

Making of Modern Europe: State, Economy and Empire

Module 8

Industrialization in Russia: Role of Russian State

Script

The Role of the Russian state in Russia's Industrialisation

Despite the abolition of serfdom, tight regulation by the Mir prevented any growth in the mobility of labour. Thus the industrial activities meant to meet the demand generated by the demands of the agrarian communities themselves, which characterised developments in Britain and other parts of Western Europe, was virtually inexistent in the adverse conditions of the Russian countryside. As a consequence, the principal stimulus behind industrial development had to be provided by the Russian state itself. The policy of state patronage for commerce and industry to aid industrialisation in the Tsarist domains was followed by Reutern, Bunge and Vsyhnegradskii. It was finally given major thrust by the policies of Witte, Kokovstov and finally Stolypin. As a cumulative consequence of these policies, Imperial Russia was transformed from the most backward economy to one of the fastest emerging industrial economy when the Great War broke out in 1914.

Till 1860, the state had not undertaken any direct measures for the promotion of trade and industry. Industry tended to be confined to guilds in the old towns of St. Petersburg, Moscow, Odessa etc, among the Old Believers (i.e. those who refused to conform to the reformed Orthodox Church of Peter the Great) and then among the among the Armenians and Georgians. The Crimean War changed the entire mindset of the Russian ruling elite in this respect.

Inspired by the role played by railways in the course of German industrialisation, the newly appointed Minister of Finance, Reutern emphasised on the need for railway development to overcome the military backwardness that had come to plague imperial Russia. He used to believe just as this would facilitate the transportation of troops from one part of the empire to another, at the same time, development of transport infrastructure was certain to stimulate the economy as a whole. During the ministerial tenure of Reutern (1862-78), the total length of railways tracks increased from 3,532 km to 22,498 km. The principal factor behind this rapid expansion of railway tracks under Reutern was the scheme of state's guarantee of profits offered to the private sector investors. Aiming particularly at attracting foreign investors, entrepreneurs and technicians, Bunge even resorted to offering subsidies and in some cases even monopoly rights to help other sectors of industry develop. Ludwig Knoop was specially brought in from Manchester to

kick-start modernisation of Russian textile sector; the Nobel organisation was brought in to explore the oil reserves of Baku. But perhaps the most important role was played by J.J. Hughes whose pioneering efforts made the New Russian Coal, Iron and Railmaking Company the largest producer of pig iron in the empire by 1884. By 1900, this enterprise was responsible for than half of the total pig iron production of the whole empire. Reutern's policy of import of foreign technology successfully transformed the coal rich Donetsk and iron-rich Kirvoirog regions into major centres of industrial production, facilitating the emergence of Ukraine as the third major industrial conurbation. Still more importantly, just as at one time British technicians had taken advanced technology to France, and then British and French technicians had done the same for Germany, similarly British, French, German, Belgian and Swedish technicians introduced in Russia a crop of industrial technology that was completely unknown in Russia. Because the various technological inputs were related with each other, these generated a sort of synergy that began to transform Russia industrial sector qualitatively.

Owing to the fact that this first phase of Russia's industrialisation was almost entirely driven by foreign technology, it turned to be a phenomenally expensive process. Moreover, by the time Russia had properly embarked on the path of industrialisation, all the European

powers were already at quite an advanced stage of development themselves. Thus for Russian industry to overcome its backwardness and be internationally competitive had to buy into the most advanced, state-of-the-art technology.

This implied that the capital requirement for the industrialisation of Russia was proportionately among the highest. In absence of a banking sector as vibrant as the German one, the state had to undertake the mobilisation of capital required for the purpose. True to the established practices of the period, Reutern resorted to raising the money on loan from the international financial markets in Europe. The principal precondition of borrowing from the international market was the stability of the currency. The Crimean War had hurt the value of Russian currency considerably. Thus Reutern initiated a number of measures of fiscal discipline. His financial reforms of the 1860s, streamlining state expenditure and steadfast opposition to military adventurism, resulted in stabilising the rouble and restored some credibility for Russia in the international financial market by having adequate reserves gold in the imperial treasury. But Russia's war with Ottoman Turkey threw Russian finances into turmoil. At this stage, questions began to be raised about the wisdom of state policy offering guaranteed profits to investors in the railway sector. Protesting against such questions about his policy, Reutern resigned his post in 1878.

After the departure of Reutern, Russian ministry of Finance witnessed a period of lack of direction. In the 1880s, with the appointment of Bunge, some definite sense of policy returned to the ministry, even though these proved to be damaging to Russia in the long run. A professor of economics in the University of Kiev, Bunge was an advocate of free market economy, and as the Minister of Finance he wanted to take official policy towards that very direction. He believed that if the burden of taxes on the peasantry could be reduced, they would be able to spend the surplus purchasing industrial commodity, and industry would also develop and flourish by catering to such demand. With this end in view, Bunge abolished the salt duty in 1881 and Poll tax in 1886. Bunge also pioneered the formation of a mortgage bank by the name of Peasant Land Bank where a peasant could secure a loan on low interest against the mortgage of his land.

On the other hand, he also pushed for the nationalisation of those private sector companies that had resorted to corrupt practices in connection with the guaranteed profits during the Reutern era. In order to ensure that the imperial treasury does not suffer from the expenditure incurred in course of the nationalisation, Bunge floated railway bonds in the international market. Owing to some internal developments, some favourable economic conditions also emerged during the tenure of

Bunge. In 1868 Russia turned Farghana into a protectorate of the empire. The cultivation of cotton in that region spared Russian textile industry from the purchase of raw materials from the international market at high prices. With the steady expansion of railways, it was also becoming easier to transport coal and cotton from the remote southern areas of the empire.

Although Bunge's policies were theoretically well thought out, he had to confront some unexpected problems. The decade of the 1880s was a bad period for the implementation of an industrial policy based on the purchasing power of the peasantry. Grain prices began to fall worldwide from the 1870s; in the 1880s, the flood of North American grain pushed prices still further. Moreover, in France, Germany and other countries high tariff duties were levied on grain imports to save local agriculture from foreign competition. Thus Russia's grain exports suffered a major setback, and Bunge's policy of support for the agriculturist sector helped Russian agriculture survive, instead of helping it stimulate Russian industry. Accordingly, Bunge had to spend heavily to maintain a minimum level of demand for Russian industry. This in turn put the rouble under pressure, and the pressure mounted still more heavily because Rouble was convertible freely against both gold and silver. Given the concerns of the international market about the stability of the rouble, the Russian government preferred to service its international debt

in silver. But the sudden appreciation of the price of silver in the international market in the 1880s pushed Russia towards a severe financial crisis. Consequently, Bunge was forced out of office in 1888.

Bunge's successor Vyshnegradskii favoured one approach in particular – increasing the marketable agricultural surplus by any means, and that too keeping the prices as low as possible. He believed, if the agricultural prices could be kept low, then they could be exported, penetrating French and German markets no matter how high tariff walls were thrown up. The foreign exchange thus earned would help pay for the development of Russian industry. To increase the marketable surplus, Vyshnegradskii imposed a heavy tax burden on the peasantry at a time when grain prices were very low, to the extent that the peasantry had to sell their produce in the market, reducing even their own consumption. Thus, for some time beginning 1888, the volume of marketable surplus as well as grain exports increased considerably.

But Vyshnegradskii's policy proved disastrous for the Russian agricultural sector. It was a normal practice in Russia to set apart a part of a year's harvest in the local storage to function as seeds for the next year.

This enabled a proper harvest in a season even after harvest failure the season before. Under Vyshnegradskii, the Russian government ignored the rationale behind the practice in order to maintain a minimum level of marketable surplus. Thus, harvest failure in South Russia in 1891 assumed the proportions of a famine. With exports coming to a standstill, the Russian government was yet again faced with a major financial crisis. In 1892 cholera appeared with in the form of epidemic. At this stage, Vyshnegradskii, who had become paralysed, was removed and replaced by Sergei Witte.

1891-1907 was the period of Sergei Witte's domination of Russian economy and politics. Witte was the true architect of Russian industry upon the foundations left behind by Reutern. He assumed charge of the Russian ministry of Finance at a time when Russia's military weakness had diplomatically isolated Russia in the European theatre. Right away after assuming charge of the Finance ministry, Witte tried to escalate the pace of Russian industrialisation so that none of the neighbouring powers could establish the kind of stranglehold on Russia economy as they had in China. Witte was convinced that there were merits in the policies of both Bunge and Vyshnegradskii, but the real problem for Russian economy was the unequal competition in the international market. Accordingly, witte embarked on a policy of tariff war with Germany. Till 1891, Germany imposed heavy tariffs on Russian

agricultural exports, but Russia imposed none on industrial goods from Germany. Even during the tenure of Vyshnegradskii, Witte had successfully advocated a policy of import tariffs on German industrial goods, occasioning even the threat of war from Bismarck. By 1893, however, the prospect of the loss of Russian market, especially the underdeveloped Polish market, prompted Bismarck's successor Caprivi to reduce the tariff on grain imports from Russia, giving Russian grains access to the market of Germany yet again.

During 1892-1901, Witte had embarked on a phase of exponential development of railways in Russia. Some of the money required for this purpose came from income from indirect sources, such as the monopoly right of brewing and sale of liquor. Till this point, traditionally the right to brew and sell alcohol used to be held by the aristocracy and the middling people, but Witte secured the state the monopoly right of brewing and sale against a token compensation, and thereby guaranteeing a considerable sum of revenue. Witte also carried out some currency reforms which increased the acceptability of rouble in the international market, thus making it easier to borrow from the international market. In 1897, rouble was withdrawn from the gold standard, i.e. it was no longer convertible against gold. Moreover, as the 1893 military alliance with France promoted closer diplomatic ties between France and Russia, it became easier for Russia to raise money

from the French market. Although most of the loans was to enable Russia to buy French arms, yet a part of the sum was held in reserve by the central bank in order to be lent out to entrepreneurs for the purpose of industrial development.

Witte's measures turned out to be very timely. The new reserves of coal and iron ore that were discovered in the 1870s and 1880s, once coupled with imported technology, were able to increase Russia's coal, iron and steel production exponentially. The total volume of output increased even more dramatically after removal of impediments in the way of investible capital. Witte's success in cutting the cost of railway transportation stimulated long-distance commerce, because under the system devised by Witte, the longer the distance travelled the lower the costs: for instance, the cost of travelling 10 miles was 10 kopek but the cost of travelling 100 miles was 20 kopek. This policy promoted the growing connections between the more remote parts of Russia with the continent of Europe. As butter and cheese from Siberia began to reach Denmark and other parts of Europe, the scope of Russia exporting merchandise other than grains expanded considerably.

Within 10 years of Witte's rise to the position of the Minister of Finance, the volume of foreign investment in Russia grew considerably, and the significance of Russian economy in the international market began to grow. In 1901 Witte was appointed the Prime Minister, and

Kokovtsov was appointed the Minister of Finance. By that time, Russia had begun to be considered as a leading industrial economy. In the 1890s, the Russian economy began to grow very fast. Coal production grew by 200% -- in 1890 Russia's coal output was 6 million tonnes; by 1913 it climbed up to 36 million tonnes. Iron and steel production increased by 600%, of which 330% was concentrated in Southern Russia alone. In 1913, Russia was the largest producer of steel in Europe, after Germany and Britain. The rate of investment in the Caucasus region also began to grow, especially in the oil reserves. In the 1880s, Russia produced an annual average of 1 million tonnes of mineral oil; by 1900 the output grew to the tune of 10 million tonnes.

During 1882-1902, the total railway network increased by 46%. From 1890 onwards, Russian industrialists began to receive the full benefits of the development because even while importing foreign technology Witte ensured a policy of extending preferential treatment to local industry. This policy guaranteed a steadily growing market for modern industry in Russia, which encouraged entrepreneurs towards modernisation. Although the opportunity to invest in Russian railways came with strings attached, the promise of profits was lucrative enough to ignore the fact that conditions were being imposed. Hence while the total foreign investment in 1893 was 2.5 million roubles, by 1897 it rose to 80 million roubles and 150 million in 1900. As Kokovtsov by and large continued

to follow the industrial policy of Witte, the Russian market remained lucrative for the international investors, to the extent that in 1913 foreign capital invested in Russia stood at 2,200 million roubles.

The last of the major transformations of the economy of Tsarist Russia took place in the agrarian sector. The Stolypin agrarian reforms were a series of changes to agricultural sector of Imperial Russia instituted during the tenure of Pyotr Stolypin, Chairman of the Council of Ministers (Prime Minister). Most, if not all of these reforms were based on recommendations from a committee known as the "Needs of Agricultural Industry Special Conference," which was held in Russia between 1901-1903 during the tenure of Minister of Finance Sergei Witte.

The goal of the reform was to transform the traditional *obshchina* form of Russian agriculture, which bore some similarities to the open field system of Britain. Serfs who had been liberated by the emancipation reform of 1861 lacked the financial ability to leave their new lands, as they were indebted to the state for periods of up to 49 years. Among the supposed drawbacks of the *obshchina* system were collective ownership, scattered land allotments based on family size, and a significant level of control by the family elder. Stolypin, being a staunch conservative, also sought to eliminate the commune system - known as the *mir* - and to

reduce radicalism among the peasants, preventing further political unrest, such as that which occurred during the Revolution of 1905.

Stolypin believed that tying the peasants to their own private land holdings would produce profit-minded and politically conservative farmers like those found in parts of western Europe. Stolypin referred to his own programs as a "wager on the strong and sober."

The reforms began with and introduced the unconditional right of individual landownership (Ukase of November 9, 1906). Stolypin's reforms abolished the *obshchina* system and replaced it with a capitalist-oriented form highlighting private ownership and consolidated modern farmsteads. The reforms were multifaceted and introduced the following: Development of large-scale individual farming (*khutors*); introduction of agricultural cooperative; development of agricultural education; dissemination of new methods of land improvement; affordable lines of credit for peasants; creation of an Agrarian Party, to represent the interests of farmers.

The Stolypin agrarian reforms were implemented by the state in a comprehensive campaign from 1906 through 1914. This system was a continuation of the modified state capitalism programme begun under Sergei Witte. Stolypin's reforms were to the agricultural sector, included improvements to the rights of individuals on a broad level and had the

backing of the police. These reforms laid the groundwork for a market-based agricultural system for Russian peasants.

The peasantry released by the abolition of the *obschina* availed of the expansion of the Trans-Siberian Railroad and other railroads east of the Ural Mountains and the Caspian Sea, to embark on migration to Siberia. Thompson estimated that between 1890 and 1914 that over 10 million persons migrated freely from western Russia to areas east of the Urals, extending agriculture.

The Stolypin agrarian reforms included resettlement benefits for peasants who moved to Siberia. Emigration department was created in 1906 at the ministry of agriculture. It organized resettlement and assisted the settlers during their first years in the new settlements. The settlers received on an average 16.5 hectares of land per man. The total area allocated was 21 million hectares. Migrants received a small state subsidy, exemption from some taxes, and received advice from state agencies specifically developed to help with peasant resettlement.

In part due to these initiatives, approximately 2.8 of the 10 million migrants to Siberia relocated between 1908 and 1913. This increased the population of the regions east of the Urals by a factor of 2.5 before the outbreak of World War I.

A number of new types of cooperative assistance were developed as part of the Stolypin agrarian reforms, including financial-credit cooperation, production cooperation, and consumer cooperation. Many elements of Stolypin's cooperation-assistance programs were later incorporated into the early agrarian programs of the Soviet Union, reflecting the lasting influence of Stolypin.

The pattern of state led capitalist development characterised Russian industrialisation till the coming of the Great War. For the duration of the war, Russian industrial development was completely halted. The dislocation wrought by the war was too great for a simple resumption of the process once it was over. Accordingly, once the Bolsheviks came to power in November 1917, a new era of economic development was ushered in.