"HOPE & CO., BARING BROTHERS & CO. AND
RUSSIAN INTERNATIONAL TRADE AND FINANCE”

By
Herbert H. Kaplan
Professor of History
Indiana University
Bloomington, Indiana

Oral Presentation to
MeesPierson
Amsterdam
22 January 1997
THE QUESTION:

WAS RUSSIA A EUROPEAN POWER IN THE EIGHTEENTH CENTURY?

For decades I have harboured the suspicion that Russia was not in the 18th century a European Power, a Power in Europe, or as Powerful a State in Europe, as historians, publicists, and contemporary observers would have us believe.

Yet, it was only recently that I was able to pursue this suspicion, while researching Russian international trade and finance during the reign of Catherine II.

MeesPierson’s invitation to speak to you this evening allows me to share with you the reasons for my speculation about Russia’s power.

*       *       *

The philosopher Bertrand Russell said that “power was the accomplishment of the intended effects.”

Thus, we need to ask what did Catherine II intend to accomplish during her 34-year reign as Empress of Russia?

The best summary of Catherine II’s intentions are to be found in the memoirs of Count Louis Philippe de Segur, who was the French envoy to Russia, and who was well acquainted with the Empress. These are Segur’s words:
“The imagination of Catherine could not remain inactive; thus her plans were rather precipitate than well digested; and it was manifest that this precipitation destroyed in the end a part of the creations of her genius. She wished, at one and the same time, to form a middle class, to admit foreign commerce, to introduce manufactures, to establish credit, to increase paper-money, to raise the exchanges, to lower the interest of money, to build cities, to create academies, to people deserts, to cover the Black Sea with numerous squadrons, to annihilate the Tartars, to invade Persia, to continue progressively her conquests from the Turks, to fetter Poland and to extend her influence over the whole of Europe.

“These were no common undertakings, either in difficulty or extent; and, although there was undoubtedly much to do in a country so new to civilization, the actual success would have been much greater had fewer objects been attempted at a time, or if at least all projects of conquest had been renounced, and attention had been directed exclusively to internal prosperity, the only true glory of sovereigns.”

* * *
Years ago, while researching archives in the Soviet Union, I became interested in the landed estates of the very wealthy in 18th-century Russia.

Those estates had an international commercial component to their economies and that led me to investigate archival resources in Great Britain.

What immediately struck my attention was that the data I kept finding in British archives were Russian customs and commercial data taken from the St. Petersburg Custom House during the 18th century.

It became clear to me that for two hundred years this material, for the most part, had rested undisturbed in British archives in company with British overseas trade, shipping, and customs documents.

The wealth of these materials persuaded me that they would support a comprehensive study of Russian overseas commerce with Great Britain during the reign of Catherine II.

Although the significance of foreign trade in Great Britain's economic development has been well-established, Russia's role in it has not been.

However, what we now know is that Russia's impact on the British economy during Catherine II's reign was both profound and widespread.

Russian exports of natural and manufactured resources to Britain had a decisive impact on its industrial revolution and on its strategic military capability.
The lack of sufficient advanced technological innovation and diffusion in Britain and the recurrence of international wartime crises made this so.

In reciprocal fashion, Britain’s exports and re-exports to Russia made a significant contribution to Russian state-building and evolving “Westernization,” both economically and culturally.

*    *    *    *

Catherine II recognized the interdependent nature of the British-Russian commercial relationship and she sought to exploit it.

She wanted to make Russia an independent commercial and maritime power.

She also wanted to make herself an arbiter-mediator in greater European political and commercial affairs.

In doing so Catherine challenged Great Britain’s maritime and mercantile authority on the high seas.

However, Catherine II failed in her pursuit of this policy, but not because she overestimated Russia’s political and commercial value to Britain.

Rather, she overestimated her ability to influence a set of advanced European political entanglements in the distant Atlantic arena.

These were not only unfamiliar to her and to Russia.
But they were also far more complex than those she and Russia had traditionally encountered on the nearby and less sophisticated political playing fields of the Polish-Lithuanian Commonwealth and the Ottoman Empire.

Catherine II also lacked the domestic statecraft to pursue the long-term goal of making Russia an independent and formidable mercantile and maritime power.

Catherine II’s short-sighted policy ultimately reinforced Russia’s dependence upon foreign merchants and foreign carriers, with Great Britain becoming its principal beneficiary.

* * *

My current research in the archives of Hope & Co. and Baring Brothers & Co. has reinforced everything I have published on Russian overseas commerce.

And I confess that I am grateful that I did not have the Hope and Baring archives to deal with while undertaking my former research.

That remark might appear contrary to what historians might otherwise say, for it is commonplace that historians want all the sources sooner rather than later.

But the reason I say this is that taken together the Hope and Baring archives are enormous challenges to any researcher.

Until recently, these archives were not readily accessible to scholars and to this day their contents are essentially unknown to researchers.
The Hope and Baring archives contain indispensable sources on Russian international commerce and finance, consumption, and capital formation in the early stages of industrialization.

And only just recently manuscripts were discovered in Russian archives that complement and supplement those in the Hope and Baring archives.

Thus, taken together the research opportunities are far greater than ever before imagined.

As archives of merchant-banking firms, those of Hope and Baring have no equivalent in the public archives of Bordeaux, Hamburg, London, or Paris.

In Bordeaux, for example, from among more than 2,000 extant merchant-negociant archival files, there was only one journal -- covering only three years -- that was useful in researching the Russian trade.

Further, I believe that the Hope and Baring archives are not only unique to the study of Russian, but also European international trade and finance during the 18th century.

* * * *

It is my intention this evening to be a bit more ambitious and, therefore, by implication, cover more chronology than simply the 18th century.
I hope that what I will say about Russia in the 18th century will also be meaningful for current affairs in international trade and finance and, as well, also extend beyond Russia’s historic rivalry with Great Britain.

* * *

In 1986 Baring Brothers & Co. paid £48 million to the Soviet Union ending its long-standing quarrel with the successor to the Russian Empire.

The sum of £48 million had grown from the more than £3.5 million of Russian funds that Baring Brothers & Co. had held since before the seizure of power by the Bolsheviks who refused to repay Imperial Russia's foreign debts.

For all practical purposes this settlement appeared as an epilogue to a business relationship that had begun two centuries earlier between one of the world's more important and respected merchant banking houses and one of the world's more feared and powerful states.

* * *

Yet, there is no scholarly study on how Baring Brothers & Co. became so involved in Russian international commercial and financial affairs during the course of two centuries.
Nonetheless, during the latter decades of the 18th century and the early
decades of the 19th century, Baring Brothers & Co. and Hope & Co. collaborated
and formally merged, making them the most powerful merchant banking institution
in the world.

Together they exerted an extraordinary influence on the economic affairs of
Russia and on the cultural lifestyle of its governing nobility and elite.

Together they not only contributed to Russia's state-building effort but were
critical to it.

In the 19th and 20th centuries, Baring and Hope intensified their involvement
in Russian international trade and became channels of foreign investment in
Russian railroad development.

*       *       *

It is my belief that a study of their involvement in Russian economic
development would be important not only to professional scholars.

But also, it would be important to executives of multinational enterprises and
government planners, who are currently developing strategies and policies for an
uncertain Russia -- a transitional Russia that in many ways is similar to the
developing Russia of the 18th and 19th centuries.
Despite the changes in government and society during the past two hundred years, certain motivating principles have remained constant and interdependent.

For Baring and Hope it was profit, and for Russia it was state-building, which included economic development.

Today, this will be true for MeesPierson and ING-Barings, as much as it will be true for Russia, which now is a shadow of its former Soviet or Imperial self.

The geo-economic resources of Russia sustain these principles today, as much as they did two centuries ago, when timber was the resource oil and natural gas are today.

Although there is currently a greater number of active international investors, who represent a wider world network, the contours of investment opportunities in Russia today are similar to those in the 18th and 19th centuries.

Currently, Russian consumers are greater in number than they were then, but it is doubtful that the proportion of Russia's state budget expended on Western merchandise is greater today than it was at the end of the 18th century.

Currently, international banks and multinational enterprises view the attractiveness of Russia's natural resource wealth, investment opportunities, and consumer potential in much the same way as the partners of Baring Brothers & Co. and Hope & Co. had during the past two centuries.
During the latter decades of the 18th century and the early decades of the 19th century there was a symbiotic economic relationship between Great Britain and Russia.

Russia serviced the Royal Navy and mercantile marine and enhanced Britain's growing industrial export sector.

In the absence of viable alternative markets of supply, especially during its wars with the American colonies, France, Spain and the United Provinces, Russia’s contribution to Great Britain was crucial.

There were several especially important Russian imports that made enormous contributions to Britain's economic growth, because they tended to have multiplier effects and because they provided British entrepreneurs with a means of exploiting advances in productivity.

For example, about 30 percent of all British products made from bar iron was Russian in origin.

Russian hemp accounted for about 96 percent and Russian flax for about 80 percent of Britain's hemp and flax imports.

When converted into linen, almost 50 percent of England’s linen output was Russian in origin.
During the latter part of Catherine II’s reign Russian tallow accounted for 90 percent of Britain's tallow imports.

Britain imported from Russia 71 percent of its strategic Great Masts.

During the war years of 1795 and 1796, it increased to 85 percent.

Finally, British ships accounted for about half the number of ships in the Russian carrying trade.

* * * * *

Britain's Russian trade and navigation contributed to Britain's economy in still another way.

Although Catherine II expanded Russia's overseas commerce, she nevertheless yielded a considerable part of it to British ships, British merchants and British mercantile services.

This had the effect of reducing Britain's annual trade deficit with Russia.

It also needs to be emphasized that, although Russia traded with all of Europe and even modestly with America, the British market was Russia's principal outlet for its merchandise.

This situation not only sustained Russia's foreign trade expansion, but also tied Russia and Great Britain closer together economically.
The Anglo-Russian economic tie was further strengthened by the Russian market for Great Britain's domestic production and re-exports.

During the latter years of Catherine II's reign, when Britain was again at war, there were no obvious signs that it could dispense with Russian imports, despite the technological and industrial advancements within its economy.

Nothing dampened the British enthusiasm "to buy Russian."

Great Britain for its part greatly stimulated the intensity of Russia's overseas commerce.

St. Petersburg's overseas commodity trade turnover multiplied more than five times during the course of Catherine II's reign.

But this growth could not be sustained following Catherine II’s death.

The Anglo-Russian interdependent commercial relationship could last only so long as Britain continued to import Russian resources to supply the engines of its economic growth and the material required to build and repair its warships and mercantile fleet.

In the course of the following two decades Europe rapidly changed politically and economically.
Russia's overseas commerce stagnated and declined, as a result of the breakdown in Anglo-Russian trade, the Continental Blockade, and the Napoleonic Wars.

After 1815, Russia and Britain followed different economic paths and experienced different trading relationships.

The British economy continued to change and grow rapidly and no longer depended upon Russian resources for its economic growth and strategic military security, as it had during the previous half century.

Russia, however, did not change and remained for the most part rooted in its traditional economy and did not adapt to new economic developments until well into the 19th century.

* * *

There were two pronounced social, economic and cultural characteristics of the lifestyle of the Russian governing nobility and elite during the latter decades of the 18th century.

One was their “Westernized” lifestyle.

The other was their chronic indebtedness.

It may be said that this lifestyle was also characteristic of the Russian governing elite in the 19th and 20th centuries.
It may also be argued that such a lifestyle is characteristic of the governing elite of present-day Russia.

*  *  *  *

In 1772, Nikolai Novikov, publicist and major figure in the Russian Enlightenment, characterized that lifestyle as follows.

"The English have replaced the French: nowadays women and men are falling over themselves to imitate anything English; everything English now seems to us good and admirable and fills us full of enthusiasm. But we, unfortunately, are so addicted to things foreign that we frequently consider even their vices virtues."

This was not surprising, since the imitative and emulous Russians had the occasion to observe the "distinctive life style" of the British colony in cosmopolitan St. Petersburg.

There was an English church, club, coffee house, inn, masonic lodge and an English theatre.

In 1800, Edward Clarke, visiting from Cambridge, wrote that "almost every article of convenience, comfort, or luxury, must be derived from England or it is of no estimation." British imports, thus, fortified the British political, commercial and cultural presence in Russia.
Russians annually imported hundreds of different necessities, decencies, and luxuries that reflected their socio-economic values, as much as they did the economic and commercial imperatives of the Empire, because these imports were far more expensive than the commodities Russia exported.

The most valued imports were textiles, sugar, indigo, French brandies and wines, coffee, fresh and dried fruit, Spanish and Portuguese wines, olive oil, cochineal and tea.

This merchandise was imported not only from Great Britain, but also from continental Europe, the West Indies, the Mediterranean, and East Indies.

These imports either sustained or created business transactions in the wholesale and retail trades and were the inputs in the crafts, the arts and the manufactories of Russia.

In this manner the cultural influence of this foreign merchandise trickled down to the people.

* * *

*Chronic indebtedness* was another characteristic of the governing nobility and elite.

In 1797, Emperor Paul I formally recognized this condition of nobility and elite life by declaring:
"WE see . . . a great number of noble families, groaning under the weight of debts . . . falling into the hands of grasping usurers . . . deadly bloodsuckers . . . the superfluous expenses that are the consequence of the imaginary needs of Luxury."

The principal sources of disposable income customarily available to the Russian nobility and elite comprised peasant rents, profits from manufactories and other income-producing establishments, and salaries from state office holding.

These Russians could not, however, sustain their aggressive acquisition of exceedingly expensive foreign material culture without additional significant infusions of money.

And I have found manuscripts in the Hope & Co. archive that suggest that the greatest sums of money were generated from long-term mercantile indebtedness and from mortgaged landed estates to foreign merchant bankers.

* * *

The purchases by the Russian governing nobility and elite of foreign material culture fueled the growth of Russia's overseas import trade.

At times, they did this to a dangerous degree.

For example, in 1790, 1791, and 1792, the value of imports threatened Russia's positive trade balances and contributed to an economic crisis in 1793.

* * *
The governing nobility and elite followed the example of Catherine II, who contracted foreign state loans to pursue imperialistic aims.

By the end of her 34-year reign in 1796, Catherine had borrowed the extraordinary sum of 56.5 million current Dutch guilders.

In addition, she also guaranteed the indebtedness of Poland's king and aristocrats who had mortgaged their properties to foreign merchant bankers -- properties which became part of Russia after the partition of Poland.

Thus, when Emperor Paul I accepted Russia's foreign debt of 88.3 million current Dutch guilders [£ 8,027,000], Russia was, perhaps, the most indebted country in Europe.

* * *

To be "Westernized" and in chronic debt were the interdependent cultural, social, and economic characteristics of the pretentious Russian nobility and elite.

Commerce facilitated this connection, an international commerce dominated by foreigners, by foreign trading vessels with foreign masters and crews, by foreign merchants, and by foreign merchant bankers.

St. Petersburg/Kronstadt dominated Russia's overseas trade with no less than two-thirds of Russia's exports and 79 percent of its imports.

* * *
Thus, the largest amount of overseas mercantile business was transacted in St. Petersburg where Russian and foreign merchant nationals resided. They traded there either on commission and/or on their own account.

Foreign merchants traded either independently or were members of European mercantile houses that contracted for the purchase, shipment and payment of merchandise to and from Russia.

Export and import accounts were balanced with bills of exchange, precious metals and mercantile services.

The Amsterdam, London, and Hamburg markets were significant in all these transactions.

The world's largest international commercial trading firms were located in these mercantile, maritime and financial centers.

In addition, some of these firms also acted as acceptance houses for bills of exchange used world-wide and also contracted loans to foreign governments and their ruling circles.

* * * * *

In all these activities, there were none greater and more prestigious than Hope & Co. and Baring Brothers & Co.
There was not a major international commercial or financial investment which either Hope or Baring did not initiate, participate in, or refuse.

Their ledgers and correspondence reveal their commercial and financial risk-taking activities in Europe, Latin and North America, the West and East Indies, and Russia.

Hope & Co. arranged loans to Sweden, Spain, Portugal, Poland and Russia.

Baring and Hope facilitated the Louisiana Purchase and made considerable investments in the United States with Baring becoming the European banker for the United States.

In Russia, Hope & Co. and Baring Brothers & Co. had an extensive business network that included both Russian and foreign merchant houses in Archangel, Astrakhan, Moscow, Riga and St. Petersburg.

They purchased failing merchant houses in Russia to protect their extensive investments.

They exported and imported a broad range of commodities that linked the Russian trade with the world.

The effective demand for alum, cochineal and tallow encouraged their attempt to corner the world market in these highly valued commodities.
Although there was an established clientele in Russia for diamonds, Hope and Baring dominated that market when their loan to Portugal, backed by Brazilian diamonds, made them and their Jewish diamond merchant associates in London the leaders in that trade.

Baring's and Hope's commercial and financial clients in Russia included not only the most prestigious members of the nobility and elite, but also Catherine II and Paul I.

In a critical moment of personal financial need, Richard Sutherland, English merchant and Catherine II's court banker, accepted Hope's financial assistance, and between 1787 and 1793, Hope & Co. issued 18 loans amounting to 53.5 million current Dutch guilders on behalf of Russia.

* * *

If I may be so bold, it will be impossible to formulate scholarly conclusions about Russian international trade and finance without first researching the Hope and Baring archives.

To research Hope's and Baring's activities with Russia during the period 1770-1815 is, in essence, to research Russia’s international trade and finance.
Soon after the Congress of Vienna, which restored peace to Europe, Baring Brothers & Co. and Hope & Co. deepened their involvement in Russian commercial, financial, and industrial ventures.

They continued to trade in Russian commodities but steadily increased their activity in marketing Russian bonds.

Baring Brothers & Co. and Hope & Co. collaborated with Baron Ludwig Stieglitz of St. Petersburg, who headed the most prominent House in Russia.

In the 1840s Baring facilitated loans to build the St. Petersburg-Moscow railroad.

Because of its very active role on behalf of Russia during the Crimean War -- while Great Britain was Russia's enemy -- Baring Brothers & Co. became Russia's European banker, a position it maintained to the Bolshevik Coup.

In 1856, Baring Brothers & Co. became directly involved in Russia's Grande Société des Chemins de fer Russes.

In 1864 and 1866, Baring Brothers & Co. and Hope & Co. facilitated loans for Russia.

During the Russo-Japanese War, Baring Brothers & Co. maintained a close relationship with Russia and, at the same time, facilitated loans for Japan.

In 1906, Baring organized an extraordinary £89 million loan for Russia.
And again, in 1909, Baring arranged a substantial loan for Russia that sold at a premium in London.

* * *

Baring Brothers & Co. was closely tied to the British and Russian governments.

On the eve of World War I, the British Treasury and the Bank of England secured millions of collateralized Russian Treasury bills, and Barings facilitated the transfers.

Barings itself also made several short-term loans to Russia (and deposited Russian gold in the Bank of England), with amounts increasing from £2 million to £300 million.

In 1917 Baring Brothers & Co. represented the British government in St. Petersburg and was a conduit to the Provisional Government.

When the Bolsheviks seized power and refused to honor Imperial Russia's foreign debts, Baring Brothers & Co. had in its possession millions of pounds Sterling on Russian account that were promptly frozen and would remain in its coffers until 1986.

* * *
We have thus come full circle, so-to-speak, and I thank you very much for the opportunity of sharing my thoughts with you about Hope & Co., Baring Brothers & Co. and Russia.

A final comment is appropriate, however.

I believe it is fair to say that, if the Duc de Richelieu had spoken the following words at an earlier time, he undoubtedly would have allowed the modest amendment to his famous and oft-repeated expression:

“There are six great powers in Europe: England, France, Prussia, Austria, Russia, and Baring Brothers and Hope & Co.”

* * *