

## THE WITTE SYSTEM Reading Notes

### Thompson

Only in the last ¼ of the 19<sup>th</sup> century did Russian industrialization take off, due to:

- govt. policies
- influx of foreign capital

From 1861-1905 the number of Russian factories grew 4x and the value of output grew 20x. Economic growth was reaching 8-9% annually. How?

- The state acted forcefully to promote finance and economic development
- Sergei Witte was the chief architect of economic development (became Minister of Finance in 1890s) and served both Alexander III and Nicholas II.

Witte realized that, to compete with the other Western industrial/imperial powers, Russia had to develop rapidly. He introduced a series of economic and monetary reforms to do so, known as the *Witte System*:

### The Witte System:

- State subsidization of the railway industry
- State subsidization of key industries (mining, steel, oil)
- Placing Russia on the gold standard
- Raising tariffs while promoting exports.
- Encouraging foreign investment

To finance his system of industrialization, Witte: 1) levied heavy taxes on the peasantry, 2) borrowed heavily from Germany and France.

Witte's policies succeeded but the costs were high because the policies:

- neglected agriculture
- overwhelmed an already heavily burdened peasantry
- too dependent on foreign support

Witte was additionally a very skilled politician/diplomat, who negotiated many agreements (economic [tariff war with Germany] and foreign affairs [Russo-Japanese War truce]) on Russia's behalf. He was well known throughout the country and world for his diplomatic skills. In 1906, he secured a massive loan from France to bail out the bankrupted regime after the humiliating Russo-Japanese war defeat.

- interestingly, this negotiation with France tied Russia even closer to it in European power politics.

## Wikipedia

Despite political and social stagnation in the 1880s and 1890s, there were huge modernizing leaps in industrialization in Russia.

- rise of industrialization and the proletariat intensified in the 1890s due to the building of the Trans-Siberian Railway and Witte's economic reforms

Witte:

- put Russia on the gold standard in 1897
- 1/3 of all capital was foreign

The rich became richer, while the poor became poorer due to exploitation of the working class.

## Google Books

Witte's heavy investment in Far Eastern diplomatic affairs was spawned by the search for economic benefits while trying to avoid war at all costs. His focus on the railways and development of heavy industry also gave Russia an opportunity to showcase industrial advancements to the rest of the world.

In 1891, he helped pass a massive tariff, which hurt agriculture much. Witte was criticized by many for raising the costs of agricultural machinery coming from abroad, which imposed a further burden on the peasantry. (**Remember, opposition to this also comes from the nobility, as Russia wealth was found in landed wealth**)

## The Gold Standard

Considered by Witte as his crowning achievement as it was the pivotal part of the effort to create the environment necessary for financing industrial growth.

Conversion to the gold standard greatly improved Russia's credit standing now that the Ruble was redeemable by gold, which encouraged foreign investment in Russian industry. Improving Russia's credit also translated in receiving better terms for loans.

The gold standard demanded a protectionist policy of heavy taxation, which hurt the peasantry, but it was the gold standard that accelerated the *Witte System* -> Witte's plan to turn Russia into an industrial power.

## The Witte System

The mainspring of industrialization was the concentration on the railroad. The railways would have a domino effect on the rest of Russia's industry:

- Railroad construction increased the demand for coal and iron
- To expand mining required building more railways
- To meet the demand for more rails required an enlarged capacity to produce iron and steel and the manufacture of cars and locomotives

How did the government assist in the effort?

- the government planned new lines
- bought up privately owned lines
- encouraged the mergers of smaller lines
- offered financial incentives for new construction
- took on the construction of lines desired by investors

Railway construction was striking and significant. Heavy industry, mining, and agriculture all benefited:

- provided over 400,000 permanent and seasonal jobs
- militarily important
- social effects...made the population more mobile.

In addition to focusing on heavy industry, Witte also got involved in other pursuits that he thought were necessary to develop in order to further develop Russia's industrial base, such as education, communications, and the media.

- There was a need to educate skilled professionals for industry and commerce, so:
  - Witte promoted the building of 130 commercial schools throughout the country.
  - created polytechnic institutes in major cities
  - created trade schools for the peasantry (machine repair)
  - Witte was responsible for the 1<sup>st</sup> full census of the Russian population
  - created a telegraph agency to spread commercial news
  - started financial newspapers

Witte's system gave direct aid to industry on a very large scale:

- the govt. paid above market prices for industries supplying needs of the railway and armed forces.
  - for example, rails were bought at 40% above market price in 1890s

- the govt. provided direct loans for commercial and industrial undertakings
- govt.'s 1891 tariff insulated Russian industry from foreign competition.

#### Social Effects of Russia's industrialization:

- cities grew and major cities became financial boomtowns
- factories enlarged their facilities and scales of operation, employing more people
- nature of work changed (somewhat), far more people began working in industry than ever before
- thousands of peasants flocked to cities...changing where people lived. Many people abandoned rural life for good by moving into the cities.
  - For example, St. Petersburg grew 33% in just 10 years due to immigration from the countryside

#### Other Effects:

- 1890s factory workers and miners doubled as well as industrial output
- Russia became the world's largest oil producer. Something that lasted till 1900 (still remains one of the world's top oil producers today)
- From 1894-1899, 226 foreign owned companies established in Russia.
- Industry was heavily depended on foreign investment for development.

Despite growth, Russia was still overwhelmingly agricultural.

- There was a growing urban, working class, but most people were still tied to the land.
- There was very little market for consumer goods, which meant that Russia was even more dependent on foreign capital. Very little development of working middle class, which would be necessary to fuel the domestic economy.

Russia's growth by 1900 was very impressive, far higher growth rates than the developed nations (but it still lagged very far behind in economic indicators). High growth rates fueled investment, though.

- Russia's iron production, textiles, and commerce figures were still much lower than the output of the developed countries.

Witte believed that Russia could do it. They could become a first-class industrial power, as long as they stayed on track with the measures needed. If the path were altered, Russia would be a 2<sup>nd</sup> rate power.

### Witte's Limitations

His drive for modernization was so focused that he did not concern self with the consequences of the economic reforms he formulated. He mind was so focused on the economy that he did not seem to focus on the following important questions:

- Survival of the autocracy
- Maintenance of the peasant life structure
- Labor unrest

He believed that the autocracy would survive. Growth of the bourgeoisie would lead to demand for shared power eventually.

Peasantry would have to bear the burden of taxation that industrialization needed, but their plight would improve in the long run due to the trickledown benefits that industrialization would bring.