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FOREIGN PARTICIPATION IN RUSSIAN ECONOMIC LIFE:

NOTES ON BRITISH ENTERPRISE: 1865-1914

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Foreign Participation in Russian Economic Life:

Notes on British Enterprise: 1865-1914

(Draft)

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Russian economic historians have typically given special emphasis to the role which the government assumed in the period 1885-1903 in shaping Russian economic development. In the absence of a vigorous, competitive market which would develop the creative, developmental energies of native businessmen, the government itself undertook to provide economic leadership to draw into Russia the energy of foreign enterprise. Minister of Finance Witte argued that the successfully attraction of foreign enterprise would force the emergence of a native entrepreneurial spirit, a spirit which would eliminate the need for government initiative and foreign enterprise. Thus foreign enterprise--capital, technique, personnel--was central to government policy and central to the development process within only a relatively brief period of a decade and a half. Though foreign individuals and firms were of obvious significance in Russian economic life in this period, their participation often began before 1905 and remained after 1903; the reasons for their participation were often not the result of government initiative but of more prosaic, and understandable, reasons: the opportunities intrinsic to a large, increasingly integrated market with steadily rising aggregate demand. This essay reviews the traditional characterization, its conceptual and evidentiary shortcomings, and then sets out the histories of a nearly a dozen British enterprises in Russia. These histories suggest that, to use Olga Crisp's felicitous terms, the autonomous sphere of the economy was at least as attractive to foreign enterprise as the induced sphere of government initiative, and that the contributions of foreign enterprise to Russian development more often came through this channel.

I: The Traditional Interpretation

In 1899 Minister of Finance Sergei Witte assured Tsar Nicholas in a secret memorandum that "the influx of foreign capital" was the "sole means" by which Russian industry could develop rapidly and provide the country "with abundant and cheap goods." Witte argued that "each new wave of capital, sweeping in from abroad," brought effective competition, knocking down the "immoderately high level of profits" to which Russian businessmen were accustomed, forcing industrialists to invest in new, lower cost technology. This process would reenforce pressure for lower prices and expansion of the economy. Russia's "natural riches" would thus be "utilized to a considerably greater extent;" the economy would thrive. It would "be difficult then to say whether foreign capital or /Russia's/ own productive forces, invigorated and given a chance by foreign capital, /would/ have the greater influence over the further growth" of industry.[1]

When Witte wrote the Tsar, Russia had in fact just experienced one of the most successful decades of industrial growth ever recorded: industrial output had expanded more than eight per cent every year. (The rate was exceptional before World War II; since then several countries, most notably Japan, have surpassed this rate.) Witte, building on the work of his predecessors, N. C. Bunge and I. A. Vyshnegradsky, had pushed Russian industrialization with particular vigor. Tariffs had been brought to a high protective level in 1891. Then Witte, relying on monetary reforms to get the ruble on the gold standard, special incentives for industrial expansion--subsidies, credits, inflated prices on government orders, direct guarantees of profit--and an extensive public relations campaign, tried to attract foreign capitalists and entrepreneurs who would provide the necessary ingredients for successful and sustained economic growth: "capital, knowledge, and the spirit of enterprise."[2]

The effectiveness of such government policies in promoting this growth is open to question. The need to turn to foreign sources for investable funds and business talents arose in substantial part from stifling indigenous development. In addition, the protective tariff lacked refinement and discrimination, the result of fiscal needs taking priority over development. It resulted in the paradox that importers of capital goods, the goods central to industrialization, had to pay much higher prices for those goods, negating the value of tariffs on final goods. Government orders for industrial goods, though important for some firms, were comparatively small. Sale of government bonds competed directly with industrial shares and bonds for funds in both domestic and foreign money markets.[3]

Whatever the role of government policy, there is no question that foreign enterprise--capital, technique and personnel--did play a special role during the burst of activity in the 1890s: foreign personnel met much of the new demand for technical, managerial and commercial skills; foreign entrepreneurs and firms accounted for perhaps half of all new industrial investment made in that decade. Witte's projection for the future pattern of Russian development--the emergence, in the face of this competitive pressure from the foreigner, of a native entrepreneurial/capitalist class with the spirit and capacity to undertake new investments--has been widely accepted as the description of Russian economic development during the next decade and a half. Thus, for the years 1885 to 1914, Russian economic growth is often seen in terms of a shift in the sources of entrepreneurial energy and ability, a shift from the foreigner, attracted to Russia by vigorous government action before 1900, to the Russian, operating, after the hiatus in growth between 1900 and 1906, primarily though rapidly expanding commercial banks. Now the foreigner made his contribution in the passive role of a provider of capital needed by Russian entrepreneurs.[4]

II. A Critique

Despite Witte's understanding that the foreign role involved the importation of a complex of factors, verification of that foreign role has relied exclusively on the quantitatively impressive statistics of foreign ownership--typically misrepresented as foreign investment--in Russian corporate shares and bonds. Such information, when accurate, is useful in suggesting the regional and sectoral concentrations of foreign ownership and indicating the variation in pattern of ownership among firms and individuals from particular nations. But these statistics reflect only ownership of corporate assets, not commercial or manufacturing assets generally, and thus reveal as much or more about the changing legal and fiscal environment of Russian business as any change in the role or level of foreign participation in such business. In either event, such statistics say nothing of the Russian balance of payments: did Witte's program in fact attract to Russia new assets, or were foreign investments offset by purchases of monetary gold or other equivalent capital exports? Perhaps more important, statistics of foreign ownership of Russian corporate assets reveals nothing of the motivations and perceptions which led foreign investors, entrepreneurs, technicians, managers and companies to come to Russia, of the problems they faced and the responses they made as they dealt with Russian bureaucracy, Russian laws, Russian labor and the Russian market. The mere coincidence of a foreign influx with the announced intentions of the government to attract foreigners does not establish a causal link.

P.V. Ol', who compiled the statistics of foreign ownership of Russian corporate assets, was an economic nationalist and thus concerned about the implications for Russia of a foreign influx; he wanted to measure foreign influence in Russian corporations and thereby in the Russian economy. To that

end Ol' used the nominal or face value of corporate foundation capital--the shares issued as stipulated by the statutes of incorporation--and of corporate bonds to compile a comprehensive, firm by firm, list of foreign ownership as of 1916.[5] Then, presumably using the same technique, Ol' developed an annual series for the years 1860 to 1915.[6] Ol' neither attempted nor intended to measure the real flow of foreign funds into these companies or the true value of foreign-owned assets. He specifically noted that he did not reconstruct corporate balance sheets nor examine actual stock and bond transactions. He warned his readers against using his compilation as anything other than an index of foreign influence: "In reality the sum of nominal foundation and bond capital does not correspond to the sum of capital actually brought into the majority of companies...."[7]

When subsequent scholars, like Dyakin, Lebedev, McKay and Gregory,[8] treat Ol''s statistics as if they are measures of real investments, they make each incorporation of an enterprise effectively the actual beginnings of that enterprise, and each new share or bond issue coincident with new, real investments. Yet incorporations often represented only a change in the legal status of existing firms--from 1901 to 1913, nearly two-thirds of all incorporations were of this type[9]--or creation of new companies to acquire assets of established concerns, a practice common among French companies operating in Russia.[10] Expansions of nominal capital were often the result not of new investments but of efforts to reduce the effective rate of taxation on business profits.

The principal reason for both conversions to the corporate form and many of the large expansions in foundation capital was the Russian corporate profits tax. Before 1899, corporations and registered share partnerships which published annual balance sheets were subject to a flat rate of taxation on profits.[11]

Other businesses (excluding those subjected to excise taxes) paid an apportioned tax. The government set the total to be collected; that amount was then divided among all companies liable to the tax. Its incidence on individual firms was thus unpredictable; as it grew in size during the 1890's, many businessmen realized that a fixed, flat rate on taxation on corporate profits was preferable to this uncertain but relentlessly growing apportioned tax. In 1893 there were but 432 corporations operating in Russia; by 1900 there were over 1000.[12] Beginning in 1899, corporations paid a progressive tax levied on profits as a percentage of the nominal value of foundation capital. On profits of less than three per cent, companies paid no percentage tax (they still paid a small tax on capital); on profits of 10 per cent or more, they paid a marginal rate of 11 per cent. In 1906 the progressivity of the tax was increased sharply, the marginal rates reaching 24 per cent on profits which exceeded 16 per cent of nominal capital.[13] To reduce taxes, a company only needed to increase its capital. Thus in the period 1898-1900, when the number of new corporations being formed was dropping and the number of liquidations rising, there was a greater expansion in nominal capital of existing corporations than in all the years from 1874 to 1898. In 1906, 1907 and 1908, after the tax rates were increased, expansion of nominal capital exceeded the nominal capital of new corporations; in 1912 and 1913, after Russian industrial output--and presumably profits--had begun a period of rapid growth, capital expansions reached the remarkable level of about 350 million rubles in each year.[14] Between 1911 and 1914, the nominal value of all corporate shares increased 55.6 per cent.[15] If this value had been translated into real growth in corporate output, which accounted for perhaps half of Russian industrial activity, it would imply that there were no other sources of funds, be they bonds sold by Russian corporations,

bank loans, internal financing, or growth among the nearly 40,000 unincorporated industrial enterprises.[16] But few Russian corporations or registered share partnerships in fact sold shares publicly.[17] Shepelev estimates that at most 35 per cent of the nominal value was real investment.[18] Nominal capital values thus reflect more about the legal and tax environment than about real patterns and rates of investment.

Even if 01's procedure recorded accurately the changing pattern of foreign ownership or even investment, confirming a dramatic increase in those characteristics during the 1890s, this would not demonstrate that such activity generated a new flow of capital into Russia. Only an analysis of Russian balance of payments can reveal the net contribution of foreign capital to Russian development. Such an exercise--developed in detail in another paper--for the period 1861 to 1914, using 1883 as the base year, suggests that between 1887 and 1897 accumulation of gold reserves effectively offset all foreign investment. If Russia had elected to hold a constant reserve of gold and returns on equity investments were 10 per cent, it would have been a net exporter of capital in every one of those years; if Russia had elected to accumulate reserves at only half the pace it actually did accumulate gold and equity returns were 20 per cent, it would also have been a net exporter on balance for that 10 year period. Under varying assumptions of return on equity investments, with or without changing Russia's gold reserves, the dramatic periods of net imports of capital come, if ever, before and after the years of the Witte program.[19]

If the Witte program did not apparently succeed in attracting new capital resources to Russia, it may nevertheless have attracted the other two elements of enterprise--personnel and technique--which Witte sought. (Perhaps Witte understood Hymer's proposition that the three elements of enterprise normally only move together.[20]) Statistics of foreign ownership and investment--even of the

balance of payments--can say little about such matters. Though not definitive, consideration of those British firms and individuals active in Russia for which records exist (more accurately, for which I have uncovered records) may throw some light on the general questions of timing, motivation, impact and duration of foreign participation in Russian economic life.

Notes on British Enterprise in Russia

The traditional picture of the distribution of foreign enterprise in Russia puts it predominantly in the high profile growth sectors, specifically mining and metallurgy, engineering, municipal development (principally various utilities and urban transportation), and credit institutions (banks and insurance companies). The highest ranking traditional sector was textiles, allegedly taking only 8.6% of foreign ownership. 01' shows the British holding down second place with Rs. 507,479,800 or 22.6% of foreign ownership of corporate assets, compared to Rs. 731,746,600 (32.6%) for the French and Rs. 441,593,200 (19.7%) for the German. 01' argued 60.6% British capital was devoted to mining. Within that broad category, ownership of oil companies accounted for well over half, with copper, gold, silver and lead mining taking another third. Textiles ranked a distant second, accounting for only 13.7% of British ownership.[21] The British register of Russian claims shows a rather different picture, both in quantity and in industry distribution. Total British claims registered with the Board of Trade were three times larger than 01''s estimate, exceeding 1.7 billion rubles.[22] The Board of Trade itself thought that at least half of these claims were legitimate. Among these legitimate claims, textiles ranked first. British individuals and firms had controlled 37 textiles firms in Russia, not the 20 01' found. Moreover British claims of Rs. 221,364,000 is larger than 01''s estimate of the total foreign ownership in textile firms. Much of the balance of British claims were distributed among engineering firms, saw and paper mills, soap and oil mills, distributing trade, and other commercial enterprises.[23] What information that is available for these firms suggests that many were involved in the Russian market before the Witte program was articulated; most came to Russia because of market op-

portunities, opportunities which lay principally in the traditional, autonomous sphere of the Russian economy. It would appear the government rarely had much direct influence on the decisions of British entrepreneurs to come to Russia.

de Jersey, Ltd., and the Knoops

The pre-eminent source of British influence in Russian textile development was Ludwig Knoop, Bremen-born agent of de Jersey, who came to Russia in 1839, when only eighteen years old. de Jersey was a major exporter of Manchester's yarns and already had a market among Russian weavers. Knoop, a man of unusual personal charm and business acumen, quickly established close contact with Moscow's leading merchants and industrialists. In 1841 he met Savva Morozov, scion of what would be Russia's leading textile family. Knoop ultimately got Morozov both credit and textile machinery from de Jersey. Soon Knoop was the one man with whom anyone wanting to work in cotton textiles needed to deal; he could provide the credit, machinery, plants, and skilled and supervisory workers recruited from England. In 1857 Knoop himself began construction of his own Krenholm mill in Narva. Before his death in 1894, Ludwig Knoop would be credited with establishing almost two thirds of Russia's textile mills, 120 in all.[24]

It is normally assumed that Knoop operated primarily for himself after the first few years and that his sons did not take a active role in the Moscow textile industry. However, the Knoops always kept their affiliation with de Jersey. In 1917 de Jersey held a six million sterling interest in 12 Russian textile mills, all Knoop-associated properties. de Jersey itself had sent William Hannay, son-in-law of London merchant banker Robert Fleming, to Memphis about 1900 to operate a cotton-purchasing syndicate to supply Krenholm and other Knoop mills. Moreover, de Jersey handled all of the Knoop orders for machinery and recruited all technical and some commercial staff for the Russian mills from English textile centers. Though de Jersey and the Knoops were not, after the turn of the century, involved in development of new mills in Russia, they remained active in the development of their Russian properties.[25] Moreover they apparently continued to recruit Englis- staff for other mills, including the Morozov's.[26]

J & P Coats

J & P Coats was already a multinational enterprise, with marketing and manufacturing operations on both sides of the Atlantic by 1865, when it first became interested in the Russian thread market. By 1884 the company's representatives had penetrated as far as the Irbit fair and net sales revenue was over a million and a quarter rubles a year. The business was such that the Glasgow management decided to have its own Moscow house to supervise and push the trade. The following year a second agency was added in St. Petersburg. The success was such that, with an increasingly threatening tariff environment, Glasgow began considering local manufacture by 1887. The first purchase of land and a small mill were completed in 1889. Quickly Coats solidified its position with additional purchases of minority but strong ~~positions~~ holdings in three competing thread mills. Coats owned none of its Russian mills outright, but it had effective control over operations and handled all sales. By 1907 it had 20 Russian central agencies and had perhaps two-thirds of the Russian thread market; its factories were by far the largest thread mills in Russia, employing over 9,000 hands, producing well of twenty million rubles worth of thread annually, representing an investment of 8 million sterling.[28]

Though the record on Coats is, like so many others, thin, it seems clear that movement into manufacturing was the natural strategy to protect an already developed Russian market. The management did clearly see the danger in the unpredictable but increasingly protectionist tariffs; only to that extent did government policy influence its decision. And like other British textile companies, Coats apparently continued to rely on imported managerial and technical workers for its Russian mills.

Voronin, Luetschg & Cheshire

In 1868 a domestic weaver by the name of Cheshire left Manchester to join a Russian cloth merchant, J.A. Voronin. Cheshire undertook to weave imported English yarns; Voronin sold the unfinished grey cloth at fairs and through retail merchants. The firm was increasingly successful through the 1870s, and expanded into spinning on the one hand and finishing on the other. By the end of the nineteenth century Cheshire's grandson, Charles Cheshire, was a leading Russian textile merchant. The Cheshire family owned seven textile mills: the Viborg Side Spinning Mill, Nicholskii Weaving Mill, Vassili-Ostrov Print Works, the Sampson Spinning and Weaving Mills, the Resooi Ostrov and Petrogradskii Weaving Mills and the Rochehusolmskii Spinning Mill. Because the Cheshire mills were, among other things, major suppliers of heavy cloth for the construction of the ubiquitius Russia rubber galoshes, Cheshire had also come to own a major share of Treygolnik Rubber in 1910 in lieu of accounts due.[28]

From what little is known, the Cheshires appear to follow a pattern typical of British families in Russia. They themselves retained close ties to the traditional family roots in the Manchester area; they relied on an all English technical staff in their mills right to the Revolution, though they always kept the commercial side in the hands of Russians, as it was with Voronin. Their claim of 1.2 million pounds (Rs. 11.4 million) for their factories with 100,000 spindles, 4,000 looms and 16 printing machines was third largest,[29] behind only J & P Coats and de Jersey.

W. & T. Fletcher; Simon May & Company

In Hamburg, in 1842, Simon May and Phillip Simon organized a small mercantile house specializing in textiles. It quickly found good markets for lace and concentrated increasingly on that area. Because the principal source of supply of lace was Nottingham, Jacob Weinberg moved there in 1849 to open a branch. Over the next three decades the firm remained headquartered in Hamburg; in 1886, with the death of the last partner still in Hamburg, the firm shifted headquarters permanently to Nottingham. In the following decades Simon May established itself as the premier lace trading house in the world. It played a leading role in spreading both the product and its production to France, South America, Canada, the United States and Russia.

While still a Hamburg firm, in 1876, Simon May began selling lace into Russia. It was so successful that by the mid-1880's Paul Meyer, managing partner in Nottingham, began to look for a manufacturer who would build a Russian factory to supply Simon May's existing sales organization there. William and Thomas Fletcher had separated from their father's lace business in 1871 to establish their own mill. Over the next decade and a half they were increasingly successful, and unquestionably were in regular and close contact with Simon May. In 1887 the brothers, with financial assistance from Simon May, established a lace mill in Moscow. The mill remained a Fletcher operation until the Revolution; its skilled lace designers and lace-makers apparently were all English. Throughout, Simon May apparently handled all marketing.[30]

Paul Meyer, besides inducing the Fletchers to undertake the Moscow venture, visited Russia 56 times in the 1880s and 1890s to promote the trade. By 1894 Simon May carried accounts with 164 Moscow merchants and with 1,165 merchants in other Russian cities and towns; by 1914 the total number of accounts had grown to 1,443. Simon May had 22 travelers in the field to serve these merchants; total sales reached four million rubles. Between 1909 and 1914, the only years for which information is available, profits averaged close to five per cent on sales.[31]

Frank Reddaway & Company

In 1872, eighteen-year-old Frank Reddaway developed a new procedure for making the "perfect woven hose." Existing machinery could not reproduce his process, so it took Reddaway several years to develop a commercially viable hose. By the late 1870s, he was selling the only fire hose contemporary pumpers could not burst. In the meantime Reddaway had developed high quality industrial belting made from camel hair. The success of this product was such that Reddaway, even before the successful development of his hose, was looking for foreign markets. In 1876 he already had a primary European branch office in Hamburg and a subordinate branch in Stockholm.

By the early 1880s Reddaway's success in weaving and marketing compound cloths led him to seek new markets. In 1883 he himself visited Russia, "travelling through the country . . . , examining into the capabilities of various towns and centres for consumption of goods" made at Manchester. In 1884 he opened a branch office in Moscow. "By continuous personal attention to Russian requirements," Reddaway developed "a business large enough to induce" him to begin domestic manufacturing. Such a step would both avoid the heavy import duties on his products and permit a more extensive development of the Russian market. In 1887 Reddaway bought 15 acres at Spass-Setun, near Moscow, for his new Russian works. Originally capitalized at Rs. 600,000, Reddaway, by the early 1890s, had put nearly Rs. 4,000,000 into the development of the works. It made machinery belting, hose piping, table covers and, chiefly a specially impregnated heavy duck used to cover railway cars and a "very flexible oilcloth table covering" popular with the peasantry. Simultaneously Reddaway built a large marketing organization, employing 250 people with offices and warehouses at Moscow, St. Petersburg, Ekaterinburg, Saratov, Baku, Kiev, Rostov, and the Nizhni-Novgorod and Irbit fairs. Reddaway himself visited Russia two or three times a year, spending four to six weeks working at the mill or with the sales force.[12]

In the early years the factory relied on skilled workers brought from Lancaster and Manchester. "The brighter Russians proved very adept pupils and became highly skilled, even in hand block printing" used for special oil-cloth products. Thus Russians replaced many of the skilled English workers, but most key-workers, foremen and supervisors remained English.[33]

From the mid-1890s to 1914 the Russian operations generated fairly even profits of 25,000 to 30,000 sterling (Rs. 236,000-284,000), about a 6 per cent return.[34]

Thomas Firth & Sons

Firth, a leading Sheffield hardware manufacturer, sent its first foreign representative, James Fretwell, to Russia about the middle of the nineteenth century. Changing his name to Freshville, he established offices in St. Petersburg and began devleoping the market for Firth's files and tool steel. Firth maintained its market position for the next several decades, ultimately having separate St. Petersburg agents for engineering and manufacturing consumers on the one hand and merchant business on the other; a third agency handled Moscow and environs. By the early 1890s Firth was looking at the potential of the growing south Russian market; a company director persuaded John Crookston, a Britisher then resident in Odessa, to take the company's agency.

Development of Russian sales reached the point by the late 1890s that Firth began to look at the feasibility of local manufacture of tool steel for files. The company first purchased a small works in Riga in 1901. The continuing rapid expansion of sales apparently kept the company alive to the potential for future expansion. When, in 1903, the partially completed Salamander Steel Works, just outside Riga and adjacent to a J & P Coats thread mill, went bankrupt and was offered at auction, Firth bought the plant.

With the acquisition of these works, company management gave the Russian market special recognition: Crookston was appointed manager at Riga and made special company director for Russia. When finished in 1907, Salamander's file factory was "undoubtedly the largest and best equipped in Europe." Its products were sold in Russia, Siberia, Persia and Manchuria. Demand expanded so swiftly, the company's historian claims, that Sheffield had to help meet the flood of orders. After 1908 Firth expanded the works with the addition of two shell shops which made armour piercing artillery shells for the Russian government. For both the file plant and the shell shops Firth relied on

British engineers and managers, with the exception of one Polish engineer; skilled workers came out to Riga to train local workmen.[35]

Richard W. Carr & Company

Carr was a late comer to Russia. Three colleagues, who had served their apprenticeships together, organized the firm in Sheffield in September, 1902. The previous summer they had visited Russia together. Their collective belief in the potential of the Russian market for tool steel provided the motivation for organizing the company. After securing crucible-melting furnaces and a file works in Sheffield the new firm registered its "Car" trademark--the outline of an automobile--in Russia. To facilitate development of the Russian trade Carr & Company built a small steel works outside Moscow in 1904; stocks of tool steels were carried in Moscow, Warsaw and Lodz.[36]

R. Smith & Company, Moscow.

Richard Smith was born August 11, 1824, in West Arthurlie, Renfrewshire, the eldest of eight children. At 16 he went to Greenock to serve an apprenticeship in boiler-making and shipbuilding. Joining other Scottish and English craftsman, he sailed for St. Petersburg in September, 1847, to take charge of a small iron works. In March, 1848, he moved to the government's railway works to supervise steam engine construction for the Nikolaevski Railway. For eight years Smith managed the locomotive works at Kolpino; in 1856 he decided to set up his own business in Moscow. On lands next to the Danilovski Sugar Refinery, close to the Moskva River, Smith built his boiler works. His father and younger brother James soon joined him. The Smiths would, through three generations, run this works.[37]

Little exact information on the firm is available. Until the 1890s it concentrated almost exclusively on production of larger steam boilers and the large, cylindrical, vertical fuel storage tanks. The steam boilers, Cornish (single flue) and Lancashire (double flue) types, were comparatively high pressure boilers used as primary power plants for factory machinery. Beginning in the early 1890s, as demand for these boilers fell off, the construction of multi-story apartment buildings in Russia's emergent urban centers created a new market for low pressure boilers for hot water or steam heating systems.[38]

At its largest, Smith & Company employed perhaps 200 men. The welders, the plant's highest skilled workers, were, by the end of the century, all Russian. Richard Smith had brought three experienced welders from Britain soon after he founded the company; they trained Russians for the work. By 1902 the plant embraced five sections: power plant, heavy machine shop, welding and blacksmith shop, boiler shop, and light machine shop. Sometime between 1870 and 1880 Richard Smith apparently won a gold medal at a Moscow

exhibition for the quality of his Cornish boilers; he claimed in a letter home to Greenock that his works were better than any in Scotland, as fine as any in England.[39]

Apparently the Smiths, who always remained British citizens, returning regularly to visit relatives, sending sons back for quality English public school education, developed their Russian enterprise entirely on the basis of the accumulated income first from the work at Kolpino, then from the growing boiler works itself.[40] By maintaining their Birtish ties they kept in touch with the evolving technology in boiler construction; they needed to import neither financial nor human capital to augment their own.

Morgan Crucible Company

Morgan Crucible, a manufacturer of graphite crucibles, graphite brushes, and other fireproof industrial wares, had developed enough Russian trade in crucibles by 1909 to have a resident agent, Frank Thompson, in St. Petersburg. On November 23, three directors of the English company and Thompson signed a partnership agreement to establish a firm to manufacture and sell graphite products. In July one of the partners had purchased 1738 square fathoms of land on the Vyborg Quay facing the Bolshaya Nevka River; on December 15 the partnership took control of this land, immediately beginning construction of a crucibles factory. In 1915, the first year for which figures are available, the firm had total sales of Rs. 7.2 million, primarily from crucibles. Once established in the crucible market Morgan began pushing its graphite brushes as well. By 1912 sales were approaching perhaps Rs. 30,000, enough to justify adding a brush factory to the crucible factory. In 1915, the first year for which complete figures exist, sales of crucibles reached Rs. 2.7 million, sales of brushes over a quarter million, returning a handsome net profit on sales of 28.33 per cent.[41]

A. M. Luther and Venesta Limited

In Reval sometime in the 1880s Christian Luther saw a three-ply American chair seat in a store window. With his brother, Carlos, he soon developed a lathe to cut such veneers and reproduce the plywood. Thus, Venesta later would claim, the plywood industry was born in Europe. But the plywood would fall apart in rain, which made chair seats made from it usable in open cafes. Carlos Luther determined to develop a casein based waterproof adhesive. Soon Luther registered a patent for his successful glue in every major European country.

Meantime in London E. H. Archer was building a specialty trade of tea chests made of thin metal sheets. Though successful by 1895 in providing chests for carrying tea from Ceylon and India to European blenders and grocers, the boxes were of no subsequent value--the blenders and grocers could not even burn them. When Archer came across American plywood he thought he could use it for his chests, but the samples he got in London were not waterproof, their glues dissolved quickly. A little research brought Archer and Luther together; Archer provided the 20,000 sterling to build a tea chest board factory in Reval for the Luthers to operate. The Venesta tea chest was immediately successful; Venesta Limited came into being January 15, 1898.

Venesta did not confine itself to the tea chest trade. It sought ways of extending the market for plywood products. To this end Venesta set up a sample shop near their factory in Limehouse which helped convince first motor car builders and then railways and shipbuilders of the usefulness of plywood. Venesta also helped spread the use of cheaper plywoods into the furniture trade. In 1907 Venesta built its own large English factory for cutting veneers. And in 1909 A.M. Luther added a major factory at Staraya Rossiya in the Novgorod area. By 1912 the business of the two companies reached nearly one million sterling a year,

with Luther doing primarily manufacturing, Venesta handling sales, which were predominantly in western Europe and South Asia. The two companies then decided on a formal re-organization: Luther became a wholly owned subsidiary of Venesta.[42]

The relationship here between British enterprise and Russian development is unusual: the Luthers provided the technical and manufacturing skill, Venesta provided the capital and the marketing skills.

R & T Elworthy, Gel'ferick-Sade and John Greaves & Company

British enterprise occupied an unusually strong position in the Russian agricultural implement industry. Apparently this position grew out of Britain's early dominance in the importation of more sophisticated agricultural machinery between 1855 and 1880. Ransomes, Sims and Jeffries was selling its portable agricultural engines in Russia by 1856. It established its first exclusive agency in Odessa in 1857 and opened its own Moscow office in 1868. Ransomes maintained its commercial presence in Russia until the 1914, but apparently it never contemplated moving into domestic manufacture.[43]

Clayton and Shuttleworth had similarly built a trade from at least the 1870s in its engines and threshers. Before undertaking any manufacturing investment in Russia it had already established a branch factory in Vienna. In 1902, in the face of what it saw as an increasingly unstable tariff environment, Claytons purchased a 31 percent interest in the old, established firm of Gel'ferick-Sade.[44] Founded as a merchant house in 1853 by a German-born trader, it had acquired knowledge of the agricultural implement trade through its agencies for Marshalls and Ransomes as well as Claytons. In 1879 it established its own agricultural implement factory in Kharkov.[45] It had however continued principally as a merchant house selling others goods, including serving as Claytons principal Russian agent. Purchase of the substantial minority position gave Claytons an assurance both that unanticipated tariff changes would block it from the Russian market and that Gel'ferick-Sade would not itself abandon Claytons and commerce all its own manufacturing. Claytons soon selected an English manager for the Russian operations.[46] By 1914, Gel'ferick-Sade was the fourth ranking implement manufacturer in Russia.[47]

The second ranking manufacturer was also an English firm, R & T Elworthy and Company. Thomas Elworthy, who presumably came to Russia late in the 1860s or early in the 1870s to work in the implement trade, established his own repair

shop in 1874. In 1907 his sons incorporated what had become a substantial factory. By 1913 they employed over 2000 workers, produced more than 5 million rubles worth of implements and had a retail organization of 28 stores.[48]

Similarly John Greaves, whose firm ranked fifth in Russia, began in Russia with just a trading house. In 1883 he established his own factory in Berdyansk to provide some of his own goods. In 1899 he re-organized his company under Belgian law, in part apparently to avoid some Russian corporate profits tax.[49]

The pattern of British expansion from the implement trade into manufacturing was also the pattern for Russia's largest manufacturer and seller of farm machinery, the International Harvester Company.[50] In each case manufacturing was, first, the natural development from an established trade, and, second, the obvious device to provide some assurance both to foreign manufacturers like Claytons and to domestic traders like Greaves and Elworthy that they would have supplies of implements for their sales organizations.

Observations

Case studies provide a test of the general characterizations of the role of the state in attracting foreign enterprise to Russia. Though the record is far thinner than would be desireable, it seems clear that British participation in textiles, agricultural implements and boilermanufacture both antedates the widely proclaimed programs of the Witte period and was a response primarily to the potential of the Russian mass market, not to government brandishments. In textiles, de Jersey and Knoop served as the primary actor, helping presumably to recuit from Lanachire textile experts like J.S. Boon, who would work in Tver until the Revolution, Edwin Lunn at Balashikha, the Charnock Brothers at Ivanovo-Vosnessensk, the Ratcliffes at Bogorodsko-Gloukhovo, Charles Hastie and others at Moscow. Later the J.M. Sumner company would supplement de Jersey's activities, providing machinery, credit and English textile workers.[51] Clearly Reddaway and Fletcher began Russian production to protect and develop further established markets. The Hubbard family had been trading in Russia for 67 years before it began developing its spinning, weaving and prints mills from 1842.[52] In the flax industry, another English firm played the role that de Jersey played in cotton textiles; White, Child and Beney provided, from the late 1870s or early 1880s, the machinery and credit for Russian flax processors to develop their mills. By 1900 it found it needed a small Odessa factory to provide exhaust fans for its client flax mills.[53] A similar pattern of market development preceding manufacturing investment emerges in the agricultural implement sector and in tool steel. Other British families, like the Millers and Gibsons at Nevski Stearine, the Hartleys in textiles and trading through Oborot, and Muir and Merrilees with their prestigous Moscow department store, came to Russia before 1860; their descendants maintained their enterprises right to the Revolution.[54]

That a substantial share of British participation in Russian economic life should have its roots in the autonomous sphere is hardly surprising. Many of these firms sold goods--textiles, candles, farm implements, boilers--for which the government orders did not constitute a substantial market share. Moreover businessmen normally must acquire commercial knowledge--what and where to sell--in order to be successful. Acquisition of commercial knowledge about the development of markets in Russia would lead to manufacturing. The government is not unimportant in this process; its provision of legal services, maintainence of a monetary system, and promotion of internal transportation development help create a wider effective market area in which business can operate. Its manipulation of tariff schedules also induced firms to protect their position with manufacturing facilities. As the size and attractiveness of the Russian market expanded from the 1840s to the 1900s it continued to attract additional British enterprises.

In most cases British enterprise appears to have been benefcial for Russian development. It brought new products and the skills necessary to produce them. Though there was a remarkable persistence of English managerial and technical personnel in virtually every industry in which the British were active, they nevertheless attempted--successfully in most cases--to transfer a substantial share of skill to native workers. Only the highest positions--chief carder and weaver, factory engineer, lace designer--remained predominantly British through 1914.[54]

The case studies presented remind us of the diversity and long presence of foreign enterprise in Russian economic life and development; they remind us how Russia, as with all developing countries, needed to import a wide

range of human skills. That so much of the British activity was in the consumer goods sector narrowly and in the autonomous sphere generally suggests also the robustness of the non-govermental sector of the Russian economy. How much more successful might Russian development have been if the government had pursued policies supportive of that sector?