bond market not only because they fulfilled the technical role of transferring capital from retail bond investors to sovereign governments, but also because they themselves shaped investor perceptions of risk and opportunities.

In more recent work, Marc Flandreau recognized that "the microeconomics of foreign currency sovereign debt issuance" is an area that "has been relatively underresearched."[59] In his 2009 paper on underwriting in sovereign bond markets, Flandreau and his coauthors Juan Flores, Norbert Gaillard, and Sebastián Nieto-Parra acknowledged the immense power of financial institutions in financial markets, going so far as to call them the "gatekeepers" to the international bond market. This power drew on their broader role that combined the functions of "broker, certifier, and lender of last resort when issues failed."[60] The authors contrasted this to the contemporary markets, where they correctly pointed out that the role of "certifier" has been outsourced to ratings agencies.[61] They found that the most prestigious banks were able to leverage their brand value and thus were associated with the most successful issues—partly because they had a de facto right of first refusal to the business of prospective borrowers eager to win prestige points, and partly because these banks had an interest in maintaining their reputations for success—making the participation of an underwriter, or lack thereof, in a given bond issue a key signal to investors about the issue's desirability.[62] Underwriters in turn used this power to great effect, including, according to recent work by Flandreau and Flores, successfully pressuring governments to implement "pro-peace policies."[63] In this sense, Flandreau's conception of financial gatekeeping is not very different from that of Lenin, when the latter's work is stripped of its ideological vitriol. In short, bankers matter.

The issue of gatekeeper finance reveals another flaw in the assumptions of previous scholarship about sovereign bond markets in the historical case—namely that they were competitive. Partly due to the importance of brands, the market for sovereign lending was extremely concentrated in the past, with the top three lenders in the Paris market from 1895 to 1914 accounting for 65 percent of all new issues, for example.[64] Moreover, many formal and informal arrangements between creditor banks and countries vis-à-vis sovereign lending conditioned such lending during that period. In the case of Latin America, Argentina was considered Barings territory, while Brazil was the domain of the Rothschilds. Many of the regression-based studies in the earlier literature on capital flows did not account for these dynamics operating at the level of the creditor countries and individual banks. If anything, expanding the number of countries in sample sets to include more peripheral economies actually raises the risk of embedding these problems into the analysis.

Finally, much of the earlier literature on capital flows was written from a supply-side perspective. The agents in these stories are the investors who are making the decisions, or—only recently and to a much lesser extent—the banks that are engaging in the lending as "gatekeepers" to the international bond market. The borrowers are largely missing as active agents in these stories. Flandreau and Zumer themselves acknowledged the biases of this framing in their monograph.[65] Tomz's theory of reputation, of course, implies that ongoing decisions by debtor governments do have the power to directly influence investor perceptions, but the bulk of his sources and analysis are devoted to creditors, not debtors. Bignon and Flandreau's article on the Russian and French governments' relations with the French financial press is an important attempt to delve more deeply into the behavior of debtors.[66]

Gatekeeper Finance and the Russian Revolution

This book fills the gaps in the literature on international capital flows, the political economy of revolutions, and indeed the Russian Revolution itself through an exploration of Russia's relationship with international finance in the late nineteenth and early twentieth centuries. Focusing on bankers and finance ministers, it resurrects figures and themes that have received comparatively little attention in major histories of the revolution. Existing theories of revolution in the context of the Russian Revolution—taken in a wider temporal scope—inform it. Last, it explores the capital flows equation from a novel angle—using archives to explore the role and thinking of financial gatekeepers and policymakers on the debtor side. In doing so, it builds on a rich banking history literature, but pushes beyond the traditional limits of the discipline to engage with broader questions about how banks and bankers influenced capital flows and revolution and vice versa. Indeed, this study arguably extends the traditional definition of "gatekeeper" to allow for borrowers' influence upon them. In essence, however, the book retains the core of the original concept, recognizing gatekeepers to be central figures in global finance with immense influence over capital flows.

The study benefits from access to archival material not available to earlier generations of financial historians. Within the context of literature on foreign finance in the Russian milieu, it broadens the scope of a discussion focused largely on Franco-Russian ties to incorporate the growing role of British and American banks in the Russian markets of the early twentieth century.[67]

A study that takes up the case of Russia in particular as a player in global bond markets has several advantages, even for more broadly focused literature on global capital flows that includes developing economies. First, as a market, Russia is inherently interesting. Unlike a small African borrower, Russia was a significant participant in the international bond market—indeed the largest net international borrower by 1914. At the same time, unlike major markets such as Brazil or Argentina, Russia was much more competitive for lenders. All of the major financial houses in the world maintained some engagement with Russia throughout the period. That some of these banks abstained from lending to Russia is itself an interesting phenomenon worthy of exploration. Moreover, an archival approach allows for far deeper insights into the thinking of financial gatekeepers—and, by extension, the drivers of capital flows—than statistical correlations of high-level data or reading of the financial press. The archival sources this book draws on reveal the thinking of some of the most powerful figures in global finance at the time vis-à-vis the Russian markets and international investment more generally. Examining their decision making through the lens of the single but highly significant case of Russia provides insights into the thinking of the most important investors and financiers of the belle époque.

Specifically, a complex but interrelated set of forces—government intervention, competitive dynamics in international finance, and cultural factors—operating at the level of financial gatekeepers facilitated the large capital inflow Russia witnessed through the eve of the Bolshevik Revolution and default. The history of the Russian Revolution is itself intertwined with this investment cycle insofar as the policies of the ancien régime became the focus of attacks from the opposition, who opened a financial front in their fight against the regime—a front that would extend into the period of the Civil War. In this context, just as the political struggle took on a financial dimension, investing in Russia became an act that was not only financial, but also political.

This book tells this story over the course of five chapters. Chapter 1 traces Russia's financial reforms in the late nineteenth century. The chapter puts the reforms associated with Sergei Witte's tenure as finance minister from 1892 to 1903 in a broader context, and also highlights key strategic errors made during his tenure. Chapter 2 focuses on the 1905 Revolution, underscoring the price Russia paid for the strategic errors discussed in Chapter 1, and stressing the important financial-historical legacy of this period within the broader story of the revolution. Chapter 3 explores Russia's rapid recovery from the strains of revolution and war, and the impact of its return to war in 1914. The chapter also adds a financial mirror to a classic debate on the social and political historiography of the revolution. Chapter 4 explores in detail the story of 1917 through the novel perspective of foreign bankers who were on the ground at the time and shows how and why some of the leading financiers in the world remained optimistic about Russia until the very eve of the Bolshevik coup. Finally, Chapter 5 focuses on the 1918 Bolshevik default—the largest in history—and the continuation of the financial struggle by the Bolsheviks after the October Revolution from the perspective of both bankers and Bolsheviks.