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Part 12: Centenary of the Russian Revolution and the Repudiation of Debt

Reasserting debt repudiation ends with success

- Features -

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Before the Genoa conference, Soviet Russia had managed to sign bilateral treaties with Poland, the Baltic Republics, Turkey and Persia. More importantly, it had managed to sign a trade agreement with the UK. Signed in 1921, this agreement had sanctioned the Soviet laws of nationalization before UK courts and this meant that companies that traded with Russia no longer ran the risk of getting into trouble.

During the Genoa conference Russia also succeeded in signing a treaty with Germany whereby each party renounced any demand for compensation [2] though Lloyd George had stated at the Genoa Conference that this was out of the question. The British government even promised that under certain conditions it would guarantee the issue of a Soviet loan bond on the London financial market.

Less than two years after the failure of the Genoa Conference, even though the USSR maintained its repudiation of debts, the British government was about to guarantee a Soviet loan! On 24 September 1924 the Soviet leader Kamenev could write in the Pravda: *"The treaty with England is an effective basis for the express recognition of our nationalization of land and of industry, of the repudiation of debts and of all other consequences of our revolution."* [3]

When the Conservatives came back to power a few months later they refused to ratify the treaty; however a major British company committed itself to invest in gold mines and officially renounced any claim to compensation for the nationalization of its assets in 1918.

From 1926, in spite of debt repudiation, European private banks and governments started to grant loans to the USSR.

On 26 June 1926, the USSR signed a credit agreement with German banks. In March 1927, the Midland bank in London lent GBP 10 million. In October 1927, the municipality of Vienna granted a loan of ATS 100 million. In 1929, Norway granted a loan of NOK 20 million.

The Republican leaders in the US were fuming. State Secretary Kellogg exposed the Europeans' conciliatory attitude in his speech to the Republican National Committee on 14 April 1928: *"No State has been able to obtain the payment of debts contracted by Russia under preceding Governments or the indemnification of its citizens for confiscated property. Indeed there is every reason to believe that the granting of recognition and the holding of discussions have served only to encourage the present rulers of Russia in their policy of repudiation and confiscation..."* [4].

Eventually, under the presidency of Franklin D. Roosevelt, the United States recognized the USSR de jure in November 1933. On 13 February 1934, the US government established the "Export and Import Bank" with a view to financing trade with the Soviet Union. A few months later, not wanting to be excluded from the Soviet market, France also offered loans to the USSR for it to buy French products.

Alexander Sack, who opposed repudiation of debts and was fiercely against the Soviet regime, concluded his study on diplomatic claims against the Soviets with the following sentences that clearly indicate that it is perfectly possible to repudiate debt without defaulting or being isolated; on the contrary:

"At the twentieth anniversary of the Soviet regime, the foreign claims against it present the melancholy picture of petrification, if not abandonment. The Soviet Union boasts of being now one of the most powerful industrial countries;

it has a favorable balance of trade, and ranks second in the gold production of the world. Its government is now universally recognized, and commercial credits are extended to it practically for the asking. Yet it has not recognized, nor paid, any claims arising from its decrees of repudiation, confiscation, and nationalization." [5]

Conclusion

The present study focuses on the repudiation of debt by the Soviet government. It shows that the decision went back to a commitment taken during the 1905 revolution. It includes an analysis of the international context: peace treaties, the civil war, the blockade, the Genoa conference and the several loan agreements signed afterwards in spite of the confirmed repudiation of former debts.

There was not room to discuss the later development of the Soviet regime: the gradual smothering of any criticism, the regime's bureaucratic and authoritarian degeneration, [6] disastrous farming policies (notably the forced collectivization under Stalin) and in the field of industry, Stalin's enforcement of terror in the 1930s (see Box).

What happened to the members of the delegation representing the Soviet government in Genoa illustrates the tragic development of the regime and the consequences of Stalin's policy. It consisted of George Chicherin, Adolph Joffe, Maxim Litvinov, Christian Rakovsky, Leonid Krasin. Apart from the last one who died of illness in London in 1926, what happened to the others is revealing. George Chicherin was disgraced in 1927-1928.

Adolph Joffe committed suicide on 16 November 1927, leaving a farewell letter to Trotsky which was a true political testament. His funeral was one of the last â€˜authorized' big public demonstrations against Stalin.

On 3 May 1939 Maxim Litvinov was violently dismissed from his position: the GPU (state political administration) rounded his ministry, his assistants were beaten and interrogated. Since Litvinov was a Jew and a fervent partisan of collective security, replacing him with Molotov increased Stalin's power and facilitated negotiations with the Nazis. These resulted in the German-Soviet non-aggression pact in August 1939 with its tragic consequences. After the Nazi attack on the USSR in 1941, Litvinov was back in an official position. Christian Rakovsky had been Trotsky's comrade already before the First world War and had opposed bureaucracy from the early 1920s; he was executed by the GPU on Stalin's order in 1941.

Such tragic evolution shows once again that repudiating odious debt is not enough to solve the many problems affecting society. There is no doubt about that. For debt repudiation to be useful, it must be part of a consistent set of political, economic, cultural and social measures that make it possible to move towards a society that is liberated of all the various forms of oppression it has suffered under for millennia.

Conversely, many countries can hardly consider launching this kind of transition while attempting to repay odious debts inherited from the past. We can find lots of illustrations in the course of history, and the latest is the subjection of Greece to her creditors' impositions since 2010 and the terrible consequences of the Greek government's capitulation in July 2015 as it insisted on repaying the debt in order to obtain debt relief.

Epilogue

In 1997, six years after the dissolution of the USSR, Boris Yeltsin signed an agreement with Paris to put an end to litigation over Russian bonds. The 400 million US dollars France received from the Federation of Russia in 1997-2000 are a mere 1% of the amounts claimed from Soviet Russia by the French creditors represented by the State. [7] We should also stress the fact that the agreement between Russia and the UK signed on 15 July 1986 made for a 1.6%

compensation of the bonds' updated value. Such very low compensation rates again indicate that a country can indeed repudiate its debts without major consequences.

In August 1998, as it was affected by the Asian crisis and the consequences of capitalist restoration, Russia unilaterally suspended its payment of the debt for six weeks. Its external public debt amounted to USD 95 billion, 72 billion of which to private foreign banks (30 billion to German banks and 7 billion to French banks, including *Crédit lyonnais*) and the remainder mainly to the Paris Club and the IMF. Complete suspension of payment followed by a partial suspension over the following years led the various creditors to agree to a haircut that varied between 30 and 70%. Russia, which was going through a recession before suspending payment, experienced an annual growth rate of about 6% afterwards (1999-2005). Joseph Stiglitz, who had been the WB's chief economist between 1997 and 2000, points out:
"Empirically, there is little evidence in support of the position that a default leads to an extended period of exclusion from the market. Russia returned to the market within two years of its default which was admittedly a â€˜messy one' involving no prior consultation with creditors […] Thus, in practice, the threat of credit being cut off appears not to be effective." [8]

Two sentences to sum up: it is possible to repudiate or unilaterally suspend debt payment and to stimulate the economy. This is not enough to solve all problems but in some circumstances it can be both useful and necessary.

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Part 11: Debtâ€" Lloyd George blames the Soviets

[1] Article 9 of the Anglo-Soviet trade agreement stipulated: *"The British Government declares that it will not initiate any steps with a view to attach or to take possession of any gold, funds, securities or commodities not being articles identifiable as the property of the British Government which may be exported from Russia in payment for imports or as securities for such payment, or of any movable or immovable property which may be acquired by the Russian Soviet Government within the United Kingdom."* https://wwi.lib.byu.edu/index.php/Anglo-Soviet_Trade_Agreement. On this topic see also E. H. Carr, *The Bolshevik Revolution*, Vol. 3, pp. 286-9.

[2] see: http://www.cadtm.org/The-Soviet-counter-attack-the]]).

It might have been anticipated that the failure in 1922 of the conferences at Genoa and The Hague would result in the capitalist powers adopting a more intransigent position towards Moscow. In fact, the opposite occurred. The Soviet Government had obviously been clever in its manoeuvres. The various capitalist countries all considered separately that they had to sign agreements with Moscow since the Russian market provided a significant outlet and the country had lots of natural resources. Under the pressure of local private companies, every capital was keen to sign an agreement with Moscow in order to prevent other powers from seizing the opportunities offered by the Russian market.

In 1923-24, despite the failure of the Genoa conference, the Soviet Government was recognized *de jure* by the UK, Italy, the Scandinavian countries, France, Greece, China and a few others. In 1925, Japan also recognized the Soviet Government.

Paris drastically reduced its demands. In France, a decree issued on 29 June 1920 had established a special commission for the settlement of Russian affairs that was "to liquidate and recover all funds from the former Russian State, whatever their origin". The French Government cancelled this commission six days before it recognized the Soviet Government on 24 October 1924. This truly was a victory for Moscow.

A few months earlier the Labour government in the UK had signed an agreement with the USSR through which Britain accepted Soviet claims for compensation for damages resulting from British intervention in the civil war between 1918 and 1920,[[Sack, "Diplomatic claims Against the Soviets (1918-1938)", in *New York University Law Quarterly Review* 15 (1937-1938), pp. 524-5.

[3] Sack, "Diplomatic claims Against the Soviets (1918-1938)", *New York University Law Quarterly Review* 16 (1938-1939), note 209, p. 270.

[4] Sack, ibid., p. 277.

[5] Sack, ibid., pp. 281-2.

[6] On this issue, see the article in French, Éric Toussaint, "Lenin and Trotsky confronting the bureaucracy – Russian revolution and transitional societies. Â» Published Saturday 21 January 2017 http://www.europe-solidaire.org/spip.php?article37717

[7] See the website of the French Senate ACCORDS RELATIFS AU RÃˆGLEMENT DÉFINITIF DES CRÉANCES ENTRE LA FRANCE ET LA RUSSIE ANTÉRIEURES AU 9 MAI 1945 http://www.senat.fr/seances/s199712/s19971210/sc19971210010.html

[8] Stiglitz in Barry Herman, José Antonio Ocampo, Shari Spiegel, *Overcoming Developing Country Debt Crises*, OUP Oxford, 2010, p. 49.

