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The Economy of Russia

Author(s): Worthington Chauncey Ford

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## THE ECONOMY OF RUSSIA.

**I**N dealing with so vast a country as Russia, inhabited by many different peoples and having a variety of administrations, from the communal to the absolutely monarchical, it is hopeless to reach a general agreement upon even the more important social features. The conditions of one region are the opposite of those in another, and habits and regulations are confusing by their mere multiplicity. There is a remarkable difference in opinion upon the economic position of Russia and upon her ability to make a judicious use of the unquestionably great natural resources at her command. The one view represents the empire as striding towards a power and prosperity destined to give it a controlling voice in the world's movements; another pictures the government as rushing to its ruin, as already trembling on the verge of bankruptcy and as certain to result in a divided empire, European and Asiatic. The truth must lie between these extremes; and my intention is to take a few phases of administration and to weigh them as they are now active, testing their efficiency by the results already in evidence.

Russia is an agricultural country, and for some years its industries have been forced along artificial lines. As an agricultural country, its welfare rests upon the strength of its peasants and on their ability to make use of the land. If the situation of these farmers is precarious and shows a tendency to become more uncertain, then the apparent prosperity of the state is also uncertain; and figures of capital, of output, of railroad returns or customs receipts cannot set aside the fact. They will show that in certain directions wealth in the hands of a few is increasing, but they cannot show that the peasant is sharing in this betterment. From indirect evidence the truth may be learned, and I am obliged to depend largely upon such indirect evidence. It is, however, of sufficient force

to show that autocracy is often not consonant with healthy economic development and, with the present predominance of economic questions, may be the cause of greater injury than benefit.

A foreigner visiting the United States in 1859 would have described its economic position as one of transition. The most important interest was agriculture. Manufactures were few in number and nowhere of high importance, outside of Pennsylvania and New England. The exports were almost entirely of agricultural products; the imports were of the manufactures in general use and for the production of which the native resources would have been sufficient in kind and quantity, had they been utilized. Even the transportation system was in its early stage, with less than 30,000 miles of railroad in operation. The seacoasts and lake and river traffic were important factors, for they invited to foreign trade, and the English markets not only gave the capital needed to develop the Middle West but took its principal product—wheat. Wide differences in social aim and effort existed among the different sections of the country, but all became insignificant when placed against the great conflict in social systems of North and South. That was an irreconcilable difference, as matters then stood, and one that acted as a barrier to a better common understanding, an advance in national life and realization. Slavery was hostile to economic development save on plantation lines, and nowhere in the United States was there room for that single and wasteful form of development. It was evident that the situation between the North and the South was strained, and that the troubles were about to come to a head. An agricultural community at war with itself—the observer might well have entertained gloomy forebodings of the future.

Not a few of the social differences of the United States in 1859 are to be encountered in Russia at the present time, with modifications due to the customs and laws of historical development. The interests of Russia are mainly agricultural, and in foreign countries must markets be found for the surplus products of agriculture—if, indeed, absence of famine leaves

a surplus for exports. Her system of railroads is still inadequate to the trade demands of her people, having been planned for military rather than commercial reasons. With a desire to be industrially independent, her fiscal policy has been turned to build up favored interests. Possessed by an ambition to be a maritime power and convinced that the North Sea alone would be a source of weakness, rather than of strength, her rulers have consistently pursued the wish to possess seaports on the Mediterranean and, later, on the Pacific. In seeking to attain this end, costly wars have been fought, the combined might of Europe has been defied and all the arts of diplomacy, from open threats to the most polished coaxing and flattery, have been exerted. Constantinople at present remains just beyond the reach of her power; the Balkan states have been raised into petty kingdoms and neutralized, so as to be a field for the intrigues of any power willing to run the risk of antagonizing Europe, yet ever unassailable without the consent of so many of the governments of Europe that agreement is well-nigh inconceivable. Turned away from the south, Russia goes into her empire of Asia and there continues her diplomatic manoeuvres, while adopting that most civilized and advanced instrument of power and union—a transcontinental railroad. It is not this political phase that I wish to describe, but the economic condition behind it.

From this standpoint, the resemblance between the Russia of to-day and the United States of 1859 is striking. Money has been borrowed to build railroads and establish manufactures; vast areas of territory are without population and inaccessible either to people or trade; the recognition of one head has not made the empire homogeneous, but its sectional interests in production and commerce are distinct and conflicting; the sense of nationality is weak, however buoyed up by appeals to race and kinship. The military ambitions, pushed forward by the ever-encroaching waves of movement at the outer fringes of the empire, possess a glamour for a few, and bring a sense of power not enjoyed by the pioneers who first moved upon the American prairie. Behind all these many

outward phases of Russian activity stands the peasant, the serf of former days, whose labor must pay for the imperial dreams of his masters, and who neither shares in the excitement of acquisition nor participates in the profits of possession. Scantly as Russia is populated, there are agricultural regions where an over-population is to be found; and because of the primitive methods of cultivation, want of capital and heavy debt, the peasant finds it difficult to obtain enough for his own support. Is there not some likeness between the social conditions flowing from serfdom in Russia and those flowing from negro slavery in the United States?

Like most agricultural countries at a certain stage of their development, Russia aspires to be an industrial country, and in recent years has not hesitated to adopt the most costly and radical measures to build up a manufacturing interest. It cannot be asserted that a great degree of immediate success has followed these measures, any more than it is possible to deny that there is something definite to show for the sacrifices and expenditures. Given the wish to establish an industry, with a sufficiently enticing government bounty, direct or indirect, and the mills will be built, stocked with machinery and run so long as a profit is assured. The defense of the bounty lies in the specious claim that it is not a foreign industry which is being supported and that so much money is prevented from going abroad for the purchase of foreign goods. On the other hand, foreign capital is invited by the promised profit and protection to enter into Russia, and it has been largely through foreign capital that the recent development of certain important industries of Russia has been accomplished. German and Belgian investors supplied the means, and the managers as well as the machinery were largely imported from abroad. It is a familiar illustration of the methods of protection that, in seeking to establish native industries, it is foreign capital and foreign labor which reap the first most substantial rewards — and sometimes the penalties.

Russia is rich in natural resources; but this richness is potential, rather than actual, and will require years of careful

development to be realized. Take the iron industry, everywhere looked upon as the most important of industries and a fair measure of the progress of the country. There has always been an iron interest in Russia, as in the Ural country; but a few years ago it began to develop at an extraordinary rate, notably in the southern districts, which were more accessible to foreign capital. In 1896 the production of pig iron in all Russia was 1,595,000 tons, and in 1900 it had risen to 2,821,000 tons; but the production of the south rose in the same years from 632,000 tons to 1,471,000 tons, an increase of 839,000 tons, leaving an increase of only 387,000 tons for the Ural region, Poland and central Russia. This extraordinary development was due to the certainty of government contracts for rails, bridge and structural iron and steel, and to the condition imposed in all railroad franchises that a certain proportion of the material should be supplied by the Russian mills. The contracts of the government called for 1,000,000 tons in 1899, and for 900,000 tons in 1900. In 1901 they required only about 400,000 tons and, as there is a general depression of the iron industry in Russia, this loss of custom will lead to a decided decrease in activity.<sup>1</sup> The artificial basis of this apparent growth of a great industry becomes apparent. It is no answer to say that foreign capital is the immediate loser because of the intense competition in Russian markets. Even if that were entirely true, foreign capital has been in a much better position to command the ordinary conditions of success than home undertakers could hope to be, and the failure, partial as it may be, of the Belgian or German will deter the Russian for a time from stepping into his place. The idea that in years of distress the government should come to the further assistance of industries which have been called into existence by a protective tariff is as old as customs duties and has led to extravagances indefensible in theory and condemned by results.

This principle of making a market for domestic products has been carried to an extreme. Among the commodities which

<sup>1</sup> After this article was written the government was induced greatly to increase its orders for the year 1901.

Russia offers to foreign buyers is petroleum, and the wells of Baku rank second in importance among the oil deposits of the world. Her great competitor is the United States, where a better oil is obtained than in Baku and where the machinery for handling the crude product, for refining and obtaining the important by-products, and for distributing the finished products, has been perfected to an extraordinary degree. As a result the American oil may be sold in every free market of the world, and holds its own against the oils of Russia and of Sumatra, in spite of the advantage of geographical position these wells have enjoyed. If there is any one line of Russian export worthy of every encouragement, it is that of mineral oil, and any reduction in the cost of production and transportation means a definite gain in the chances of successful competition in sales. In this direction the Russian government has done much. It has built a railroad and conceded special freight rates; it has constructed a pipe line and encouraged the necessary shipping for the export trade; but it has neutralized these advantages by insisting that the piping shall be made in Russian mills, and that the rails and rolling-stock shall be obtained from Russian makers.

The result as to pipe lines is suggestive. Oil is brought in cars from the wells to the station at Mihailova, where it is pumped into reservoirs and thence transmitted by pipe line to Batoum. Not to speak of the cost and trouble of this change from car to storage tank, the railroad is not sufficiently well equipped with tank cars to permit the pipe line to be worked to its full capacity. It has therefore been determined to connect Mihailova with Baku by pipe, this line, with a second section to run from Baku to Volchi-Vorota, involving more than 104 miles of construction. A condition attached to this project is that the pipes are to be manufactured at the Mariupol tube works, a Russian factory, the machinery for which was brought in sections from America some years since. As these works are able to turn out only 4500 tubes a month, and as the larger joint product of three Russian tube works demanded more than three years for the construction of the

pipe line from Mihailova to Batoum, it is easily seen what a tax in time this condition implies. Nor is there assurance of good results, as about one pipe in every two of this earlier line was rejected because of faulty casting. By the act of the government the wholesome effect of competition upon quality of product is removed, and the result is costly waste.

Certain large manufactures in Russia have been unduly encouraged by state aid, and the high returns obtained in many of them have produced the inevitable consequence of competition and diminishing profits. Capital has gone into the industries most alluring in their prospects, without a proper consideration of the uncertainty attending so artificial a prosperity. With cotton-spinning mills paying annual dividends of twenty-five to forty per cent, iron works returning an average of fifty per cent annually on the invested capital, sugar factories distributing thirty per cent and over, and textile concerns earning forty per cent for their shareholders, the temptation to enter into this field was very great; and the effect of this excessive development soon made itself felt when the money market began to lose something of the activity which comes with a period of apparent prosperity, and enterprise was put to the touch of shrinking markets and over-speculation. In offering such bounties to domestic industries Russia invited the danger of giving too much and, by inaugurating an excessive home competition, of defeating the very end for which the policy was framed. The situation where prices have fallen below a fair return for effort has not yet been reached. But manufacturers who have been drawing dividends of forty to sixty per cent a year from their adventures complain of hard times when these unnatural rates are reduced by one-half, and they turn to the government to claim "relief" from this "industrial depression." Out of such an appeal came the experiments in producing and marketing sugar which have placed Russia outside of any European agreement on beet-root sugar and have led to retaliatory measures on the part of the United States. Out of the demands of the iron makers arose the heavy orders on the part of government and the



framing of regulations for new ventures that limit the use of foreign iron or steel.

With nine-tenths of the adult population engaged in agricultural pursuits, the founding of manufactures would have required time and would have been attended with much experiment and loss. What England was in the middle of the eighteenth century, and what the United States was at the beginning of the nineteenth century, Russia was in the latter part of that century and still is. The system and practices of domestic economy rested upon the cultivation of the land, and the widely distributed and very important household industries were sufficient to meet the demands for manufactures. Simple as were those industries, the markets were even more simple; and the great fairs took on an international rather than a national tinge, offering opportunities for disposing of the surplus products of Russian agriculture in exchange for such articles as no home mill or works could supply. To create industries not only must the home market be assured, but there must be an additional encouragement to carry the investors over that period during which the home market itself must be in a measure created and schooled into taking the products of machine labor. What the early embargoes and the War of 1812 did for the United States, government bounty is doing for Russia. The protective system was applied at a time when Germany, in abandoning, from policy, a liberal commercial régime, and France, in adopting, from fiscal necessity, a scientific tariff, pointed out the path that all Europe, except England, was sooner or later to take. Capital was invited to come to the development of Russian resources and to the establishment of manufactures, and the results have just been described.

Capital is, however, only one factor of production, and it is the one most readily obtained. So large is the sum of capital in existence, so rapid is its accumulation and so mobile is its action, that the promise of a fair return takes it into extraordinary situations and into great risks. Capital, thus easily secured, could bring all the necessary equipment in industry

save one — labor, and on this point the Russian industrial policy has almost failed. No doubt the efforts to attain success have been honest and long continued, and the many governmental decrees and regulations, both public and private, eloquently manifest the desire to lay the foundation of really Russian industries. An example, not without point, may be found in the University of Dorpat. Until a few years ago a large part of the professors and instructors in this university were Germans; but it was desired to make the institution more distinctly Russian, and the foreigners were supplanted by the native born, who had been, as a rule, educated in the German universities. The beginnings were thus of a foreign nature, but it was foreseen that sooner or later the foreign element might be eliminated, although the basis might still be, so to speak, German.

The same course has been followed in industry. There was at first foreign skilled labor, brought into the country by foreign capital. There was little or no experience in manufactures to be found at home, and the foreigner came in much the same spirit as would the manager of a plantation in a tropical colony. He was the directing agency — that combination of knowledge and activity, skill and accumulated experience, which everywhere in recent years has contributed so largely to economic progress. He was accompanied by his assistants; and wherever a trained faculty was required, it was the foreigner who supplied it. Little by little this experience and example spread to the Russians and, as was inevitable, Russian works, still built by foreign capital but using Russian labor, began to spring up in different parts of the empire and to enter into competition. The great difficulty was to obtain the necessary native labor, and the difficulty still exists. In manufactures the perfection of skill is found where a steady attention is given to one operation, although this skill is obtained at the expense of other, and often higher, qualities in the workman. The great mass of free labor, mobile, adaptable and competent, that is found in manufacturing peoples, is a resource in itself, and gives the industrial system a foundation. In Russia was to be found

neither this labor nor the steadiness needed to call it into being. Agriculture has been the one great occupation generally practiced, and even that has been conducted upon so narrow a margin and by such primitive methods as to be inefficient and wasteful. The household industries might be able to supply workers acquainted with the simplest forms of manufactures; but the peasants are primarily farmers and landowners, and the ownership and care of the farms interfere with their availability for the mill industry. To this day the difficulty of keeping labor in the mill is at times insuperable. When the crops are poor and the demand for agricultural labor is slight, the mills are able to keep the hands they have; but a good crop draws the mill workers into the fields, and after harvest the mill owner must again obtain and then train his labor, with all the incidental waste and trouble connected with novices. Until a supply or fund of labor is accumulated, the cost of production will rule high, and the difficulty of meeting outside competition will be intensified.

This condition makes industry in Russia precarious at present, and offers a problem which even state agency is incompetent to solve within a reasonable space of time; for there is involved a situation which originated long before the era of industrial enterprise, and which the efforts of the government have contributed to perpetuate—that is, the position of the peasant and the lasting effects of serfdom. No one will deny that the emancipation of the serfs was a measure demanded by every meritorious consideration. It exemplified the highest moral principles and was planned upon a broad and unselfish public policy. What was accomplished in the United States by a bloody civil war, was attempted in Russia by purchase and by peaceful legislation. In both cases a people, long held in tutelage, untrained and entirely dependent upon others for support and direction, were to step into such an amount of freedom as could be utilized only by those who could become possessed of enough self-sufficiency to compete on equal terms with those around them. In both cases a purely agricultural people were to take their place in the ranks of trade and

industry, to pursue callings as strange to their limited knowledge as they were to the higher attainments of their former masters. After more than thirty years of freedom the experiment of employing negroes in the cotton mills of the southern states of the Union is still of doubtful issue, and the tendency of the blacks is to go back to the land, whence, thus far, the best returns have been derived and a certain amount of independence secured. In Russia the serfs remained on the land, but are still in poverty and distress.

With a clear perception that for many years after emancipation the land must be the principal reliance of the peasantry, the framers of the measure sought to place a holding of land at the command of each liberated serf. But mere possession of property is not enough to change a dependent into an independent, and the practice of thrift and foresight is of slow growth. To have given the land without cost to the peasant would have been disastrous, and the purchase by means of loans from the state contained at least one of the surest, though not the best, means of awakening a sense of responsibility. The regular times and the certainty of the amount of payment were intended to place the peasant where he could make provision for meeting the instalments as they fell due. As to the outcome, the official returns of the arrears and the payments for redemption of land are sufficiently eloquent; while the kinds of taxes imposed upon the peasant and the diminishing returns from direct taxes indicate a positive weakness or inability on his part to meet them. The budget of the empire lays stress upon the increasing returns from customs, from railroads and from the liquor monopoly. The tariff rates are subject to frequent and sudden changes, and would be regarded as extreme were not the tariff of the United States available as a standard of high taxation. The extension of railroad management and of the liquor monopoly is accompanied by increased charges of administration, so that the net returns are not what the budget reports. Indirect taxes — taxes on consumption — give more than half the gross revenue of the empire and nearly eighty per cent of the net

income. What is obtained directly from the peasants is diminishing each year, in the favored as well as in the poorer departments.

This is not the "agrarian" question which is pressing upon Germany, France and Italy. The "decay of the agricultural interest" in those countries is due in a large measure to competition from younger communities which are able to grow wheat, transport it to Europe, and sell it at a price below what is demanded by the home producer as mere cost of production. The margin of profit on the leading agricultural products of older Europe has been wiped out, except so far as exceptionally favoring conditions or government bounty maintains it. There wheat may still be grown for a closed home market; and beet-root sugar may still pay handsome returns under an export bounty and a domestic market from which foreign competition is excluded. The grain interests of Russia, however, have no such problem to meet; for its wheat is raised almost entirely for export and in some years the anomaly is encountered of an export movement larger than the crop of the year, the difference being drawn from a stock of stored grain. The price of wheat has never reached a point at which the Russian grower could complain that he was not receiving the cost of production. Protective duties upon foreign cereals would not benefit him, any more than they have benefited the wheat farmers of the United States. All that he requires is to get his grain to market; and the government has aided him by building warehouses at railroad points, by conceding special tariffs on the transport of grain and even by making advances on grain thus stored, — performing, as it were, the duties usually assumed in other countries by commission merchants. The loss of market and the loss of crop are the two evils that can befall the Russian peasant. Debt he already has and, further, he has been made to feel that in the last extremity he will be assisted by the government or welcomed as an emigrant to Siberia. It is not a little suggestive that in parts of Russia, as in Poland, field labor becomes more costly each year. The reasons given are the attraction of towns and factories,

emigration and the higher wages paid during harvest in Germany and Austria-Hungary.

The situation arising out of the abolition of serfdom has given a very fair measure for determining the condition of the peasant. The state became his landlord. It first purchased the lands to be assigned to the ex-serfs, issuing treasury bonds in payment. It then imposed upon the occupying ex-serf an annual rental and a yearly payment sufficient to liquidate in forty years the amount of the bonds issued. The sum of these two payments was about 40,000,000 roubles a year (\$20,000,000). It is not necessary to enter into the question of the allotment of the land, whether inadequate to the needs of the peasant or given at a price much beyond a fair valuation. In no two provinces did the proprietors follow the same methods of valuing or assigning lands, and without doubt advantage was taken of the ignorance and helplessness of the new owners. The main point was that a stated sum was to be paid each year to the state by the peasant. If he paid regularly, it is safe to assume that his means were commensurate; if, on the other hand, he failed to meet this standing obligation, we may assert that his position economically was not a good one; and we may measure his position year by year through his payments to the state.

In the imperial budget these operations of purchase are recorded. There is little distinction to be made in this fiscal treatment between the serfs of the state and those of individual owners, as the same general facilities were offered to each. In 1874 the amount of arrears of payment due on the annual instalments was about 15,000,000 roubles (\$7,500,000), — a moderate sum for the operations of twelve years, yet disturbing in its possibilities. For the peasant rents and dues constituted an important item of imperial revenue and, as the returns expected were about 80,000,000 roubles a year, this sum became a contingent liability to the state. A single bad harvest might reduce by one-half the returns from a suffering department, and a series of crop failures might oblige the state to obtain from other sources the revenue expected from the

peasants. This is, in part, precisely what has happened. The deficient crops of 1891 and 1896 produced a heavy fall in the receipts from the peasants and the arrears in payments have since increased rapidly. In the budget figures appear two items: the one covers the sums paid by the emancipated serfs of private individuals, and the other applies to the land-redemption payments by peasants once serfs of the state. Since 1888 these payments have been as follows:

YEAR.	EX-SERFS OF INDIVIDUALS: ROUBLES.	EX-SERFS OF THE STATE: ROUBLES.	ARREARS ON 1ST JANUARY: ROUBLES.
1888 . . . . .	43,052,109	49,217,707	—
1889 . . . . .	42,414,504	49,332,385	—
1890 . . . . .	40,967,115	47,265,080	—
1891 . . . . .	34,850,911	34,197,945	39,800,000
1892 . . . . .	35,763,663	39,223,266	68,100,000
1893 . . . . .	42,802,337	53,128,544	90,000,000
1894 . . . . .	40,100,456	49,642,822	90,300,000
1895 . . . . .	42,123,910	55,845,478	95,800,000
1896 . . . . .	40,625,734	53,096,708	92,800,000
1897 . . . . .	37,543,857	47,952,180	94,200,000
1898 . . . . .	38,018,500	46,303,000	104,200,000

These figures, showing that as a whole the peasants are falling behind in their payments, may be taken as good evidence that they are not able to fulfill the conditions imposed by emancipation. The arrears continue to grow, and the government has no means of making them good. To dispossess the occupier will accomplish nothing, while aggravating his distress; and the possibility of a recurrence of the horrors of famine, against which the administration is almost powerless, prevents a recourse to extreme measures.

The grain crops of 1888 were unusually large, the best in quantity recorded in Russia up to that time. But when a fat year is followed by a series of lean years, the profits of the former are soon exhausted; and the more rapidly the decline occurs, the sooner are the good times forgotten. The crops of 1889 were below those of 1888, those of 1890 were still smaller, and the margin for subsistence became less with each decrease,

until it had well cut into the produce available for export. Thus, 1891 was not only a bad year in itself, but it capped a succession of lean years, and there was little or no surplus of the past, no stored products, to draw upon. Had the deficiency been confined to food alone, it might have been faced with equanimity. Unfortunately it was as severe in every direction from which aid could have been sought. Without capital or the means of borrowing it, with their cattle swept away by plague or the pressing need for food, with disease following close upon the path of famine, and with the ever-present weight of debt and taxation, the peasant had no recourse for lightening the burden of this inexpressible terror, which appeared to be beyond the power of human effort to temper. The return of all grain crops in 1891 was thirty per cent below that of the good year 1888 and twenty per cent below that of the average yield of the period 1883-1887. But the crops most important to the Russian showed the largest decline, and rye was one-fourth below the average of five years, a shortage of more than 160,000,000 bushels. As a further aggravation of the difficulty, the loss was not equally distributed over all European Russia, for Poland produced an average crop. It was in southeastern Russia—the provinces in the basin of the Don and of the middle and lower Volga—that the want amounted to a disaster. Official figures of agriculture are notoriously uncertain; yet official returns—when the imperial government had every reason for not exaggerating the situation of these southern governments, and its interest lay rather in minimizing the peril—showed that in one department, Veronej, the grain interest had practically been wiped out, as the crop gathered in 1891 was only four per cent of that in 1890. From this extraordinary figure the yield of the thirteen different departments of this region ranged to sixty-four per cent; and the total for all thirteen was thirty-nine per cent below that of 1890, a not very good year. As these departments comprise the lands best suited to the cultivation of grain, it is only natural to find that their deficit accounts for a very large part of the total deficit—eighty-five per cent, it was estimated. Nearly



one-third of the total population of European Russia is found in these thirteen departments, and it was this one-third on whom fell the principal weight of the famine and its after results, so disastrous to agricultural and commercial interests.

Confronted by such a calamity, the government resorted to drastic measures, which recall the policy of the Middle Ages. Under a system of competition and free movement, capital and labor, with their products, accommodate themselves to market conditions. Rising prices are the signal of a demand in excess of supply, and what is wanted flows in under the stimulus of promised profit until an equilibrium is restored or even an excess of supply exists, to be in its turn corrected by a fall in prices and an increased consumption or reduction of new supplies. But this movement assumes that the community is possessed of savings or of the means of commanding capital, to pay for the desired commodities. When the influx of supplies is determined, not by the opportunity for profit, but by considerations of charity, the movement takes on a new complexion. Such relief of famine, whether in Russia, British India or the flooded states of our South, exhibits rather an outright gift than the working of economic forces. In Russia the poverty of the people rendered impossible any purely commercial relief; indeed, it is doubtful if the lack of ready transportation would not have prevented such a solution. The government alone could serve as savior, and the government was powerless to lessen the dead weight of abject poverty.

The measures resorted to by the government were those which experience dictated; but experience was a bad teacher in this case, although her lesson had been given again and again. First, an imperial ukase issued early in August prohibited the exportation of rye, in the grain or as flour, and beans of every description, through any port of European Russia. That was an unnecessary precaution; for the best prices could be obtained in the famine districts and, with government buying freely, the supplies would naturally gravitate there by way of the best trade channels. As a second measure of relief the railroad tariff on maize and potatoes transported to

the suffering departments was reduced, in the expectation of inducing distilleries to use those materials in place of rye, thus leaving this grain available as food. It may be doubted whether the measure was a wise one. The high prices for rye as food would have checked its use in the distilleries, and again the government would have been the best purchaser. By prohibiting all exports the most available means of obtaining rye in the starving departments were disorganized, and long transport was taken where a shorter one would have been offered. A better device might have been found in the method used in France in the case of wheat, which enables foreign wheat to be imported at one frontier and an equivalent quantity of domestic flour to be exported over another; thus the payment of a customs duty is obviated and transport is saved, effecting economy in commerce. Rye from a foreign country was available for the famine parts of Russia, and the small amounts exported over distant frontiers could not have influenced this supply in any degree. Even in a good year the quantity of rye available for export from Russia is barely one-tenth of the crop and, as there were no stocks left over from former crops, the movement outward would have been inappreciable. But the policy of sealing up the ports was persisted in, and in October the exportation of potatoes and all grain, or their preparations, was also prohibited. The defenders of these measures asserted that they were necessary to retain in Russia the grain required for food and for seed.<sup>1</sup>

The year 1891 was a most instructive one to both Germany and Russia. The famine of that year brought home to Russia the fact that her export interests rested upon an uncertain basis and were liable to be seriously shaken by circumstances largely beyond the control of government. It also proved to Germany that her dependence on her eastern neighbor for grain was not so complete as had been feared, and thus paved the way for a declaration of commercial hostility to Russian

<sup>1</sup> It will not be necessary to describe the later famine of 1897, as the conditions attending it were similar to those of 1891. There are indications that the year 1901 must also be counted among the famine years.

grain a few years later. But before that incident the relations of the two powers had been put under tension and the autocratic power of Bismarck had been displayed in a remarkable manner on the question of Russian loans. The commercial policy of Russia has been dictated by a wish, first, to encourage domestic industry, thus leading to a less dependence upon foreign supplies and, second, to leave the exports free to go into the best markets. This self-contradictory policy has been in the main successful because of the incapacity of existing home industries to meet home requirements. Had there been a large and varied surplus for export, the policy of excluding foreign manufactures would have invited retaliation. As it is, Russia has gradually increased her protective duties and has even been able to use her trade as a political weapon. The story is a curious one and involves questions of finance, as well as of trade.

A very interesting study could be made of the migration of capital in Europe, and the experience of Russia could furnish a very suggestive chapter. Before 1876 it was the English money markets that floated the Russian loans. The crisis of 1873 was not seriously felt in the empire until three years after the explosion had occurred in the United States, Germany, Great Britain and Austria. The period of depression moved slowly into Russia, where the materials for a crisis existed, but where the disrupting force was modified by an imperfect economic development. There had been great activity in the construction of railroads, which had been pushed forward rather too rapidly for the good of the country. Being based upon foreign capital, ventures were liable to reflect political as well as financial pressure. Under the stimulus of this foreign capital, wages of labor had risen, and this fact, coupled with a fair exhibit of the imperial finances, was interpreted as indicative, if not actually conclusive, of general prosperity. The government had made heavy guarantees in aid of railroad construction, in order to secure the participation of foreign capital; and the railroad companies had further pledged their credit as far as it would go. As the new roads were not profitable, the burden

falling upon the imperial treasury was large, and constituted in 1875 about forty-two per cent of the interest on the entire railroad loans and guarantees, the companies themselves being able to meet only fifty-eight per cent out of current net income. Further, in seeking to accumulate a stock of gold, the government entered the market and exchanged its paper for gold. But a paper circulation, when irredeemable on demand, has no means of correcting the effects of an over issue. Gold not in the government vaults is exported, while the paper remains at home, acting upon prices and stimulating credit. In this case banks sprang up and began to loan paper liberally, thus paving the way for a crisis. Liberal credits invited reckless expenditures at home, and immense sums were borrowed abroad and devoted to the purchase of foreign material.

Had the position of Russia been dependent upon financial or commercial conditions only, the storm would have been weathered, as it was in other countries, by years of retrenchment, saving and depression. But her situation was complicated by political considerations, and her known ambitions to secure a port on the Mediterranean, unhampered by the restrictions imposed on behalf of the "Sick Man," gave her every movement an interest to Powers intent upon frustrating her purpose. English capital had been largely invested in Russian securities, but it now began to withdraw and further dealings in Russian stock were discouraged. The Russian consols (5%) of 1873 were worth in London until 1876 about 98; in June of that year they had fallen to 85, and even touched 83. A recovery to 93 in August was more than wiped out by a fear of war, which drove this stock down to 76, and England practically freed itself of its Russian securities. The imperial government came forward as a purchaser of its own debt on favorable terms, and sold gold to support the price of what stock remained in foreign markets.

These international occurrences made the Russian bonds the sport of the speculator. The fall had occurred under the influence of an unreasonable panic, and political agitation came to strengthen those who believe that a Russian security was no

security. Unfortunately, the government of Russia stooped to one of those devices which only prove how backward a nation may be in matters of finance. It was not enough to buy up its own bonds, and thus dissipate a part of the gold stock so painfully accumulated; it must enter into a campaign against the speculators, and especially against those who were gambling in the credit or paper rouble. The process of these speculators is very clearly explained by Bloch. Having a certain sum in Russian securities, the syndicate would send them to be pledged to the Imperial Bank. The money so obtained would be used to purchase foreign bills of exchange, and these bills would be discounted in their turn, furnishing the speculator with the means of buying more Russian securities, and so on in an endless chain. But each operation took some gold out of Russia and, fearing lest the metal reserve should be entirely dissipated, the Minister of Finance intervened. By raising the rate of discount at the Imperial Bank from six and a half per cent in April, 1876, to nine and a half per cent in July, he checked the progress of the speculation and, by inviting other banks and certain bankers to give up a part of their gold for the Russian bonds so largely held by the Bank of the Empire, he forced a contraction of loans and compelled a liquidation.

Surely an autocrat could go no farther, but no autocrat could prevent the panic which followed. The banks being pressed for money turned upon their debtors, who in their turn began to call in all available funds. The credit bubble was pricked, commerce and industry suffered, the war with Turkey followed and, heavily handicapped by its disordered finances, Russia entered upon a costly struggle at a most inopportune time. The Minister of Finance, M. de Reutern, frankly admitted that the country was in no financial condition for war. A great part of the capital in landed property was represented in bonds and mortgages, the value of which had not yet reached stability and had to depreciate in the face of war. The foreign debt of the empire had greatly increased; and, while it could be shown that much of the expenditure had

gone for productive works, like the railways, the interest on the debt had to be met, and the revenue derived from the completed undertakings was not so large as to lighten the burden. The war, he urged, would go far to destroy the gain that had accrued to Russia during twenty years of peace, and twenty other years of peace would be required to place Russia again where she was in 1876. Political considerations controlled: the Czar looked upon the war with Turkey as a "sacred duty," and against that the economic reasoning of the minister weighed but little. Paper money could be issued to any amount, should no foreign loan be possible; and this paper, with the contracts of war times and the abundant crops of grain for foreign export, would enable the government to meet the expenses of the war. The inevitable effects of this policy belonged to the future; and when a day of reckoning did come, Russia paid for her extravagance at usurious rates. The penalty would have been even greater, had it not been for the effusive friendship and unbounded liberality of France.

After this event, when Russia wished to borrow, it was to the money markets of Germany that the negotiations were carried. As late as 1884 it was the *Seehandlung*, a sort of banking department of the Prussian government, under the control of the Finance Minister, that managed the Russian loan of that year. The economic relations between the two nations at that time were close and tended to become even more intimate. After the Russo-Turkish war of 1877-78, when Russia decreed the payment of all customs in gold and thus increased the duties by about sixty per cent, it was German capital that entered Russia and set up industries. In Poland these enterprises not only found the imperial markets open to them and protected even from German competition, but they enjoyed the advantage of lower taxes — merely nominal imposts, compared with those levied by the German government. In taking the Russian loans and in establishing manufactures in Russia immense sums of German capital were involved. A fair estimate has placed the total at 3,000,000,000 marks (\$714,000,000) — an investment which seemed to assure

friendly political relations. The commercial interests of the two countries were an additional bond of free relations. The grain exported from Russia found its market in Germany, while the manufacturers of Germany could count upon a steady demand from Russia.

The first break was undoubtedly political, and was due to Prince Bismarck's belief that Germany had become sufficiently powerful to be relieved of any necessity for maintaining close relations with her powerful neighbor. The ambitions of Russia were not those of Germany, and their fulfillment would leave Germany with nothing to gain from an alliance which had effected its ends through German means. The tariff policy of the Czar's ministers pointed to the gradual exclusion of foreign manufactures, in order that the domestic resources might be developed, and such exclusion would fall more heavily upon German trade than upon that of other countries. In 1882 Russia remodelled her tariff, and again, by imperial rescript, in May, 1885. The average rate of duty collected on imports into Russia from 1876-80 was fifteen per cent; from 1880-84, nineteen per cent; and by 1887 it had reached twenty-eight per cent, or nearly double what had been the rate before 1880. The railroad tariffs on grain had also been modified so as to threaten the existence of the grain trade of the German cities of Königsberg, Memel and Dantzig, in order to create grain centres at Libau, Odessa and Reval. The duties upon iron and steel products were increased in such a way as to weigh more heavily upon the products of Germany than upon those of Great Britain and Belgium. As nothing more than an imperial decree was needed to make a change in tariff rates, the many alterations introduced from time to time were interpreted as indications of the political drift of the imperial policy, and Germany saw many reasons for fearing that a hostility, hardly latent, existed against her trade interests. The manufacturers and exporters of Germany first protested, then began to press their own government to take measures, and finally openly preached retaliation. In this they had the support of the landholders ("agrarians"), who saw in increased duties on

Russian grain a chance for furthering their wish of reducing all foreign competition in grain. During these years Germany was the only customer for Russian bonds, while the paper rouble was one of the standing objects of speculation on the German bourses. It was French capital that gave the first development to Austrian enterprises in banking and railroads; but about 1880 German financiers began to take an interest in Austrian ventures, and by 1887 they had practically supplanted the French. The political relations existing between Germany and Austria were more natural than those arising between France and Austria. While the peace of Europe was clouded, — and during this period apprehension was never entirely absent, — it was important that the loans made by German bankers should go to probable friends rather than to possible enemies. The banker has played an important rôle in modern diplomacy, but even he cannot control race dislike or keep apart “natural enemies.”

In January, 1887, Bismarck made an alarmist speech, in support of his demand for a larger army. France was the ostensible enemy, although it was well known that France was in no condition to wage war, much less a war of offense. Russia was the real enemy, and with upwards of 1,200,000,000 roubles of Russian state stocks held in German hands, the dangers of war were increased. So much German capital had gone to add to Russia's strength, and the stoppage of interest would prove a severe blow to Germany. The speech could be interpreted in only one way, — that Bismarck objected to further investments in Russian loans, believed the capital already so invested was unsafe and wished to warn the bankers of approaching troubles. This interpretation was strengthened by the failure of Russia to secure an arrangement for converting the Russian debt, a failure attributed to the personal influence of Bismarck.

Such an attitude of hostility only led to further misunderstandings. The suggested possibility of increased duties on grain imported into Germany was a blow levelled at the Russian interests. In May, 1887, the Czar raised the duties on all forms



of iron and steel to what was believed to be a prohibition point, and gave a pledge that these duties should not be reduced before 1898. In November of the same year the Bank of Germany gave formal notice that it would no longer lend upon Russian stocks and bonds, and the notice was attributed to Bismarck, who was, in virtue of his official position, the chief director of the bank. A temporary panic among holders of the bonds of Russia followed, and several hundreds of millions were transferred from German to French markets, as well as the office of subscribing to new Russian loans. Paris took the place formerly occupied by Germany, and the political and financial results are of too recent a date to require description. Berlin ceased to pay attention to offers from the Russian treasury, and drew to itself a large business in American securities,—a better form of investment than the bonds of Russia, Hungary, Italy or Servia, all of which were subject to depreciation by any political events.

This attack upon Russian credit was political, and may be taken either as a very farsighted act of caution on the part of Bismarck or as merely one step in that "war of tariffs" which Europe has waged for nearly twenty-five years, broken only by the extensive and complicated system of commercial treaties. For reasons that will be readily seen, Russia could indulge in tariff framing with greater freedom than could Germany. Revenue was one object; but the protection to industries to be established in Russia was an even greater one, and led to notably heavier duties on iron and steel manufactures. The prohibition of the export of grain from Russia in 1891-92 proved that Germany could obtain the breadstuffs needed by her population from other countries. But the higher rates of duty on manufactures imported into Russia were more difficult to meet, and it was asserted on good ground that German products were discriminated against, the trade figures showing a steady decline in the movement. The question came to a head in the winter of 1890-91, when the different powers were making plans for renewing the treaties of commerce. At that time the negotiations on the part of Russia were based upon

a conviction that Germany was dependent upon Russian grain, and hence for its own safety should make concessions in its duties on grain, in return for which, however, no claims could be made for lower Russian duties.

This proposition was promptly rejected by Germany, and a second scheme was framed at St. Petersburg, under which important reductions in the German agricultural duties were to be made, in exchange for a promise on the part of Russia that existing customs duties on a limited number of articles should not be altered for some years. As the existing duties were particularly objectionable to German interests, in fact almost prohibitive, the second plan met with no greater favor than had the first. The famine year came and gave a new turn to the negotiations. Russia asked Germany to prepare the outline of a treaty; and the abolition of the differential treatment of articles imported over the German-Russian border, as compared with importations through the Russian Baltic ports, as well as the granting of full most-favored-nation rights for Finland, were demanded as necessary preliminaries. Although Russia conceded those points, no agreement was reached, and so many differences developed that the Russian government gave notice that the maximum tariff would be enforced against Germany from August 1, 1893. Germany retorted by raising all duties on Russian products by one-half, and this tariff war was inaugurated at the very time the Russian fleet was on its way to Toulon to call forth a demonstration of a union between France and Russia, involving important questions for the Triple Alliance and Great Britain.

Fortunately this tariff war was of short duration and was determined by the signing of a treaty of commerce in January, 1894. Short as it was, the results were far reaching, and affected the grain interests of the United States. The imports of wheat from Russia into Germany were 768,029,000 kilos in 1891, 257,299,000 in 1892 and only 21,636,000 in 1893. The imports of rye fell from 729,334,000 kilos in 1891, to 123,377,000 in 1892 and 95,920,000 in 1893. The United States came forward in 1892 to make good the deficit in German

imports and benefited by the demand ; but trade resumed its normal course after the peace between Germany and Russia. Schaeffle is reported to have said of this commercial war that it was a "weapon with which it would be impossible to trifle long, without the risk of changing it from a matter of cargo to a matter of cold steel."

Enough has been said to show that, however much an autocracy may gain in energy and power of execution, there are corresponding dangers of abuse of this power. The ukase of the emperor gave a nominal freedom to the serfs, but could not bring prosperity in the face of ignorance and a crushing system of taxation. The imperial decree has fostered industry through protective duties until the government feels obliged to come to the assistance of the inflated enterprises and, as in the case of the sugar interests, practically control the sale and enforce an export of what is looked upon as a surplus product. In tariffs and in transportation it is the will of the emperor that acts; and the incident of the tariff war with Germany shows how far a policy of exclusion may be carried, regardless of commercial interests. The sugar situation in Russia is a normal outcome of an extreme protective policy, where the state assures the industry an extravagant profit on sales in the home market, while fostering an export interest at prices which on their face yield no profit but involve an actual loss. The peasant foots the cost, and the demands now made of him are beyond his ability. He is still bound to the land through poverty and not through serfage. Finally, the treasury of Russia is supplied, not by the resources of the empire, but by periodic appeals to foreign markets; and the direction of these appeals has been governed by political, not by financial, considerations. It was first English investors, then German bankers, and now it is French financiers who take up these Russian loans. Do these characteristics of Russian economy demonstrate a powerful and self-reliant state?

WORTHINGTON CHAUNCEY FORD.

BOSTON, MASS.